



Hilco™

Valuation Services Lumber Industry Perspective

1ST QUARTER 2014

INDUSTRY

INFORMATION

>> U.S. housing starts should top more than 1 million units in 2014 for the first time since 2007.

>> 30-year mortgage rates, which had jumped 100 basis points in the middle of 2013, have recently stabilized.

RECENT VALUATION/ LIQUIDATION EXPERIENCE

- BlueLinx Corp.
- Tembec Inc.
- Northwest Hardwoods
- Eacom Timber Corp.
- Western Forest Products
- Potomac Supply Corp.
- Kitchens Brothers
- Simpson Lumber Co.
- Resolute Forest Products Inc.

China's Impact on Lumber

Lumber prices weakened slightly in the first quarter of 2014. The *Random Lengths* Framing Lumber Composite Price (FLCP), which includes prices from a variety of softwood framing species, ended at \$378 per thousand board feet (MBF) after starting the quarter at \$390 per MBF. Bigger news for Canadian mills was the weakening of the Canadian dollar by approximately 6% against the U.S. dollar, which raises net selling prices for Canadian mills, all else being equal.

China has become an increasingly important part of demand for North American lumber over the last decade; as a result, Hilco will analyze what impact an economic slowdown in China may have on the lumber market.

In 2013, China imported a record high 3.75 billion board feet of softwood lumber from the U.S. and Canada, with 90% coming from Canada. Almost all of the lumber shipments come from mills in British Columbia, Alberta, and the west coast of the U.S. China ac-

counted for approximately 7% of shipments of North America lumber. Unlike North America, where lumber is primarily utilized in home construction and repair and remodeling, China utilizes 90% of its lumber for concrete forming. As a result, much of the lumber purchased is lower grade economy lumber. China acts as an outlet for this grade of lumber and also purchases more lumber when prices fall. During the sharp correction in the second quarter of 2013, China stepped in to support the market and purchased lumber at relatively cheap prices.

China also imports a large volume of logs from the U.S. and Canada, with approximately two-thirds coming from the U.S. This has resulted in extremely high log prices on the west coast of the U.S. and has strained profitability for western U.S. coastal mills, even with lumber prices being relatively high.

It now appears that a construction slowdown is in place in China, partially orchestrated by the Chinese government to

transition to a consumer driven economy. There have been plenty of reports of the overbuilding and excess construction in China. If a construction slowdown is indeed in place in China, it would be expected that lumber and log exports would decline from the record levels of 2013, as the majority of lumber is utilized in construction activities. Log prices would mostly likely decline on the west coast of both the U.S. and Canada. This likely would boost profitability for U.S. west coast lumber mills, which have been hardest hit by high log prices. The impact upon lumber prices is less easy to discern. If the housing market in the U.S. continues to recover, any slowdown in purchases by China could be made up for by increased demand from the U.S., as China accounts for small portion of total North American shipments. A decline in economy grade lumber prices is more likely than an overall decline in lumber market prices if China were to reduce purchases.

Jesse Marzouk is a vice president and forestry products specialist. He has appraised numerous U.S. and Canadian pulp, paper, and lumber-related companies involved in manufacturing and distribution. Jesse received his MBA in finance from Kellogg School of Management at Northwestern University, and has a degree in finance and accounting from Indiana University.

