

Forest Products Market Update

- a news brief from Wood Resources International LLC

Global lumber markets improved in late 2009 with prices moving upward in North America and the Nordic countries, reports the Wood Resource Quarterly

Softwood lumber prices were up in both North America and Europe in the 4Q, but it was more the result of lower inventory levels and reduced production rather than an increase in demand, reports the Wood Resource Quarterly. The hot market for lumber last year was China, which increased imports by 75% thereby passing Japan as the largest importer in Asia.

Seattle, USA. March, 2010. Prices for most lumber grades in the US were higher in December than at any other time during 2009. The Random Length Framing Composite Lumber Index, which consists of a basket of 12 different species and grades, did go up almost 25% last year. In December, the Index was at its the highest point in 15 months.

These price increases were a reflection of low lumber inventories and reduced supply rather than an increase in demand. Lumber production in the Western US was down just over 20% last year, while sawmills in the US South produced 24% less lumber in 2009 than in the previous year.

Sawmills in Canada continued to run at historically low operating rates in the 4Q/09. The production as percent of practical capacity was just 45% in December. This was down from 52% in November, but still higher than in the same month in 2008. Sawmills in British Columbia have run slightly better than the rest of the country, thanks to improved sales to Asia. Exports to this region were 14% higher in 2009 than in 2008. Exports to China showed the greatest increase by volume; this market is now bigger than that of Japan. It is interesting to note that Canada's lumber exports to Asia accounted for 23% of all exports in the 4Q compared to 13% in 2008, but only 7% five years ago. Lumber prices were fairly stable during the fall last year, but started to move up in December to levels not seen in over a year.

Lumber prices in the Nordic countries continued upward for the second half of 2009 and were higher than in late 2008. Prices in Sweden went up faster than in neighboring Finland, reaching US\$300/m³ late last year, according to the Wood Resource Quarterly. The sawmilling sectors in both countries are very dependent on the exportation of lumber market, and that market developed quite differently for the two countries in 2009. Swedish sawmills gained market shares over Finnish mills in many countries, mainly as a result of lower production costs (largely lower log costs) combined with a favorable exchange rate. While lumber exports from Sweden were slightly higher in 2009 as compared to 2008, exports from Finland fell 16% in 2009.

Demand for lumber in Japan is still much lower than a year ago. Domestic lumber

production declined 15% in 2009, and imports of softwood lumber were down 14%. Canada and Finland have reduced their presence the most, while Sweden, Russia and the US actually increased their shipments and markets shares in 2009. Lumber prices have not changed much in Yen terms, but they have declined slightly in US dollar terms during the 4Q/09 because of the strengthening Yen.

Global timber market reporting is included in the 50-page publication Wood Resource Quarterly. The report, established in 1988 and with readers in over 25 countries, tracks sawlog, pulpwood, lumber and pellet prices in key regions around the world and also includes regular updates of the latest developments in international timber, pulp, lumber markets.

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