

Economic Outlook: Forestry

Bracing for another storm in the woods

Lumber producers in the province face turbulent times in 2007

Krisendra Bisetty

Brace yourself. Sit tight. Weather the storm.

Wind-whipped coastal British Columbians are familiar with that warning and it's one that the province's forest industry executives would do well to heed. Lumber producers, the traditional backbone of B.C.'s economy, may be in for some turbulent times.

Analysts expect the Canadian dollar to remain firm against its U.S. counterpart in 2007, thereby maintaining the squeeze on margins. They also caution that an already soft U.S. housing market could be mirrored by a similar softening domestically and that lumber prices will drop. Moreover, with framing lumber prices as low as US\$293 per thousand board feet, which is below a threshold of US\$315, the maximum softwood lumber border tax of 15 per cent would kick in.

All these factors, contends one industry analyst, make for challenging forest logistics. Diverting lumber to Japan, for example, where housing starts are climbing, may seem obvious but the concern is flooding that market, which would further depress prices.

Another major B.C. product – pulp – is at a 14-year high in U.S. dollar terms, with a US\$20 price increase in North America effective January 1 set to lift prices to US\$790 a tonne.

So while Canadian pulp mills are making pretty decent money, analysts reckon the commodity is near the peak of its pricing cycle, meaning producers will start the year with good cash flows but head downhill from there.

The coast, however, has an opportunity “to grab hold of the odd rainbow” in the short term, according to the Coast Forest Products Association, which is heartened by recent provincial and federal moves to revitalize the coastal forest industry, including pending policy changes aimed at attracting investment to the beleaguered sector.

nkbisetty@telus.net