



WILL DEMAND FOR FOREST PRODUCTS RETURN?

As of May 1, the SPF random lumber price was \$US354/mbf (after dipping to a low of \$US282 in early March) which compares to \$US442 in late February and \$US655 at the peak of the lumber market in June of 2018.

The break-even lumber price for BC Interior sawmills is in the \$US375 range, giving consideration for the current 20 per cent US import tax. As a result, ongoing periodic downtime at many BC Interior sawmills can be expected until lumber prices improve. When the reduced US import taxes come into effect sometime in August after the US Commerce Department issues its final ruling, break-even Western SPF lumber prices in the \$US325 range are possible. However, recovery of the North American lumber market has several challenges ahead, says Russ Taylor of FEA Canada (Wood Markets).

Almost daily, in the new world of COVID-19, there are emerging issues as buyers and sellers adapt to a new world order. Conducting business is complicated by volatile markets, with some operations closing and others starting to open.

In the US, housing starts are expected to plunge from near 1.6 million units annually on a seasonally adjusted basis in the first quarter of this year, to closer to 0.8 million units by the summer months. This demand shock is a key reason why about 25 per cent of North American lumber production capacity has already curtailed, with the most likely scenario that more curtailments will have to occur until a rebound in demand eventually occurs. North American markets are on a wild ride this year, from strong to weak in the first half of the year and perhaps a repeat in the second half.

For BC sawmills, the challenges are more difficult since timber supply is

tight and wood costs are high, despite the deferral of stumpage fees for up to three months, especially in the BC Interior. While the rest of the world has the same challenges with COVID-19, they also have some distinct advantages. For example, Germany, Czech Republic, and Austria have a massive spruce bark beetle epidemic that is providing a surplus of sawlogs to sawmills at prices that are 50 per cent lower than only 18-months ago. This is allowing European mills to be competitive in almost all export markets, including the US. Some German mills have the lowest delivered costs to the US East Coast and are comparable to mills in the southern US, which has traditionally had the lowest costs.

Spruce log exports have also disrupted the Chinese market as Europe has now become the second largest log supplier to China, more than doubling the volumes they receive from North America. One of the reasons BC coast logging operations have been curtailed is they cannot not compete with European exports.

BC lumber suppliers are now at the high end of the cost curve and are reeling further from the challenges around COVID-19. As a result, many lumber producing companies in BC have recently announced periodic, week-to-week downtime. Notables include Canfor, Western Forest Products, Conifex and West Fraser at time of writing, and on the Coast, Coastland and Richmond Plywood also closed operations. Others are expected to follow suit as the pandemic progresses.

Brian McClay & Associates Inc., a pulp and related end-uses market intelligence consultancy, is seeing structural change coming to the global pulp market that is being accelerated by COVID-19.

“Demand in the NBSK market is not too bad today with global spot prices rising, but it is likely near a peak,” notes McClay. This demand is fundamentally being driven by tissue and hygienic papers following the hoarding and increased use of tissue as people are forced to stay home. This trend is likely to last into summer when we may be on a “slippery slope downward” with a modest correction in prices as we return to pre-COVID-19 societal norms.

That said, “pulp supply is risky” for some producers as a result of reduced fibre availability, cost and ongoing COVID-19 management issues on the sawmill side. While some pulp mills in Chile have closed following workers contracting COVID-19, other mills are delaying downtime and maintenance due to COVID-19 and the difficulty of managing workers. However, this increased spring production of pulp, is feeding the new growth in global tissue demand.

For the longer term, COVID-19 is accelerating a change in recovered paper. One third of global tissue production uses recovered paper as its raw material, the availability of which is plummeting due to the stay-at-home policy causing less workers using paper in the office, and with less major events, the related advertising flyer production is down significantly. With less recovered paper, and the potential for a structural change in how people work coming out of COVID-19 such as increased e-commerce, it may further impact the pulp market positively since for tissue producers, the purchase of pulp is the alternative.▲

Jim Girvan RPF, MBA
MDT Ltd.
Tel: 250-714-4481

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Tel: 250-287-7932 • Email: Bryce@bwlog.ca