



**9th North American
Timberland Investment Summit
June 24, 2011
Vancouver, BC**

“Factors Affecting North American Supply”

**Gary Vitale
NAWLA**

North American Timberland Supply

- **Drivers**

- Global Economy
- Mountain Pine Beetle

- **Impact on Timberland Supply**

- Short Term
- Long Term

- **Policy Factors**

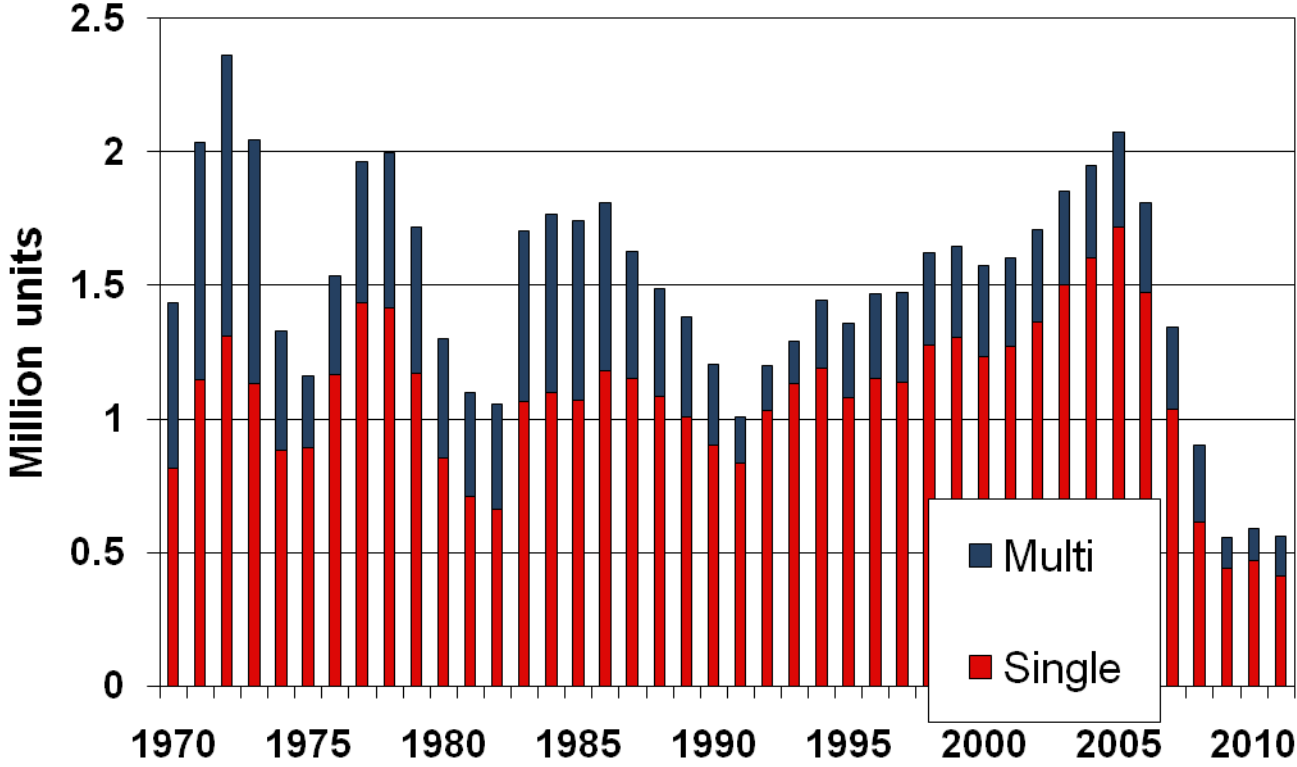
- **Future Outlook**

- **Conclusion**

North American Timberland Supply

- **Drivers**
 - Global Economy: United States
 - ❑ U.S Housing Market
 - ❑ U.S. Unemployment

Unlike previous cycles, housing not responding to low interest rates

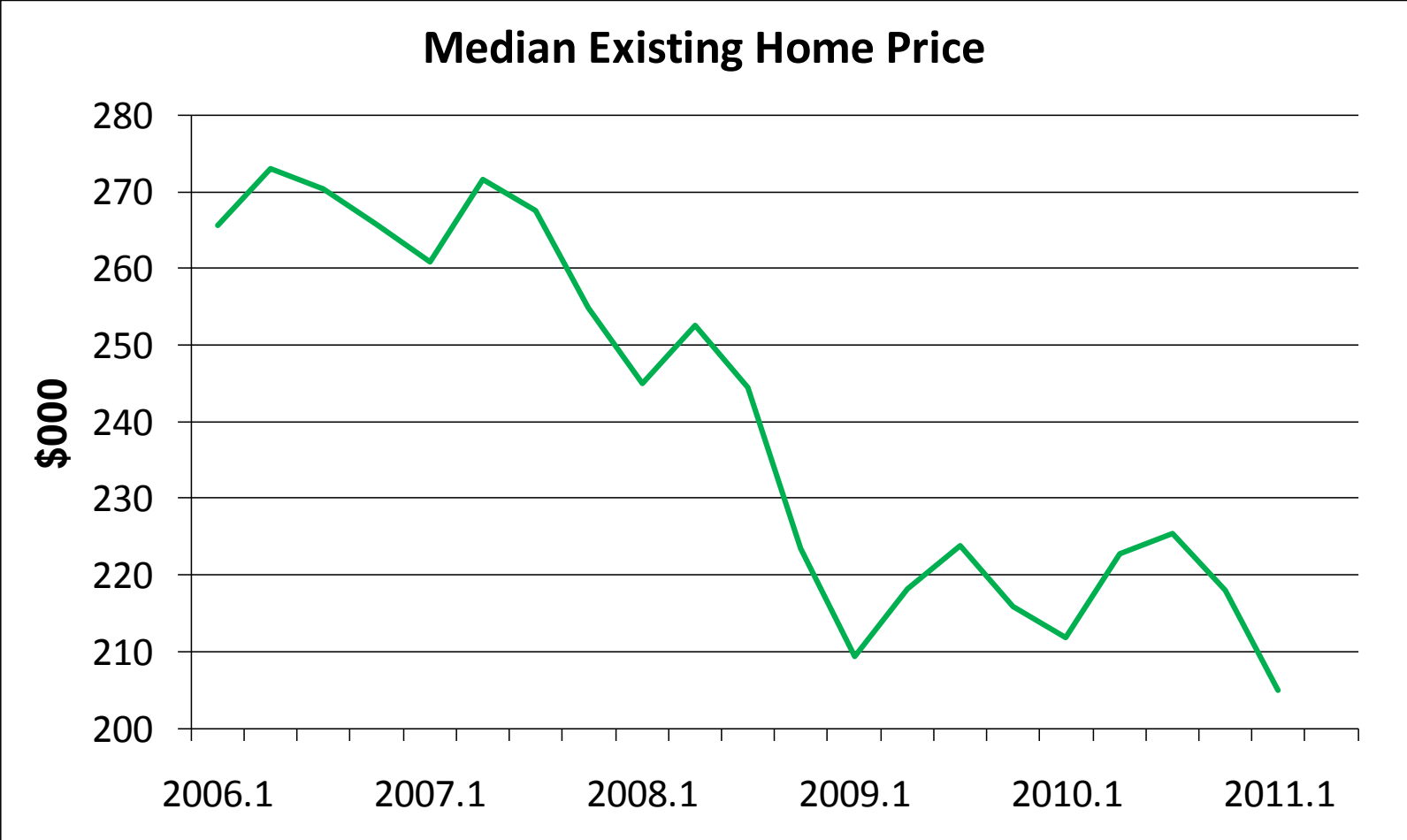


This Decade?

Source: RISI



Falling home prices: supply exceeds demand!!!

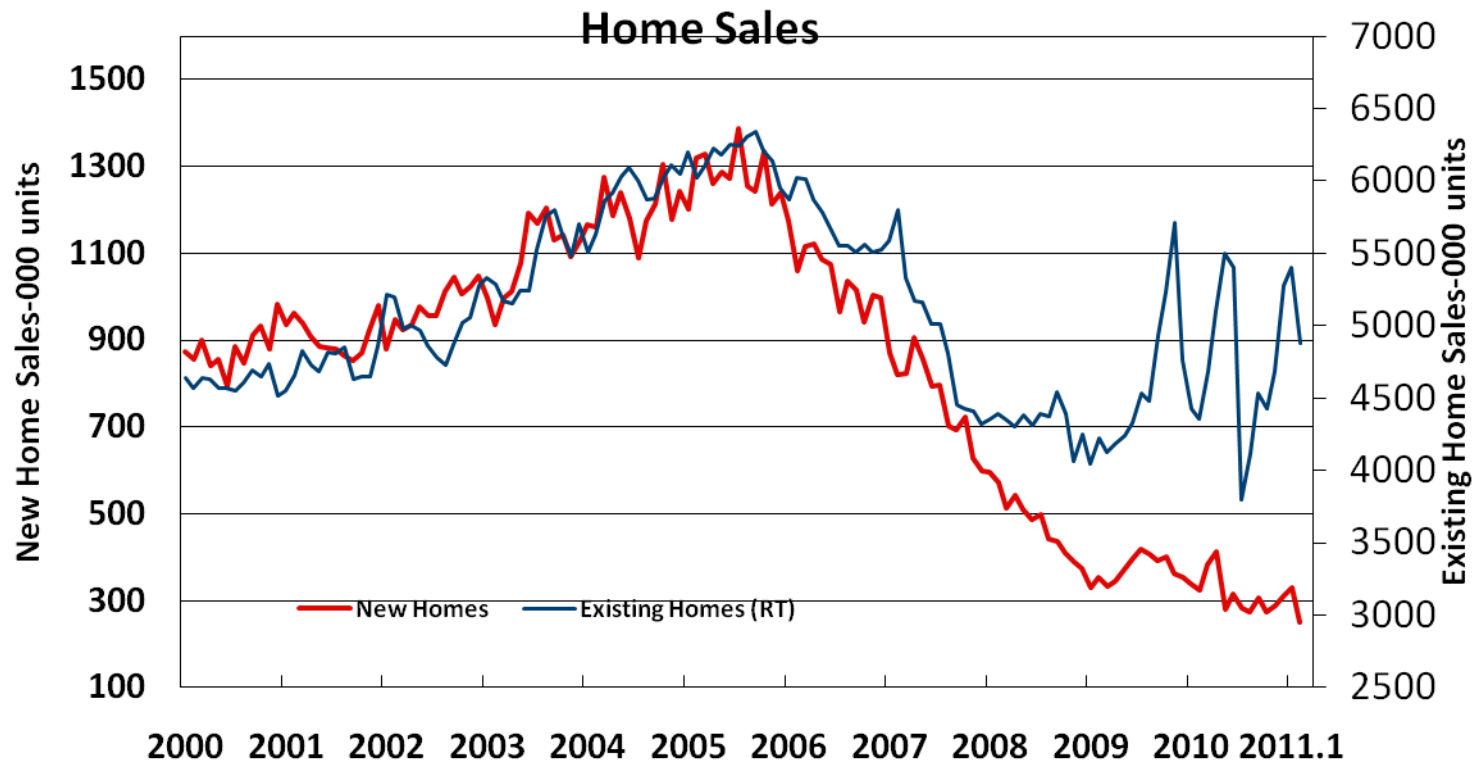


Source: RISI

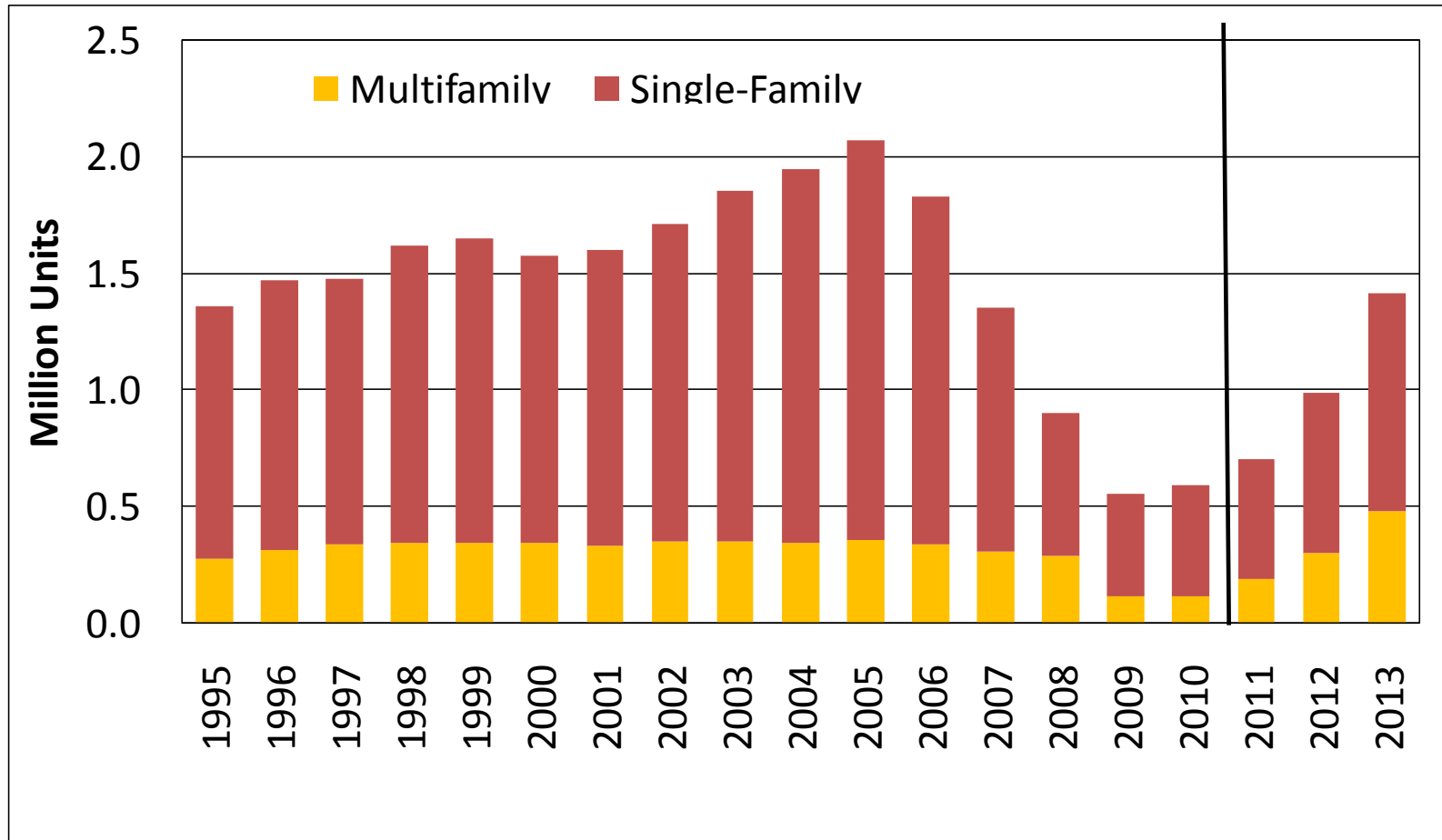


Volatile existing homes sales, but new home sales still falling

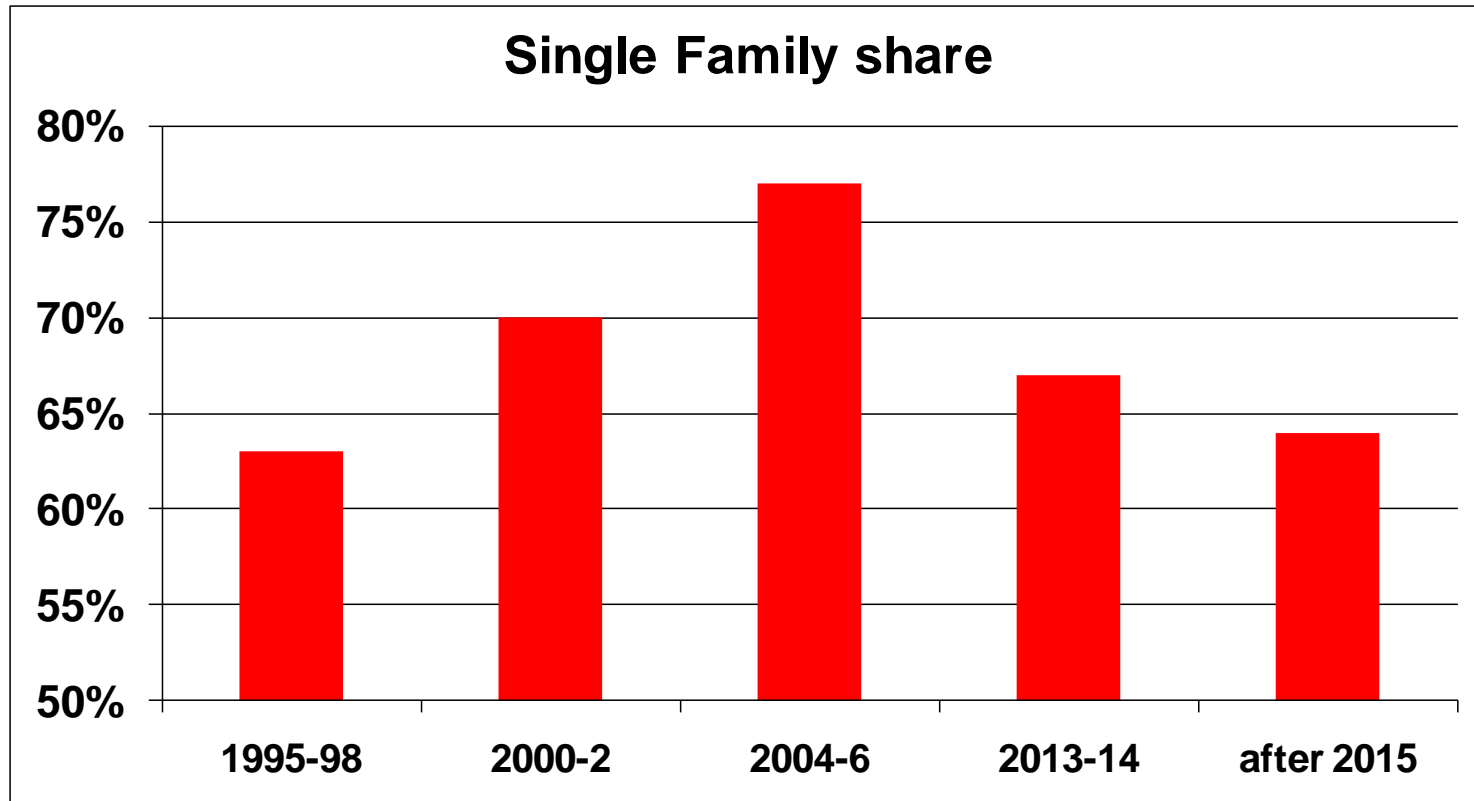
(Thousand units, SAAR)



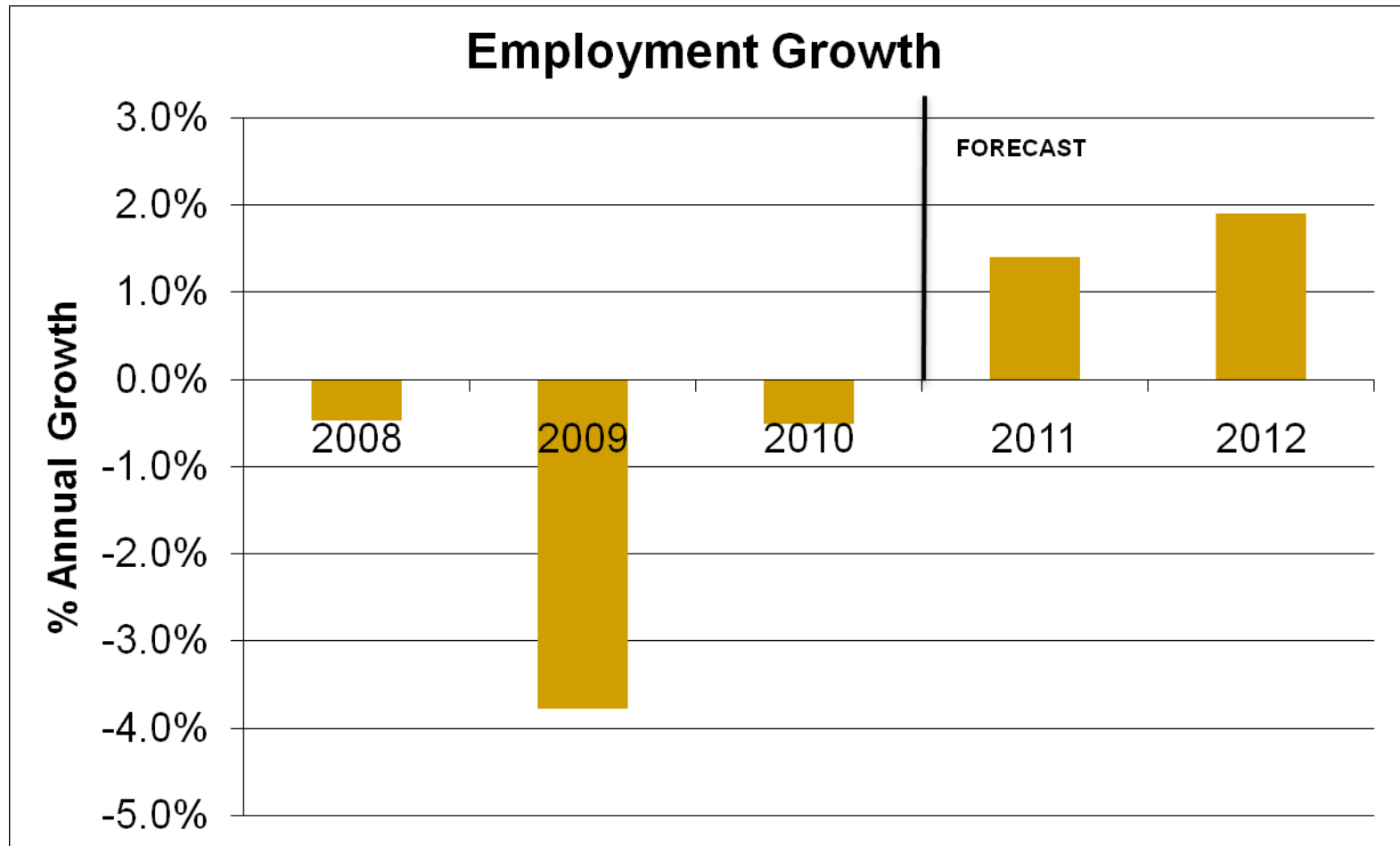
RISI Base Case View: Inventory correction complete in 2012-13



Big issue for next four years: SF share



Should see sustained employment growth



North American Timberland Supply

- **Drivers**
 - Global Economy: United States
 - Credit Availability
 - Household Formations

North American Timberland Supply

- **Drivers**
 - Global Economy: Europe
 - Economic Crisis
 - Weather
 - Weak Dollar

North American Timberland Supply

- **Drivers**

- Global Economy: China

- Limited Domestic Harvest

- Appetite for Logs

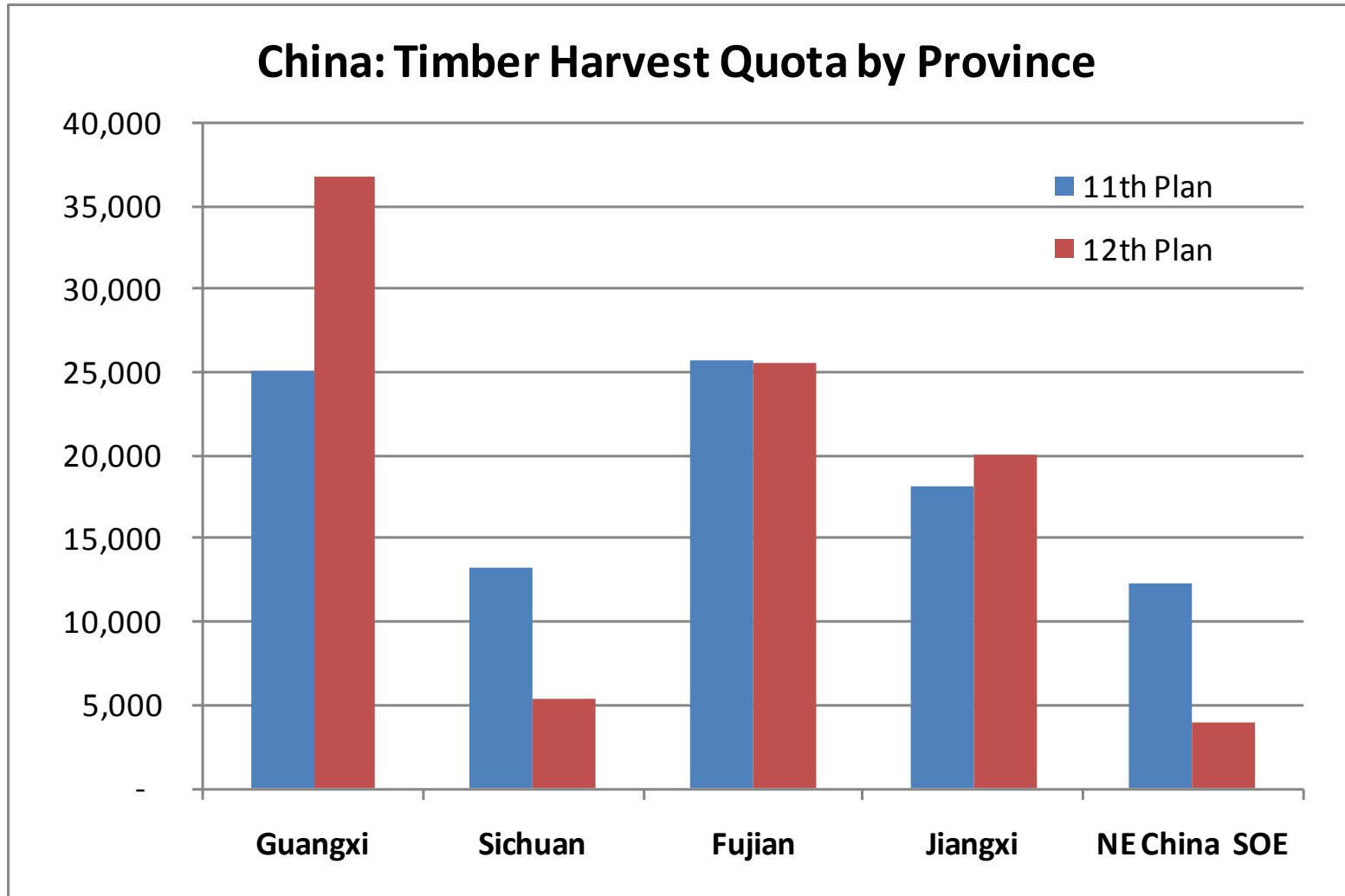
BC

US West

- Interest in sawn lumber

- Demand projected to exceed domestic harvest through 2015

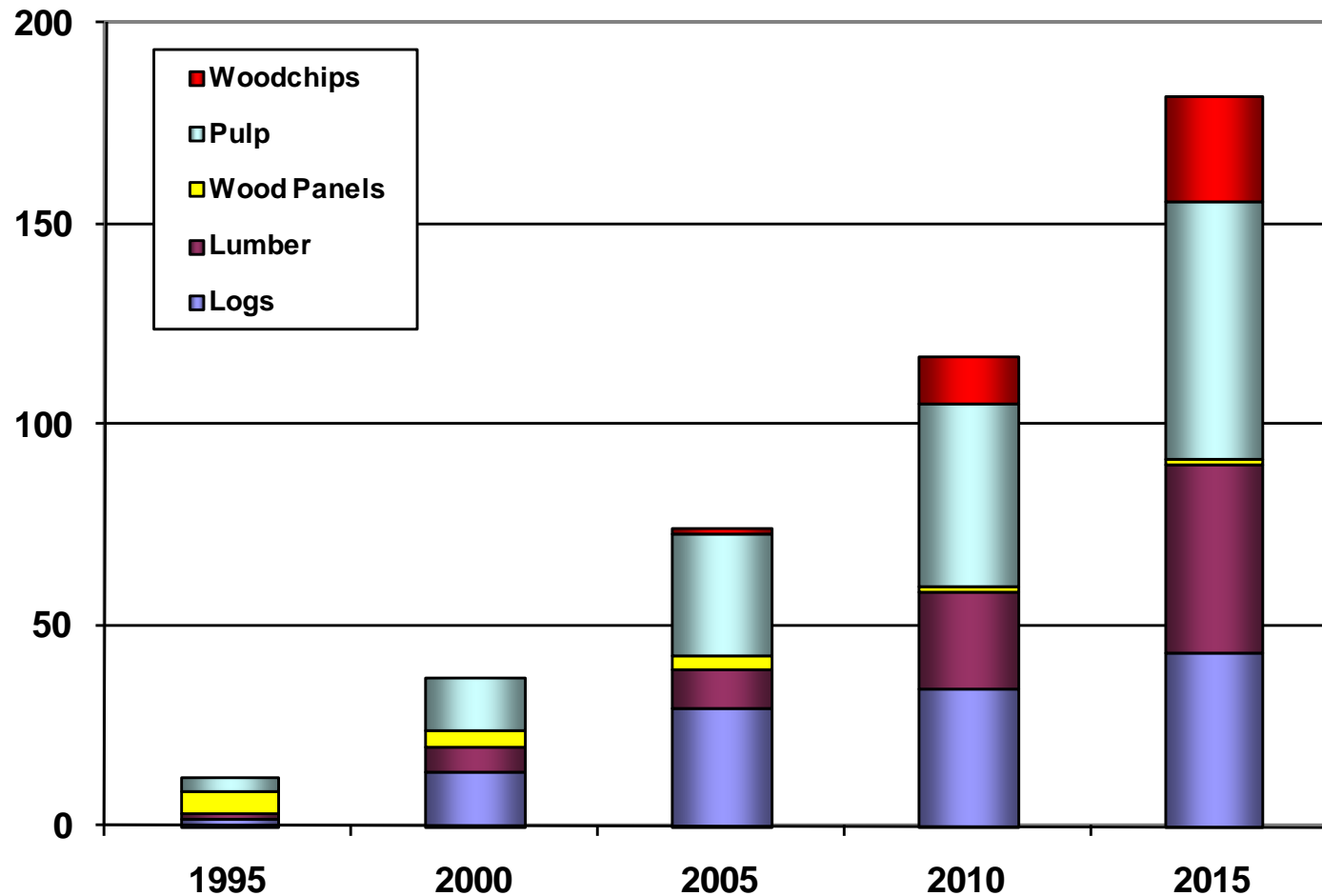
In China's 12th Five Year Plan (2011-2015), timber harvest quotas have been expanded for plantations, but reduced for natural forests



Source: RISI



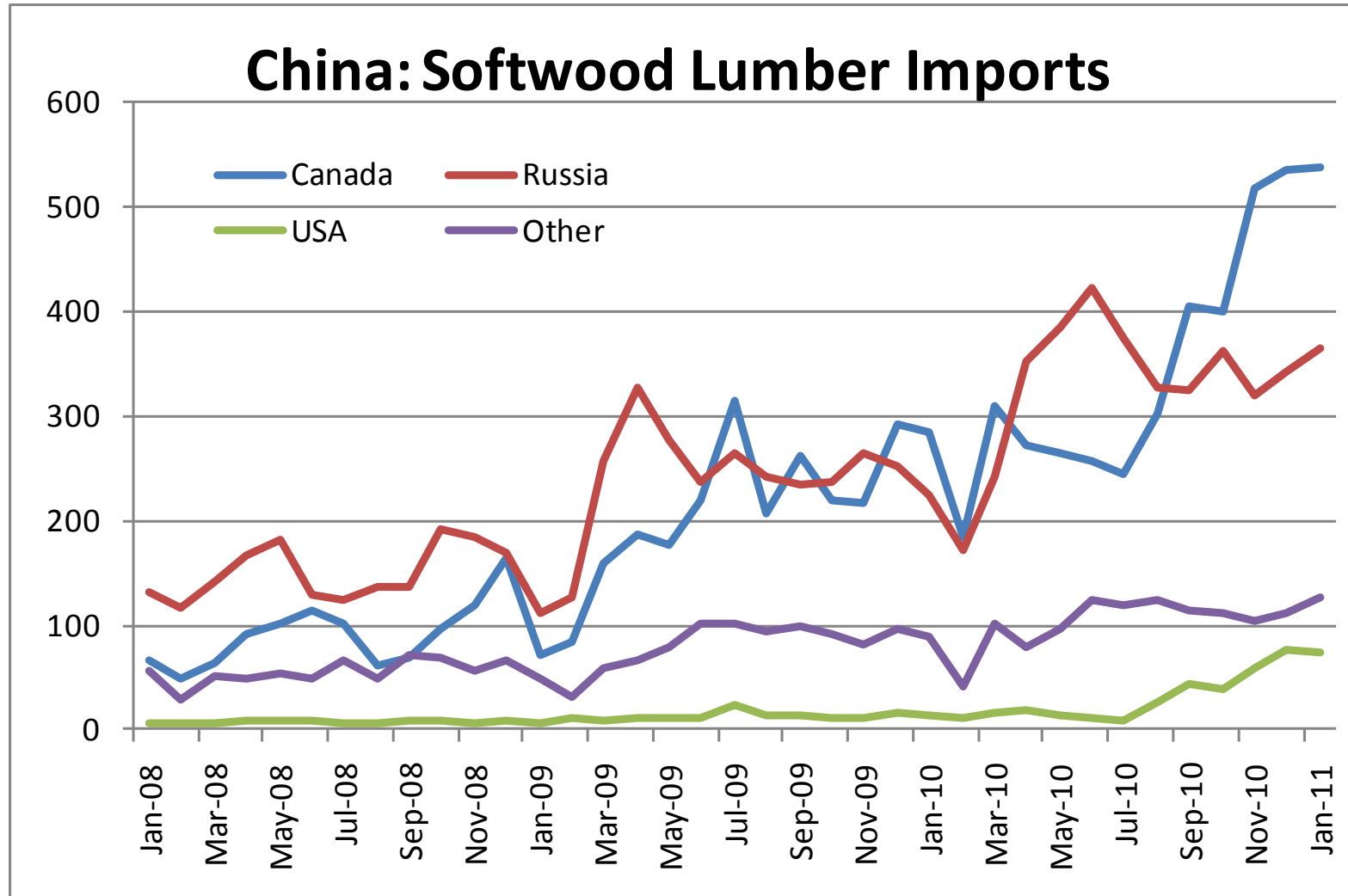
China's timber supply deficit will continue to expand, --- but growth rate slows to 9.1%, or about the same as GDP



Source: RISI



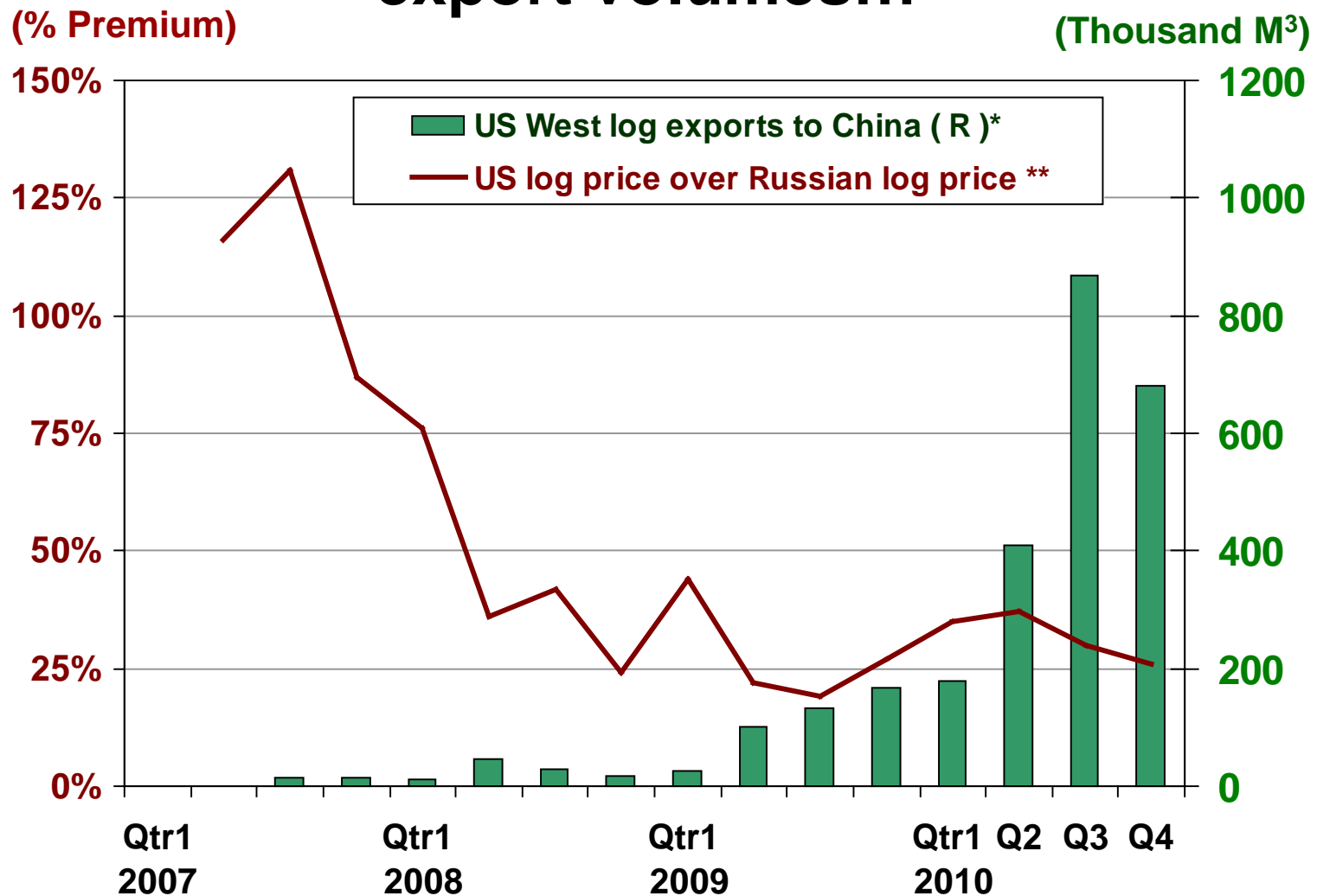
Canada is the largest supplier of softwood lumber to China, and its market share is still expanding



Source: RISI



Competitive pricing a precursor to maintaining export volumes...



* Douglas-fir and Hemlock

** FAS, China, Softwood Average

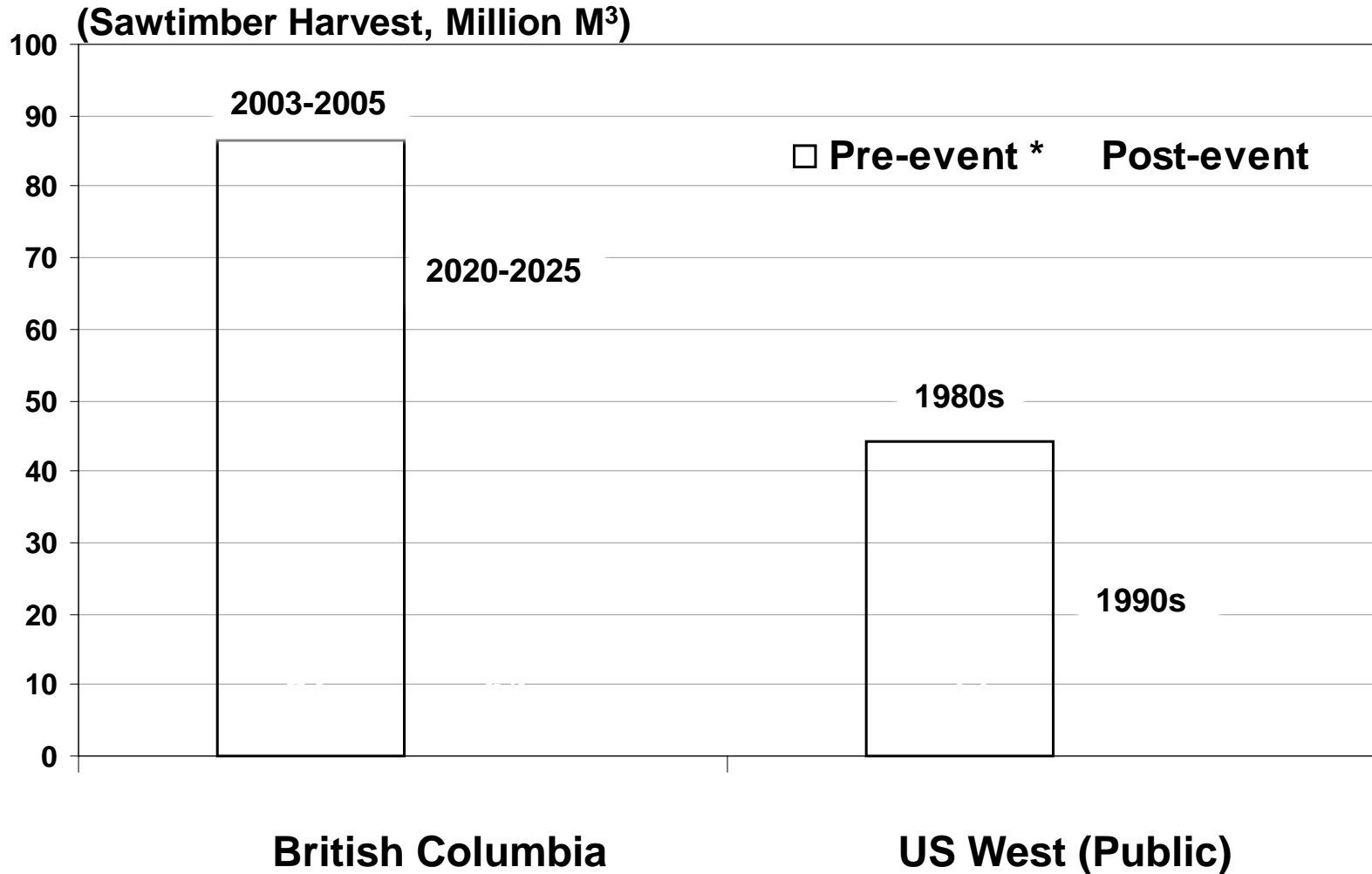
North American Timberland Supply

- **Drivers**

- Mountain Pine Beetle

- By 2008, 40% of useable lumber impacted
- By 2013, 70% of useable lumber impacted
- Yield vs. Value (-7% vs -14%)

B.C. Beetle and Spotted Owl Compared

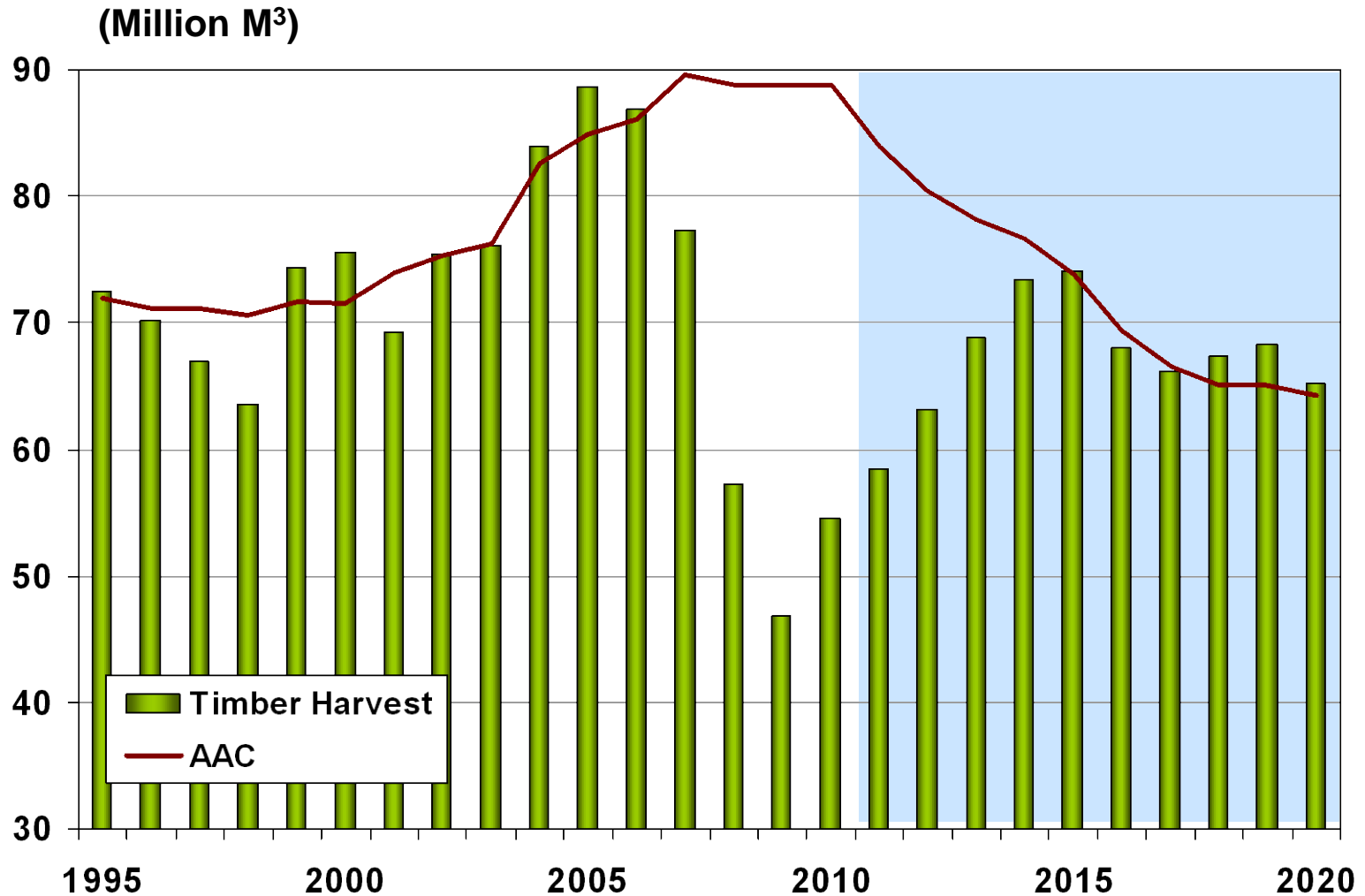


* BC peak harvest levels

Source: RISI



B.C. Timber Supply



North American Timberland Supply

- **Impact on timberland Supply**

- **Short Term**

- Muted by lack of demand in North America
- China (Russian log export duties)
- Reduction in AAC

North American Timberland Supply

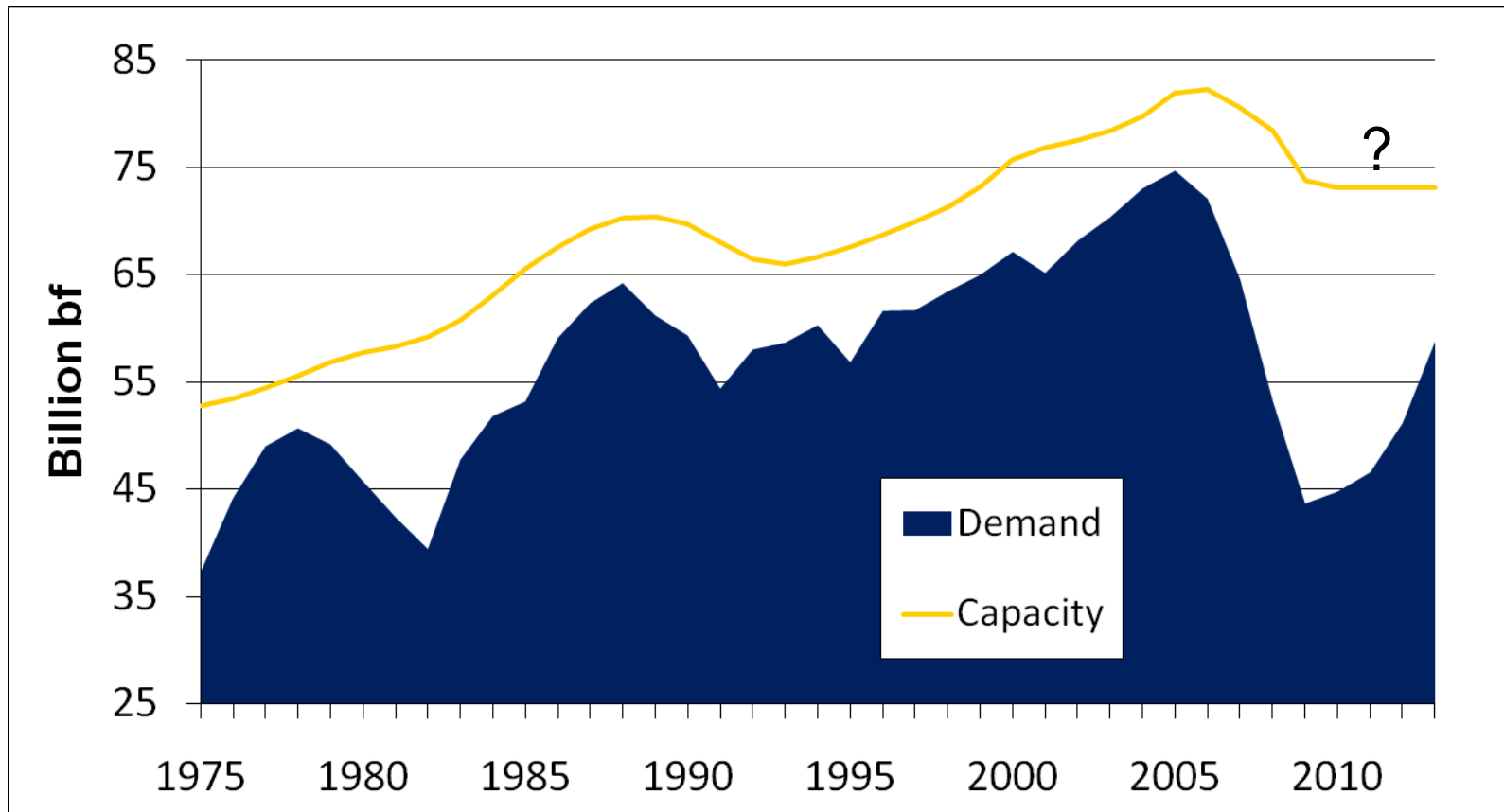
- **Impact on timberland Supply**

- Long Term: 2013 & beyond

- Benefit to timberland investors
- Domestic demand well in excess of supply
- Transportation costs for importers
- Interest in pulpwood and scrap for biomass and biofuel

Gap closing but still too big

Demand on North American Lumber Mills vs Capacity



14% Increase in Freight Cost



**Freight--
the cost of
hauling
logs to the
mill.**

Freight costs have skyrocketed.



North American Timberland Supply

- **Policy Factors: North America**

- Federal and State timber harvests sharply curtailed since 1990s
- Appreciation of non-timber values associated with public land management
- US policy encourages energy production from domestic renewable energy resources
- Canadian quota constraints & duty impositions

North American Timberland Supply

- **Policy Factors: International**
 - Russian log export duties (2011 considering raising)
 - European Union biomass energy policy (pellets)
 - China

North American Timberland Supply

- **Outlook**

- Domestic demand outpaces supply by more than 35% from 2011-2020
- US housing market begins slow recovery 2013-2015 (1 million housing starts)
- Export markets continue to grow
- BC continues to find markets for beetlekill logs
- US sawmills more competitive in global market
- Increased non-timber revenue opportunities

North American Timberland Supply

- **Conclusion**

- Economic downturn results in more efficient production
- North American timber competitive in global market
- Lumber prices rise as demand returns
- Supply chain feels the pressure (freight costs, credit availability)
- Outlook bright for timberland investment

North American Timberland Supply

Special Thanks:



Forest2Market



A misty forest scene with tall, thin trees and a path leading into the distance. The text is overlaid on the top left and bottom left of the image.

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