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Engineered wood products will bounce back strongly after the current downturn *A synchronised upturn in global economic conditions and housing construction from 2010 will drive the recovery*

Despite the global financial crisis and a considerable downturn in housing construction in key western economies, leading economic forecaster and industry analyst, BIS Shrapnel, is forecasting consumption of engineered wood products to increase to new peaks by 2013.

BIS Shrapnel's *Structural Engineered Wood Products in the Pacific Rim and Europe 2009–2013* report provides forecasts for the production, consumption, trade and prices of laminated veneer lumber (LVL), I-joists and glue laminated beams (glulam). The report also includes a summary of the economic and housing construction outlook for key markets, which forms the basis for the forecasts for engineered wood products.

BIS Shrapnel notes the world economy has been severely impacted by the financial crisis generated in the United States and predicts that the synchronised downturn will continue for much of 2009. However, coordinated stimulatory policies are forecast to generate a collective upswing in 2010, which will continue to the end of 2013.

Similarly, there has been a downturn over the past four years in housing construction in key regions that produce and consume engineered wood products, with a further decline of four per cent predicted in 2009. However, a significant upswing of 25 per cent will be seen from 2010 to 2013.

BIS Shrapnel's report identifies North America, Australasia, Europe and North Asia (Japan and China) as the key players in this market, with each region having experienced considerable change over the past decade.

BIS Shrapnel report author and senior manager, Bernie Neufeld, says existing and new players will emerge from the current financial and economic crisis with new opportunities to produce and market these products during the coming expansion. However, he does warn that the industry could be caught short during the next upturn due to recent manufacturing site closures, which could cause a stronger escalation of prices.

"The downturn has caused significant over-capacity in North America, which will need to be absorbed quickly during the forthcoming upturn if capacity is to be expanded further," says Neufeld. "In Australasia, growth in production capacity and consumption will likely strengthen over the next five years, as the economy and the construction industry moves into an upswing following the current low.

"In Europe there was considerable growth in consumption of LVL in Finland in 2004 and 2005, and more recently in Germany and Russia, so following the current downturn in housing construction, there will be further opportunities to expand production capacity," continues Neufeld. "In contrast, the market for LVL in Japan has been relatively flat over the past five years, and is likely to remain so over the next five years."

Global production of engineered wood products has been affected negatively in the past three years by the downturn in the United States economy, and more recently by the financial crisis.

LVL production peaked at 3.9 million cubic metres in 2006, a 14 per cent increase in two years, but declined by 14 per cent in the two years to 2008, while I-joist production declined by 35 per cent in the five years to 2008. These declines were concentrated in the United States. On the contrary, the production of glulam increased by 31 per cent in the past five years and was concentrated in Europe.

BIS Shrapnel predicts LVL production to increase by 52 per cent, glulam by 25 per cent and I-joists by 53 per cent over the forecast period, 2009–2013.

“These increases will be driven by a strong recovery in housing construction in the United States, and a synchronised global economic and housing upturn,” says Neufeld. “By the end of the forecast period, production for all three products should be well above historical peaks.”

Consumption of engineered wood products grew at a brisk pace over the five years to 2006, but LVL and I-joist consumption declined in the two years to 2008. LVL consumption was three per cent lower in 2008 than in 2004 and I-joist consumption was down 32 per cent. By contrast, glulam consumption was 26 per cent higher.

“This reduction is a casualty of the housing downturn in the United States,” says Neufeld. “However, as the housing and economic upturn emerges in late 2009, LVL consumption is projected to increase by 54 per cent, glulam by 24 per cent and I-joists by 50 per cent.

“Also, all of these products will increasingly be substituted for sawn timber, steel and other materials in the established markets of North America, Europe and Australasia, and increasingly in the newly developing markets in Eastern Europe, Asia and South America, giving more legs to the upturn,” says Neufeld.

Aside from glulam, engineered wood products are not classified separately in standard international harmonised codes. As a result, there is no official data available on exports or imports.

BIS Shrapnel has estimated trade information from discussions with producers, distributors and industry associations and found there has been considerable trade in all three products between all regions over the past five years, but predominantly between Europe and North America and Europe and Japan. Australasia, mostly New Zealand, has also traded significant amounts of LVL with a wide range of export markets, and Australia has been a substantial importer from North America, Europe and New Zealand.

In North America the major LVL and I-joists manufacturers have exported to the United Kingdom, Japan, France, Germany and Australia in the past decade. In Australasia, according to industry sources, there is considerable trade between Australia, New Zealand, the United States, Japan and several Asian countries.

BIS Shrapnel estimates European LVL imports have fluctuated between 5,000 and 20,000 cubic metres per annum over the past five years, and exports have ranged between 40,000 and 60,000 cubic metres. Imports have been sourced mainly from North America and the majority of Europe’s LVL imports have been directed to the United Kingdom, and the rest to France, Germany, Holland and Sweden.

Japan is a large importer of LVL, with more than 85 per cent of its LVL imports being classified as non-structural. Some of the LVL used for wall framing is classified as non-structural as it is not load bearing, which means the volume of structural LVL imports is understated.

“The large share of LVL imports relative to consumption is due in part to the establishment of production facilities off-shore, in countries such as New Zealand and China, by Japanese companies who export much of their production back to Japan,” says Neufeld.

In China, exports of structural LVL and glulam have grown rapidly over the past five years, but exports of both products declined in 2008. The strong growth to 2007 was driven by the development of joint venture production facilities by Japanese companies with Chinese companies, with the intention of exporting to Japan. However, a number of Japanese companies have abandoned their joint venture partnerships, and this will have a negative effect on exports from China over the next few years.

BIS Shrapnel’s report shows prices have been generally buoyant in all regions over the past five years, with the exception of North America, where prices began to decline in 2006 as a result of the housing downturn. As the housing downturn has developed into the financial crisis prices have not recovered

and declines are now expected in all regions in 2009, followed by a gradual upturn to the end of the forecast period.

LVL prices are in their third year of decline in North America, but have continued to increase in most other regions. The strongest price growth was in China, followed by Australasia and Europe, and the weakest growth was in North America and Japan. Similarly, I-joist prices are also in their third year of decline in North America, but have remained relatively strong in the other regions.

“We predict price declines for I-joists in all regions in 2009, with the sharpest declines projected for Australia, mainly as a result of the depreciating Australian dollar,” says Neufeld. “The price of glulam has remained relatively strong, with the exceptions being North America and Europe, and prices are projected to strengthen in most regions from 2010 to the end of the forecast period.”

There is significant variation in end-use applications for engineered wood products in North America, Australasia, Europe and North Asia. LVL and I-joists are used most extensively in North America as building systems, and have captured a significant share of the floor, wall and roof framing markets.

In Europe and Japan, LVL and I-joists are in the early stages of development, but BIS Shrapnel expects their use will expand rapidly in Northern and Eastern Europe over the next decade. Glulam is used more extensively in Europe and Japan for structural applications in the building industry than in any other region.

“While there is significant potential for the use of I-joists, glulam and LVL in China, the products produced in China tend to be manufactured for export to Japan,” says Neufeld. “Also, most construction in China is concrete and brick, which we predict will change over time, opening opportunities for engineered wood products.”

In Australasia, LVL and I-joists have made significant inroads in the flooring, roof and wall framing markets, and both softwood and hardwood glulam are used for a wide range of applications. LVL and I-joists will likely capture a much more significant share of the floor, wall and roof framing market over the next decade as cost and building efficiencies become increasingly important in the high priced building industry in Australia, and as hardwood from native forests becomes increasingly scarce.

“Over the next decade these products will likely also begin to be used in regions such as Southeast Asia and South America, which to date have used only small amounts of glulam, and some non-structural LVL,” concludes Neufeld.

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 45-year history, BIS Shrapnel has built up a strong level of expertise and unique methodologies for forecasting.

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