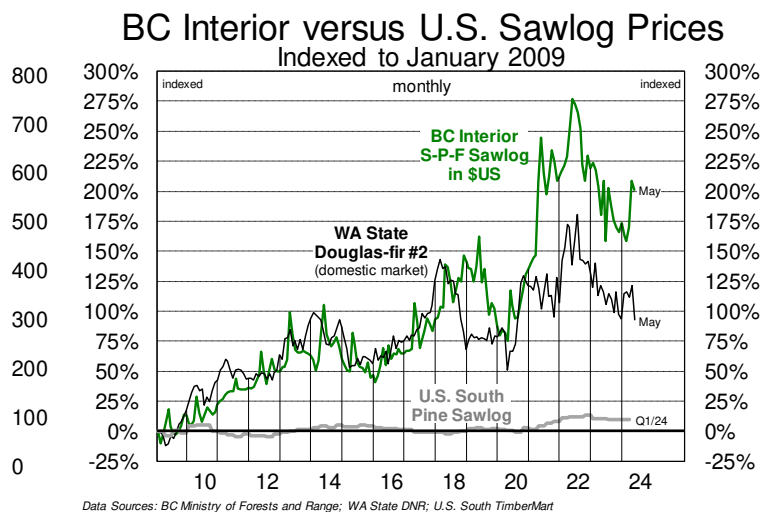
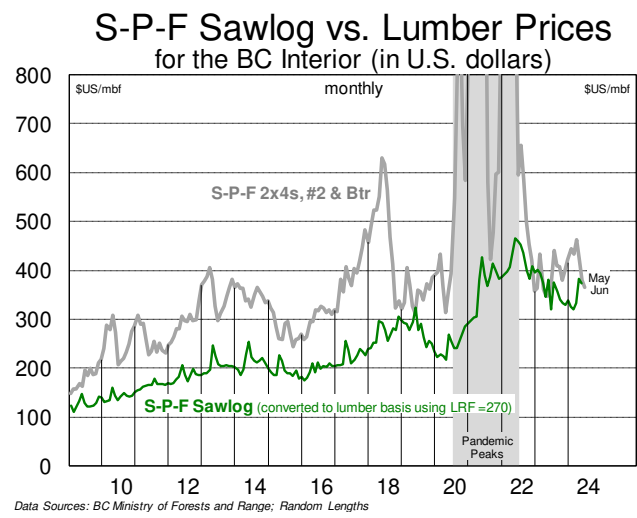




ERA Chart Of The Week

Slumping Lumber Prices and Rising Log Costs a Tough Combination for BC Sawmills.

July 3, 2024



What the charts tell us: BC log costs are moving higher again (chart left), and with S-P-F lumber prices rolling over—S-P-F 2x4 prices declined to \$332 this week (the lowest level since early 2020)—we believe that the majority of BC sawmills are losing money today. Lumber prices are slumping across all species and dimensions, but log costs in BC are significantly higher than in other jurisdictions (chart right).

Why it matters: BC sawmilling economics were similarly challenged back in late 2022 and early 2023, but the key difference between now and then is the amount of sawmill downtime taken. Between Q4/22 and Q1/23, we estimate that over 1Bbf of temporary downtime was taken in British Columbia alone, and an additional ~1Bbf of permanent closures were announced in the province over the same period (CFP and WFG did most of the heavy lifting). Year-to-date, we estimate that there have been ~700MMbf of permanent closure announcements in BC, with announced temporary downtime of just ~200MMbf—given prior closures, we would expect downtime to be lower, just not this low. We have seen more curtailments in the U.S. South compared to prior downcycles, but clearly this has not had a sufficient impact on lumber prices to fix broken sawmilling economics in BC. **More downtime is needed in all regions!**

Who wins? Nobody in our coverage universe wins as a result of rising BC log costs and plummeting lumber prices.

Who loses? Lumber producers with greater exposure to BC are the biggest losers, while those with lower exposure are least disadvantaged (however, we can't call them winners given that all North American producing regions are currently suffering to varying degrees). CFP is most exposed with 24% of its sawmill capacity in BC, however, CFP's European lumber business has remained profitable in recent quarters (when regions like the U.S. South and PNW have been in the red) which should partially offset North American losses going forward. For WFG, ~21% of its operating capacity is in BC, while IFP is the least exposed at just 15% in BC (IFP is also the most diversified between regions).

How to trade it?

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