

US Softwood Exports to Japan

Japan has historically been a strong market for softwood logs and lumber from the US Pacific Northwest (PNW) and British Columbia. The Japanese economy has been struggling for several years and western log prices have struggled right along with it. The economic collapse of several other Asian economies in 1997 and the strong US dollar have encouraged competition from other wood supplying regions. Future American exports to Japan may have a hard time reaching the volumes seen in the 1980s and 1990s.

While Japanese housing starts improved slightly in 1999 when compared to 1998, they were dismal in 1998, at 1.2 million units. This compares to an annual average of 1.4 million units in the 1980s and an average of 1.5 million units from 1990 through 1996. In general, while the Japanese economy does not appear to be getting worse, it also does not appear to be getting better.

US SOFTWOOD LOG EXPORTS TO JAPAN

In spite of its current economic condition, Japan is still the largest market for US softwood exports (although Canada is catching up.) Figure 1 shows US softwood log exports from January 1999 to March 2000.

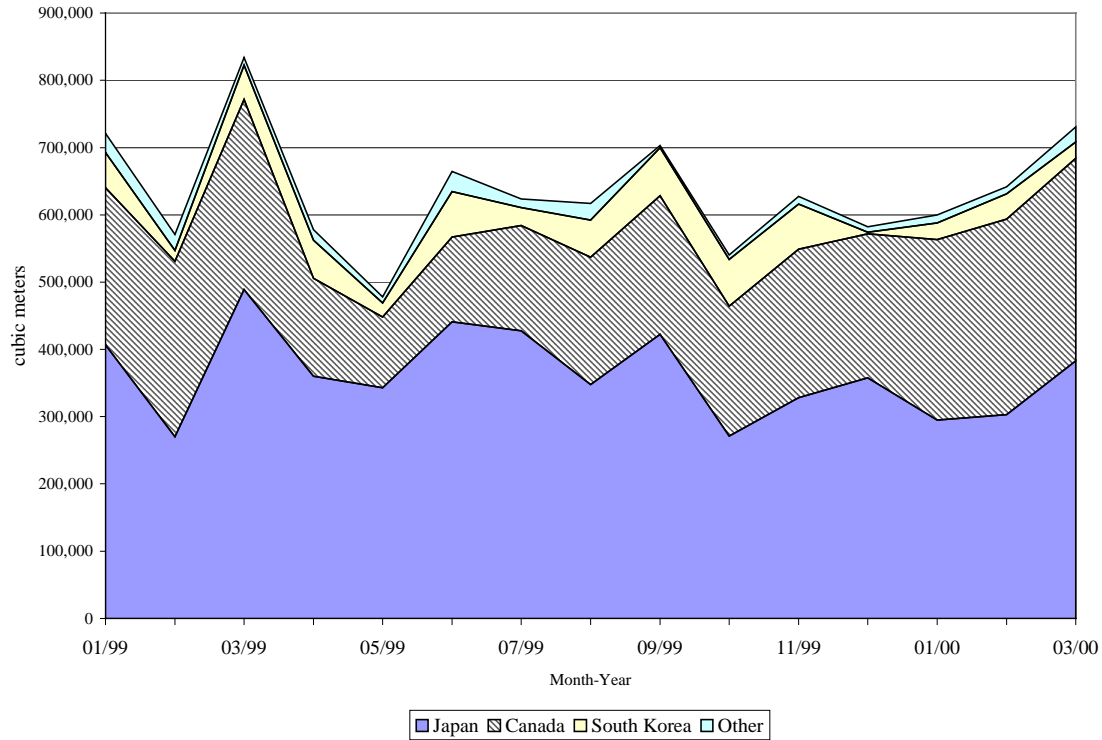


Figure 1—US Exports of Softwood Logs, US Department of Commerce

Japan's share of the US export market is decreasing. A linear trend line (not shown) based on the Japan volumes drops from 400,000 cubic meters at the beginning of the period to just over 300,000 cubic meters at the end. In contrast, shipments to Canada have increased from 100,000 cubic meters in May 1999 to just over 300,000 in March 2000.

After Japan and Canada, the only destination that can be clearly illustrated in the chart at this scale is South Korea. The Other category shown in Figure 1 includes data provided separately for Mexico, China, Taiwan and all other destinations including Europe. The average monthly volume for this collection of destinations has been about 15,000 cubic meters for the past 15 months.

COMPETITION FROM OTHER WOOD PRODUCING REGIONS

While Figure 1 shows diminishing US softwood log exports to Japan, this is not a result of decreasing demand in that market. Figure 2 provides more bad news for US PNW log markets. The chart shows that softwood log imports from selected areas have been increasing slightly since October of 1999, but the additional volumes have been coming from Russia and New Zealand, not the US. Note that the log volumes from Chile and Northern Europe are not large enough to register on this chart. However, while these regions have not been shipping significant volumes of logs to Japan, they have become major softwood lumber suppliers in recent years.

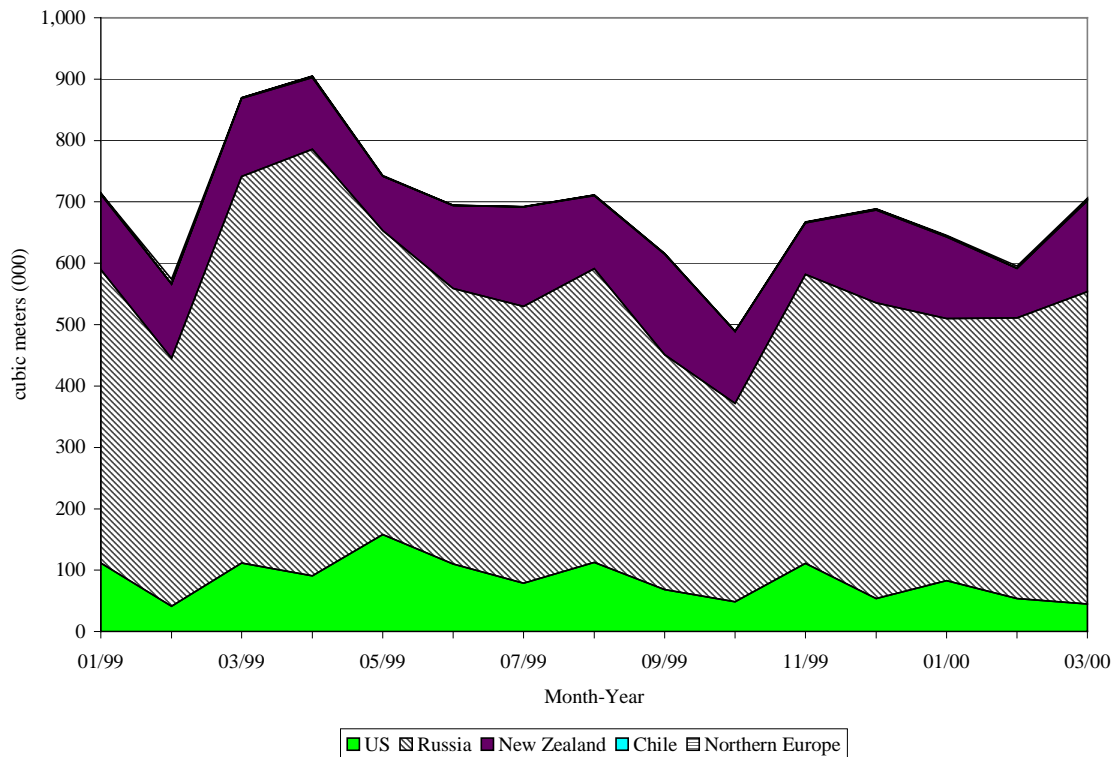


Figure 2—Volume of Softwood Log Imports to Japan from Selected Areas, US Department of Commerce and Pacific Rim Wood Market Report

US SOFTWOOD CHIP EXPORTS TO JAPAN

Figure 3 shows export volumes and destinations for softwood chips exported from the US. Again, Japan and Canada are the clear leaders. Not even South Korea receives enough US chips to be distinguished from all other destinations. The bad news provided by Figure 3 is that softwood chip exports to Japan have been steadily decreasing over the last year.

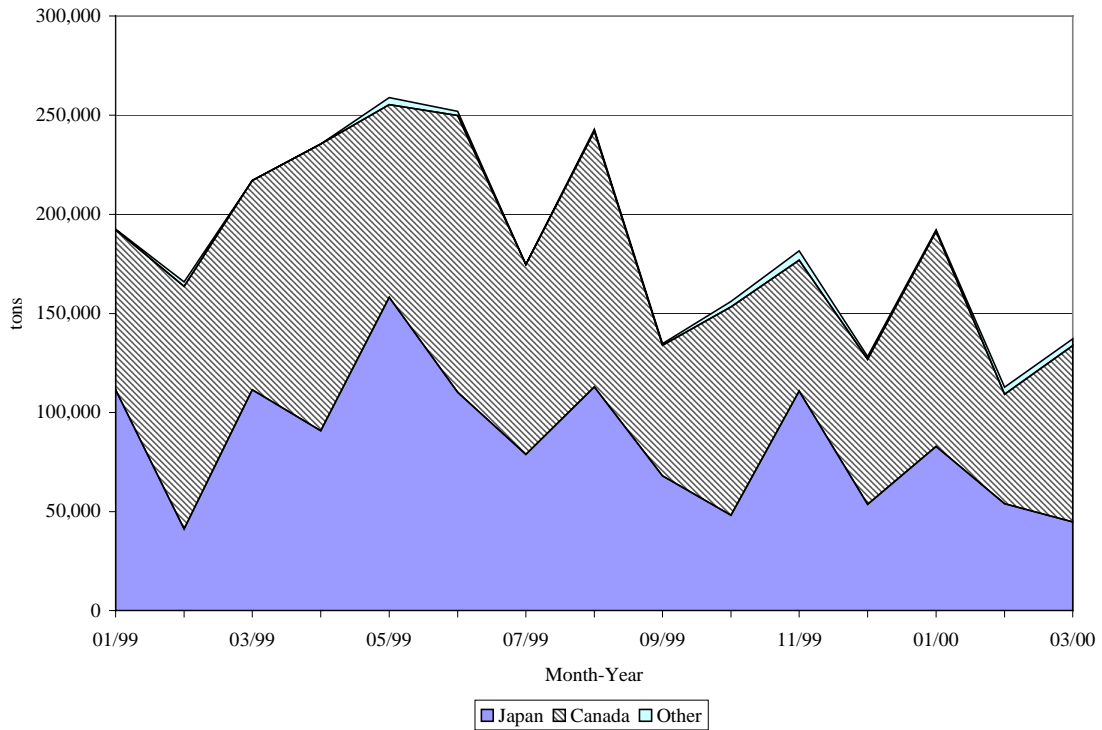


Figure 3—US Exports of Softwood Chips, US Department of Commerce

As is the case with softwood logs, the decline in shipments of softwood chips from the US to Japan does not reflect a decline in demand. US producers are facing competition from other regions for chips as well. For example, Chile has recently been making monthly shipments of 200,000-300,000 tons of hardwood chips to Japan, up from about 100,000 tons each month just 15 months ago. This indicates that demand for chips in Japan has increased, but US producers are not benefiting.

STRONG US DOLLAR

The strong US dollar will be a problem for US wood exporters as Asia recovers and Japan attempts to. The US dollar has been gaining ground on the currencies of a number of softwood exporting countries.

In addition to providing a competitive advantage when selling to Japan, the low value of these currencies against the dollar has allowed each of these countries to increase shipments of lumber into the US.

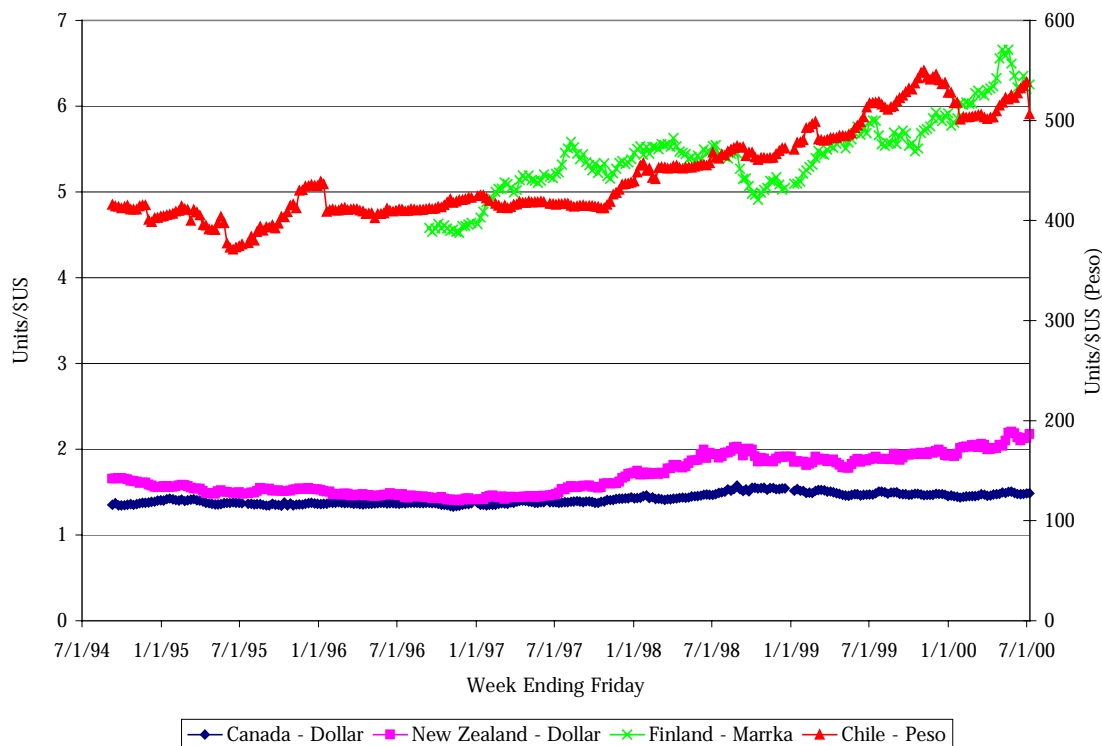


Figure 4—Exchange Rates for Selected Softwood Lumber Exporting Countries, Bank of America

WESTERN LOG MARKETS

Markets in Japan are not as good as they used to be for US exporters, but there are improvements in other countries. However, the domestic market is softening in the face of declining housing starts and record lumber production. With softwood lumber prices low and lumber futures at some of the lowest prices seen in three or four years, why keep making the stuff? US sawmills have been reducing production by extending vacations and maintenance shutdowns or outright shutting down to reduce inventories.

This has led to an interesting situation in western log markets. Both the Pacific Rim Wood Market Report and the Western Washington Export Log Market Report noted in recent issues that export log prices are strong while domestic log prices are weak. The weak domestic market is helping to put upward pressure on export log prices and downward pressure on domestic log prices. It is not possible to harvest only export or domestic grade logs: timber stands (and individual trees) contain a mix of both. Therefore, export log prices must be high enough to compensate timberland owners for the low prices they will receive for the domestic logs.

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