



US MARKET OUTLOOK AND SUPPLY DYNAMICS

The global market is driven by three big regions: USA, Europe (as a whole) and China plus two other regions: Russia and Canada. Collectively, they account for 80 per cent of total global timber and lumber consumption and production. And, they dominate imports and exports too.

Global log exports continue to be driven by China, where softwood log imports in 2020 should be about 7 million m³ higher than 2017's 38 million m³. In contrast, BC's log exports to China should see a total reduction of up to 2 million m³ in 2020 from 2017's 3.2 million m³ as competitively priced spruce log imports from Central Europe flood the market.

Global lumber demand has been slowing since a strong gain of 4 per cent was achieved back in 2017. Since then, the consumption growth trend has been slowing in consecutive years to 1 per cent in 2018, no growth in 2019, and an estimated -1 per cent for 2020. The good news is that there has been a strong demand rebound in the second half of 2020 following the second quarter global collapse due to shutdowns from COVID-19, and the outlook for 2021 is very promising.

USA demand-side dynamics

After sluggish or no growth in US wood products consumption since 2017, this year's pandemic resulted in a surge in new residential construction and especially in repair and remodelling.

The long-term or normal level of new residential housing starts in the US is about 1.6 million starts. However, starts have been below 1.6 million since 2007 and the last 20 years have averaged only 1.25 million and are expected to be at

a 13-year high in 2020 of 1.35 million units. Demand for single-family housing continues to be fuelled by 40-year low mortgage rates and a desire for more indoor and outdoor living space. Consequently, with a severe under building of new homes over the last 10+ years, this pent-up demand is finally kicking in: a continued growth in new US housing starts is forecast to at least 2023.

In repair and remodelling (R&R), Home Depot improved its business by a whopping \$15 billion in the first three quarters of 2020. Its same store sales were up 25 per cent in 2020 Q2 and Q3 over one year earlier. And Lowe's increased its same store sales by over 30 per cent as compared to its four-year quarterly sales average of 5 per cent growth. Do-it-yourself customers took steps to adjust their homes to serve three primary purposes: a home school, a home office, and their primary location for recreation and entertainment. This mindset bodes well for continued R&R sales in 2021.

North America supply-side dynamics

Canadian lumber production continues to decline, mainly from BC's reduced output as 40 spruce-pine-fir (SPF) sawmills have closed since 2005 due to the mountain pine beetle. While Canada's all-time production high was 35 billion bf in 2004, its most recent high was almost 28 billion bf in 2017 and output in 2020 is expected to be close to 2019's 24 billion bf.

On the other hand, US output has been steadily increasing since 2009's 24 billion bf, mainly from gains in the US South. As compared to its peak in 2005 of over 40 billion bf, production is expected to increase in 2020 for the eleventh consecutive year to 36 billion bf.

Since 2018, in the US South, there have been at least 35 announced capacity ad-

ditions to sawmills (a total of about 5 billion bf), including 15 green- or brown-field sawmills that have been built or are planned for construction. However, this may not be enough new supply; my ongoing analysis suggests that there will probably not be enough domestic timber supply and sawmilling capacity in North America to meet increasing demand, and high prices (like we have seen in 2018 and 2020) will be required to attract enough incremental supplies.

The trend toward increased softwood lumber imports from Europe is expected to continue, especially with the massive salvage program of the spruce bark beetle-killed timber expected to last for much of this decade. Europe's share of US lumber imports will be around 9 per cent in 2020, with other countries adding another 4 per cent. And one thing is certain: Canada will not be the solution for increasing lumber supplies to the US—it will have to come from domestic US supply and imports!

Outlook

While global softwood lumber demand will decline slightly in 2020 as compared to 2019, it has been very strong since the start of the pandemic in 2020-Q2 and this trend should continue throughout much of the next year, resulting in a net increase in global consumption of perhaps 4-5 per cent in 2021. However, Canada will remain supply constrained and other exporters (especially Central Europe) should see opportunities to replace this volume in the US and in some export markets. The US market looks to be a bright spot for 2021 and beyond as pent-up demand for new homes and R&R continues. Nevertheless, there are still uncertain times ahead with many uncontrollable factors and wild cards at

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play that could disrupt an otherwise bullish outlook for 2021 and beyond!▲

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to build relationships with new communities and help those communities establish new resources and employment for their members.

First Nation perspective

As mentioned, tax, liability protection, and employment are often the key items that the First Nation community will look for in a new business venture. Another key factor to consider is whether the jointly owned entity may qualify as “Indigenous owned,” meaning over 50 per cent is held by the First Nation community. As an Indigenous-owned organization, the business may qualify for grants, funding and loans, as well as procurement opportunities from government and other organizations. This opens up additional paths of capital, debt and business opportunities that may not otherwise be achieved.

Conclusion

Overall, more and more businesses are entering into partnerships with local First Nations. These partnerships are proving the value and achievements possible when two parties work toward a common goal. First Nations are fast becoming a partner in many communities leading to increased prosperity for all involved.▲

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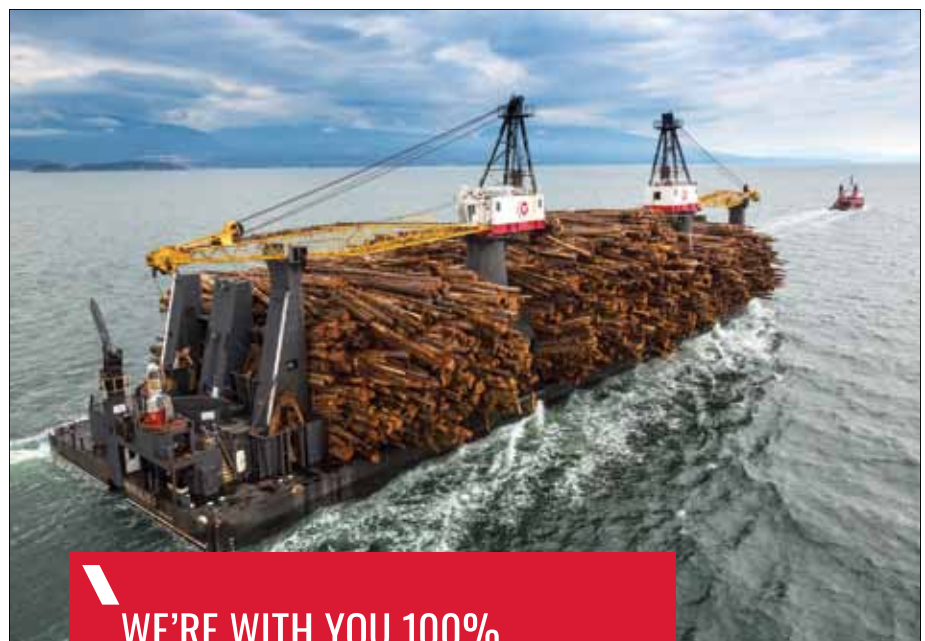
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