



Canfor still top lumber producer

Canada's total lumber shipments increased by more than nine per cent in 2015, but some Canadian forest companies are continuing their pivot to the U.S. South, with both Canfor—which continues to be Canada's top lumber producer—and Interfor adding to their sawmill counts in the U.S. South during the year.

By Peter Butzelaar

The annual survey of the top Canadian lumber producers by International WOOD MARKETS highlights the growth in Canadian lumber production, but it also notes the ongoing acquisitions, expansions and capital expenditures Canadian forest companies are making in the U.S. South. While fibre supply constraints pose a serious challenge in Canada, the U.S. South appears to offer a more ample supply of sawlogs and a more favourable outlook.

For the sixth consecutive year, total North American softwood lumber shipments were up, increasing by 5.1 per cent in 2015 versus 2014 (from 55.6 billion board feet to 58.5 billion board feet).

Although slower than anticipated, the continued recovery in the U.S. housing market—combined with strong growth in residential repair and remodelling—helped mitigate the slowdown in exports from North America to China. As a result, Canada's total shipments grew by 9.2 per cent (+2.2 billion board feet to 26.5 billion board feet), with total U.S. shipments up 1.9 per cent (+590 million board feet to 32.0 billion board feet).

Within Canada, shipments were up across all regions of the country, led by B.C. with an increase of 655 million board feet to 13.1 billion board feet (+5.2 per cent); this was followed by Quebec, up 603 million board feet to 5.5 billion board feet (+12.4 per cent), and Ontario, which saw a lift in shipments of 457 million board feet to 1.84 billion board feet (+33.1 per cent). While smaller in volume, Saskatchewan and Manitoba's collective volume of shipments experienced a strong surge in 2015, expanding by 139 million board feet to 428 million board feet—equating to a 48.2 per cent increase.

The gains were due to a mix of mill restarts, upgrades and added shifts across Canada. However, further gains are likely to be constrained by sawlog supply limitations in B.C. pertaining to the mountain pine beetle infestation, as well as to annual allowable timber harvest reductions that have occurred in Quebec since 2004.

From 2010 through 2013, the top 10 Canadian producers grew their shipments year-over-year at a faster pace than the overall Canadian industry. However, in 2015 (as in 2014), softwood lumber shipments by the top 10 Canadian lumber producers grew at a slower pace than Canadian shipments as a whole (+2.0 per cent for the top 10 versus +9.2 per cent for Canada). As a result, the Canadian top 10 companies saw their output rise 312 million board feet to 15.7 billion board feet in 2015, and their share of national production slipped to 59.6 per cent from 63.8 per cent (see table).



CANADA TOP 10 SOFTWOOD LUMBER PRODUCERS · 2015 (Million Bf)						
Rank		Company	No. of Mills Open	Production		% Change
2014	2015			2014	2015	
1	1	Canfor	12	3,735	3,829	2.5%
2	2	West Fraser	13	3,476	3,599	3.5%
3	3	Tolko	8	1,886	1,960	3.9%
4	4	Resolute FP	15	1,585	1,678	5.9%
6	5	Western FP ¹	8	908	891	-1.9%
7	6	Weyerhaeuser	3	845	842	-0.4%
5	7	Interfor	5	943	784	-16.9%
8	8	J.D. Irving	5	766	771	0.7%
9	9	Tembec	7	710	706	-0.6%
10	10	EACOM	7	598	704	17.7%
Total Top 10			83	15,452	15,764	2.0%
Total Canada Shipments				24,226	26,458	9.2%
% of Canada Shipments				63.8%	59.6%	
Notes: Includes lumber produced only at primary sawmills and excludes U.S. production. ¹ Production includes custom cut volume						
Source: WOOD MARKETS						

The decline in market share is likely an indication of the large Canadian companies consolidating production and retooling mills to optimize for anticipated changes in the log profile and projected reductions in overall timber supply (particularly in the B.C. Interior, but also in Quebec). However, the U.S. South is proving to be a strategic pivot option for Canadian producers looking to raise their production and diversify their product mix. The key attraction of investing in the U.S. South is the region's more readily available/affordable timber supply and its close proximity to the recovering housing market. The most active "acquiring" Canadian companies in 2015 were Interfor and Canfor; Interfor increased its U.S. South mill count by three to nine mills, and Canfor



added six mills to lift its count in the South to ten. West Fraser, on the other hand, added no new mills in 2015, but did reap benefits from the completion of several capital upgrades in kilns and planers.

Turning to the ranking of the top 10 Canadian firms, six were based in Western Canada and collectively produced 11.9 billion board feet (45.0 per cent of Canada's shipments); this was up by 112 million board feet (+0.9 per cent) from 2014. Production for the top four eastern Canadian producers was 3.9 billion board feet (14.6 per cent of Canada's shipments), up 200 million board feet (5.5 per cent) from the prior year.

The order of the top four Canadian producers was as follows: Canfor, West Fraser, Tolko and Resolute—unchanged from 2014. Climbing into fifth position was Western Forest Products as Interfor slipped into seventh (from fifth). Collectively, the top five Canadian producers raised their production to 11.9 billion board feet (45.2 per cent of Canadian lumber output), versus 11.6 billion board feet (48.0 per cent) in 2014. Canfor retained its lead spot, increasing its output through capital upgrades by 94 million board feet (to 3.83 billion board feet; +2.5 per cent) despite the closure of its Canal Flats, B.C. sawmill in November.

Maintaining its close second position was West Fraser at 3.60 billion board feet (+123 million board feet; +3.5 per cent). West Fraser's volumes were carried higher by a number of capital expansion projects completed in 2014 and the acquisition of the Manning Diversified sawmill in Alberta in October.

Tolko placed third, with its output rising by 74 million board feet to 1.96 billion board feet (+3.9 per cent) despite cutting production by half at its Quesnel, B.C. mill beginning in October.

Fourth-place Resolute lifted its output by 93 million board feet to 1.68 billion board feet (+5.9 per cent), with the gains primarily coming from the addition of two Ontario sawmills that came online in 2015.

Western saw its output contract by 17 million board feet (to 891 million board feet). The reduction, which can be attributed to disruptions related to capex upgrades at multiple sawmills in 2015, positions the company for higher volumes in 2016.

Interfor's drop in 2015 production by 159 million board feet to 784 million board feet (-16.9 per cent) was due to a combination of market related downtime taken by its various Canadian mills, as well as the curtailment of its Castlegar, B.C. mill while the company completed work on a major mill upgrade.

As the results for 2015 clearly show, Canadian lumber producers remained active in broadening their footprint in the U.S. while continuing to invest in their Canadian mills. Canadian mills faced some thin margins at times in 2015 and also had to factor in the risks posed by currency volatility, quality/affordability of timber, and the winding down of the Softwood Lumber Agreement in October. As a result, Canadian producers are maintaining their relentless focus on reducing costs and improving lumber yields and grade recoveries.



For 2016, the greatest wild card will be the outcome of ongoing negotiations for the next Softwood Lumber Agreement. This will be the greatest unknown that the Canadian industry will have to deal with, as a punitive agreement (which can only be expected given the American resolve) will not be good news.

For those looking to better understand the global market dynamics and outlook for softwood logs and lumber, International WOOD MARKETS is hosting its 6th annual Global Softwood Log & Lumber Conference May 5-6, 2016 in Vancouver. The first day of the conference will feature a number of expert speakers on industry and market developments in North America, China, Japan, Russia, Europe, Southern Hemisphere and other key markets and supplying regions. The conference theme will address ongoing supply shocks and dislocations coupled with a rebounding U.S. market in conjunction with developments in Asian markets and the potential role of European and Russian exporters. The second day will focus exclusively on the trends and outlook for China's market and Russia's new export potential. A key feature of the conference are the three Panel Sessions that will profile the perspectives of traders, producers, importers and analysts on key topics and issues.

More information on the conference can be found at: www.woodmarkets.com/conference/global-conferences/

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