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News release

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Growing demand for cheap engineered wood products driving product innovation

Demand for engineered wood products from North Asia, Eastern Europe and Russia will offset slowdown in housing construction in North America and Europe

Growing global demand for cost-effective wood products for building applications such as flooring, structural panels and load bearing applications is driving consumption of engineered wood products such as Oriented Strand Board (OSB) and Oriented Strand Lumber (OSL), according to leading independent economic forecaster and industry analyst, BIS Shrapnel.

OSB and OSL products are a cheap substitute for high-priced plywood and sawn timber products, and can be used for a wide range of new applications in the furniture and industrial sectors, according to BIS Shrapnel's latest report on the forestry products industry: *OSB and OSL in the Pacific Rim and Europe, 2008 to 2012*.

OSB is manufactured from waterproof heat-cured adhesives and rectangularly-shaped wood strands that are arranged in cross-oriented layers, similar to plywood. This produces a structural engineered wood panel that shares many of the strength and performance characteristics of plywood. Produced in huge, continuous mats, OSB is a solid panel product of consistent quality with no gaps or voids. OSL can be manufactured using a similar process, with panels cut into lumber dimensions.

OSB/OSL is used mainly in residential and commercial construction, and more recently is being used in markets such as materials handling and the manufacturing of upholstered furniture. The manufacturing process makes it possible for panel makers to add innovative features such as a slip-resistant texture to panels designed for roof sheathing, and to supply oversized and metric panels. OSB/OSL also makes better use of the entire log, unlike plywood which just uses the veneer of a log. OSB/OSL is subsequently more environmentally-friendly than plywood and cheaper to manufacture as it makes better use of the forestry resource.

The *OSB and OSL in the Pacific Rim and Europe, 2008 to 2012* report examines the manufacture of and demand for OSB and OSL in the key established producing and consuming countries of North America and Europe and the main developing countries in South America, North Asia, Southeast Asia and Australasia.

During the past five years, there has been strong growth in demand for OSB, especially in North America and Europe, as well as newly developing regions South America and Asia, according to report author and senior manager, Bernie Neufeld. Neufeld estimates production of OSB/OSL reached almost 26 million cubic metres in the key world regions in 2007, and based on current expansion plans, forecasts production will exceed 38 million cubic metres by 2012 at a projected annual growth rate of almost nine per cent.

"There is strong potential for growth in demand for OSB and OSL in newly developing markets such as Eastern Europe, Russia, South America and Asia," said Neufeld.

“Strong growth in the key end-use sectors, housing construction and furniture manufacturing in North Asia, Eastern Europe and Russia, will counteract the current slowdown in housing construction in North America, and in Europe in the short-term.

“BIS Shrapnel is forecasting slower economic growth in 2008 in most countries and relatively strong growth in all regions in 2009 and beyond. China, averaging more than nine per cent annual growth in GDP out to 2012, will be a key driver of world economic growth, and will see the emergence of OSB production and stronger demand for OSB in that country.”

Uses of OSB/OSL varies between regions. In Canada, the United States, Japan and Australia, OSB/OSL is predominantly used for building and construction (96 per cent, 93 per cent, 95 per cent and 96 per cent, respectively). Consumption patterns are substantially different in Europe, where 75 per cent of OSB is used in the construction industry, and 25 per cent is used for industrial applications. In South America only 50 per cent is used for building construction, and the remainder is used for industrial and other applications. Neufeld does not expect these patterns of usage to change significantly in the next five years.

Based on current plans for capacity expansion, BIS Shrapnel believes worldwide consumption of OSB/OSL will exceed production until 2009, as excess stock is absorbed, prompting manufacturers to announce new mills and expansion plans. However, as these new plants come on-stream, BIS Shrapnel expects production will exceed consumption in 2010 and 2011.

Neufeld estimates consumption of OSB/OSL surpassed 25 million cubic metres in 2007 and forecasts consumption will exceed 40 million cubic metres by 2012, based on annual growth projections of over nine per cent per year. However, this forecast growth rate will mean supply is not meeting demand from 2011, and this is likely to prompt announcements of further expansion plans by 2010 to meet burgeoning demand for these products.

The OSB/OSL industry is currently concentrated in North America, which at 26.2 million cubic metres has more than 85 per cent of world production capacity, according to Neufeld. This share is expected to decline during the next five years as plants in other regions come online.

Neufeld expects new plants will be located in regions such as South America, which has a growing domestic market; China, which will struggle to find substitutes for plywood in the face of resource constraints' and Eastern Europe, which has a growing domestic market, and access to raw materials and export markets in Europe and North Asia.

The key import regions are the United States, which despite significant production capacity will require imports of more than 13 million cubic metres by 2012, and North Asia, which is a growing import region. The United States deficit is supplied mainly by Canada, Europe and South America, according to BIS Shrapnel.

Neufeld states the opportunities for exports to North Asia should not be underestimated and believes demand for OSB/OSL may also grow in countries such as Vietnam, India, Pakistan and the Middle East between 2008 and 2012.

Prices for OSB/OSL have declined significantly in North America during the past two years, as a result of the downturn in housing construction in the United States. However, they have remained strong in Europe and North Asia. On average, BIS Shrapnel expects prices will be flat in 2008, begin to recover in 2009, and strengthen to average nine per cent growth annually out to 2012.

The availability of forest and plantation resources will also determine which regions are the largest producers of OSB/OSL. Neufeld explains there is a shortage of forest resources in North Asia, which will become more severe between 2008 and 2012, and the tropical hardwood resource in Southeast Asia will be increasingly constrained.

However, Neufeld says plantation resources are expanding rapidly in Australasia and South America and the huge available resource in Russia is likely to have a major impact on production of OSB during the next five years as Russia implements strategies to add value to its forest resource (which is likely to include OSB and other production facilities).

China, which is highly reliant on imported logs from Russia for further processing, is likely to be severely impacted by the ramp-up of engineered wood product manufacturing in Russia and will not have the resources to increase plywood production, according to BIS Shrapnel. Neufeld anticipates this could well prompt China to ramp-up usage of OSB/OSL as a substitute for plywood and announce further plants to

manufacture internally. Neufeld expects European manufacturers will also increasingly invest in wood processing facilities, including OSB.

About BIS Shrapnel

BIS Shrapnel is Australia's leading provider of industry research, analysis and forecasting services. BIS Shrapnel helps clients better understand the markets in which they operate, through reliable and detailed market data, analysis of developments and drivers and thoroughly researched forecasts.

BIS Shrapnel compiles accurate, clearly explained and detailed information on industry sectors, markets and industries in which their clients operate. BIS Shrapnel provides market size and segmentation data, market shares, consumer attitudes and supplier reputation information, and regularly conducts both business-to-business and consumer research.

Over the company's 44-year history, BIS Shrapnel has built up a strong level of expertise and unique methodologies for forecasting.

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