The Conference Board of Canada

Forest Sector Economic Update

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The Conference Board of Canada
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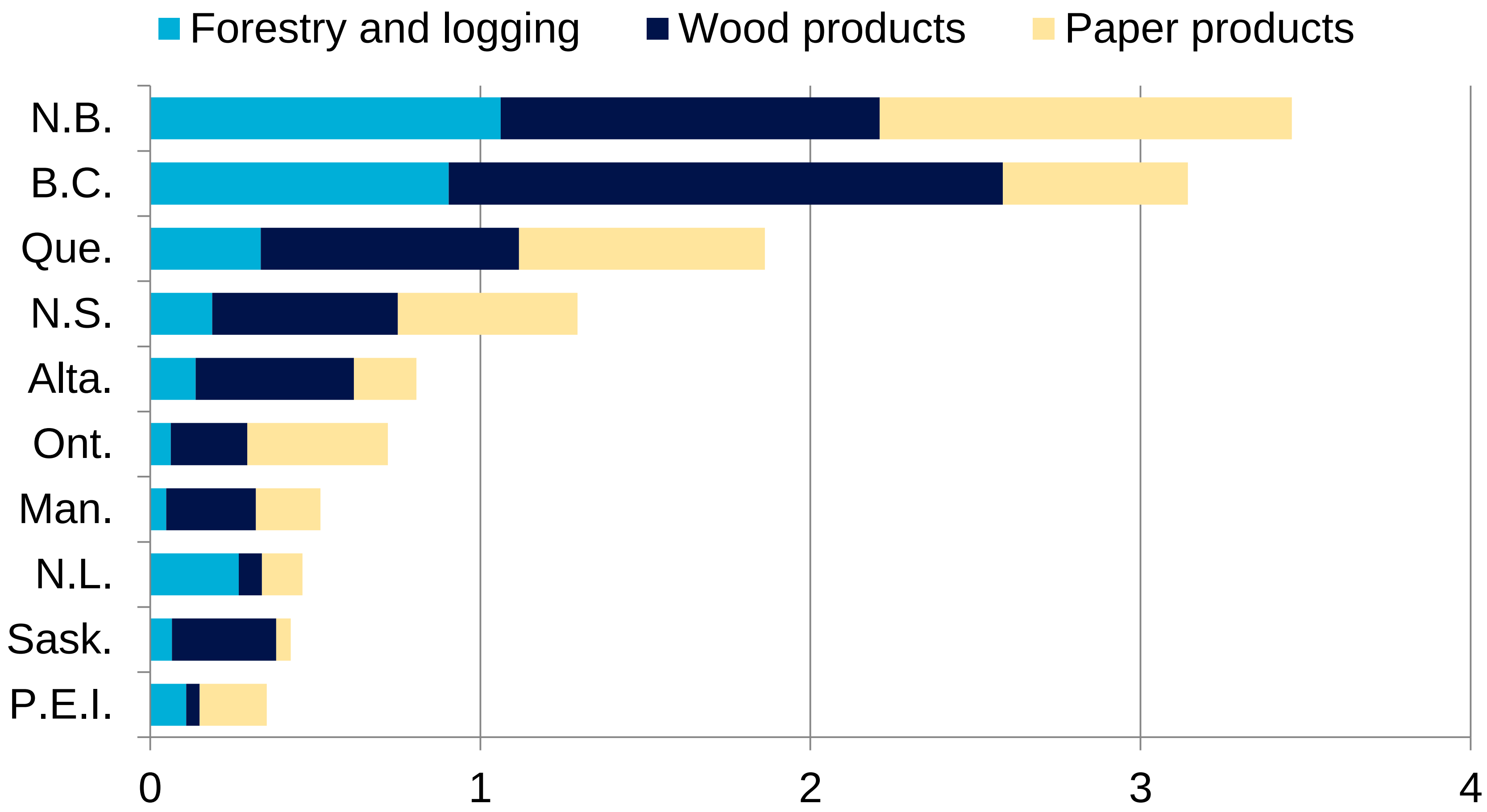
conferenceboard.ca

Importance of Forestry by Province

forestry share of province GDP, 2015, per cent



Sources: Statistics Canada; The Conference Board of Canada.

Presentation Outline

- Forest Sector Update
- Economic Outlook for New Brunswick
- Forest Sector Outlook
  - Logging and wood products
  - Paper products
- Risks and Opportunities

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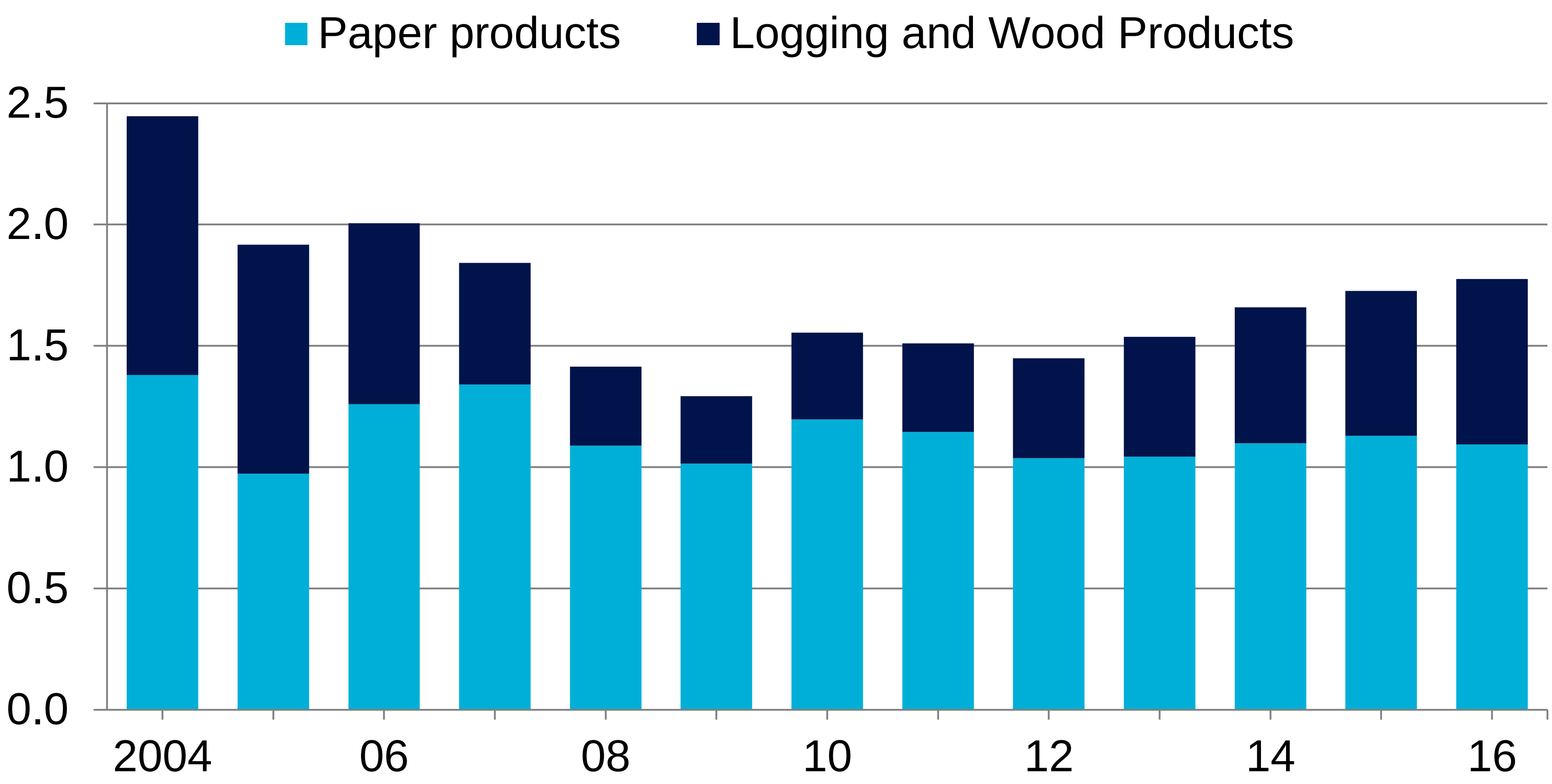
Export Growth Driven by Wood Products Industry

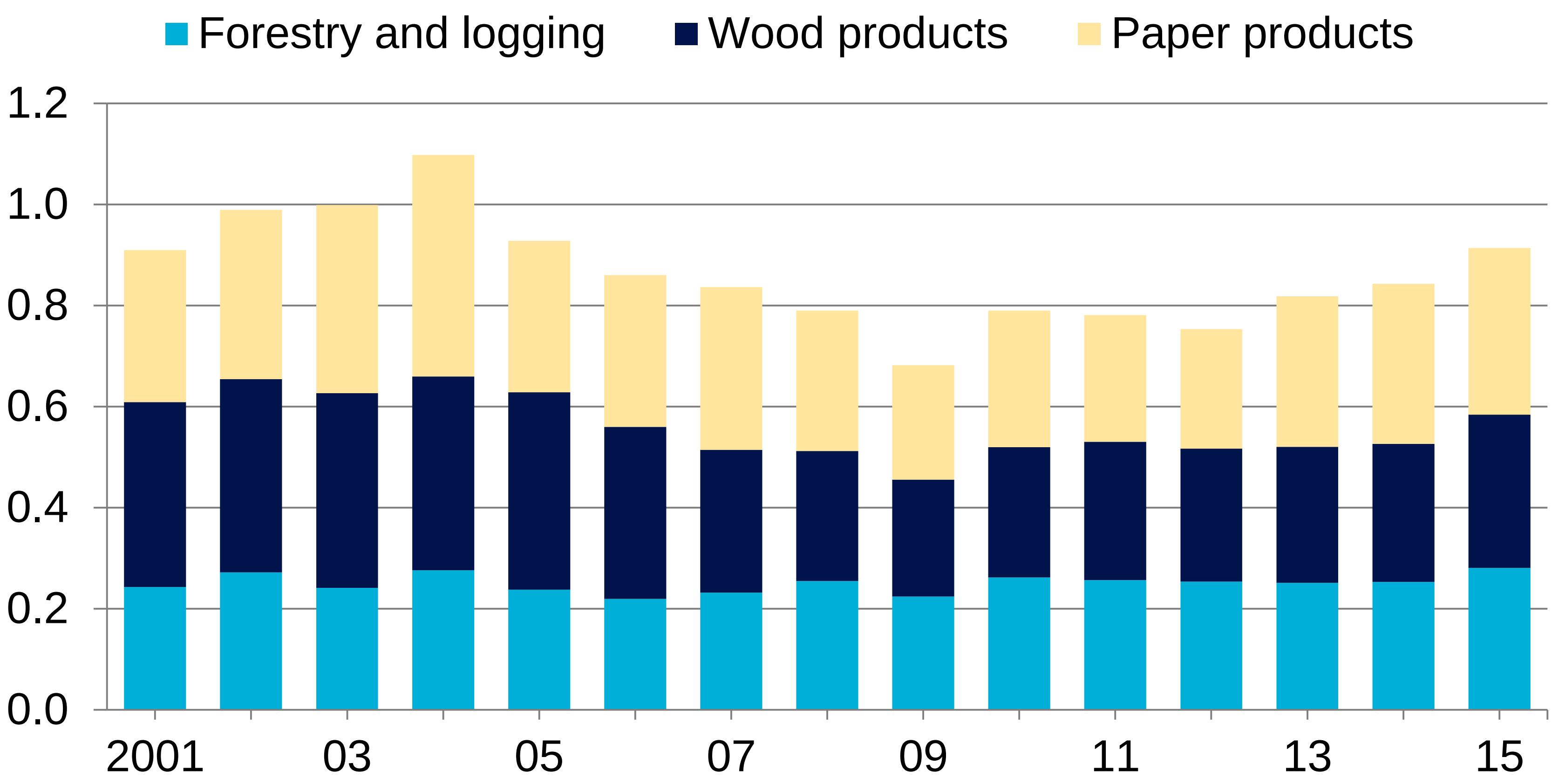
exports, $billions



Sources: The Conference Board of Canada; Statistics Canada.

Output Has Recovered to Pre-Recession Levels

GDP, chained 2007 $billions

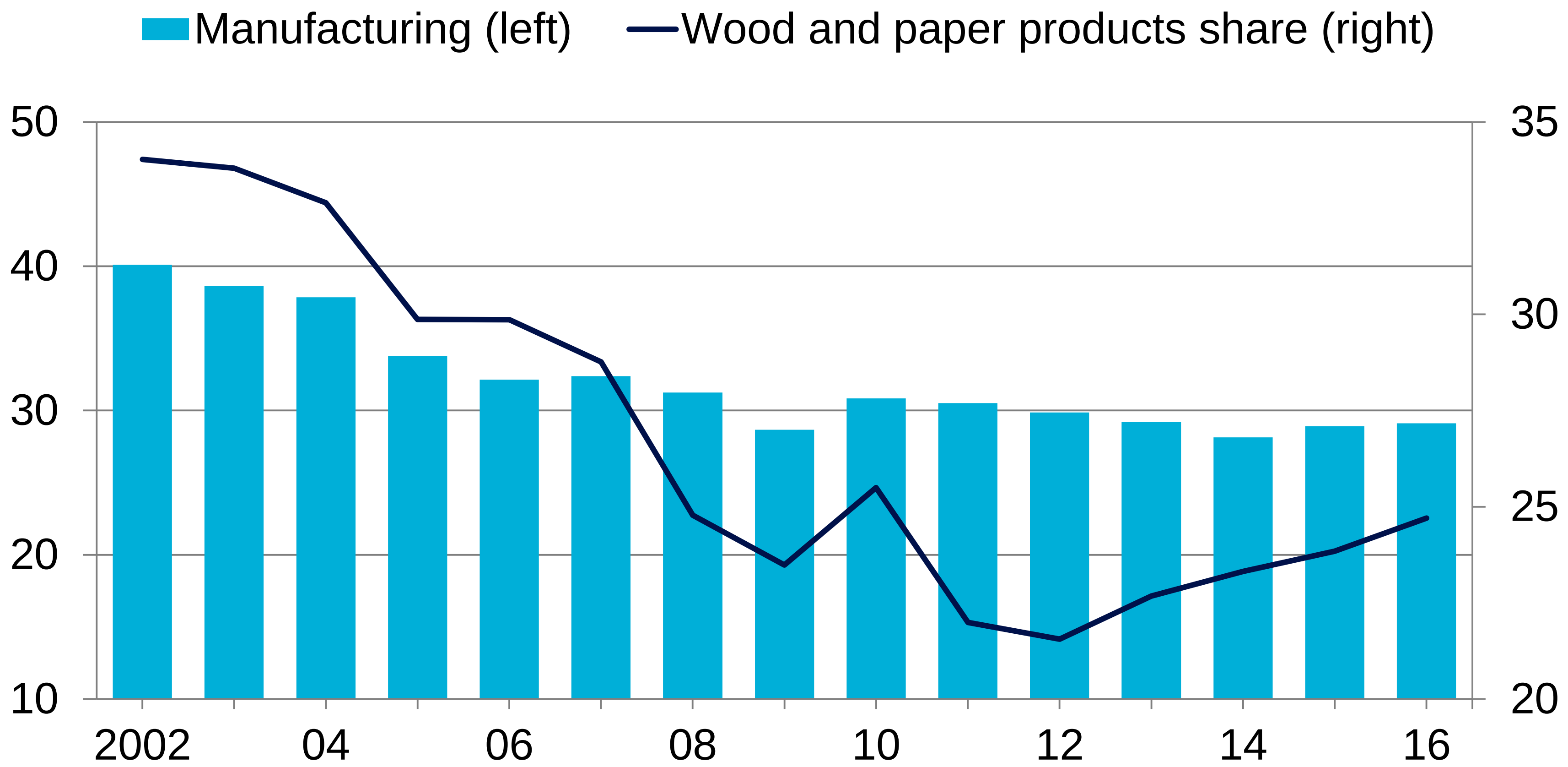


Sources: The Conference Board of Canada; Statistics Canada.

Industry Employment Has Improved Since 2012

Total manufacturing employment, ’000s;

Wood and paper products share of manufacturing employment, per cent.



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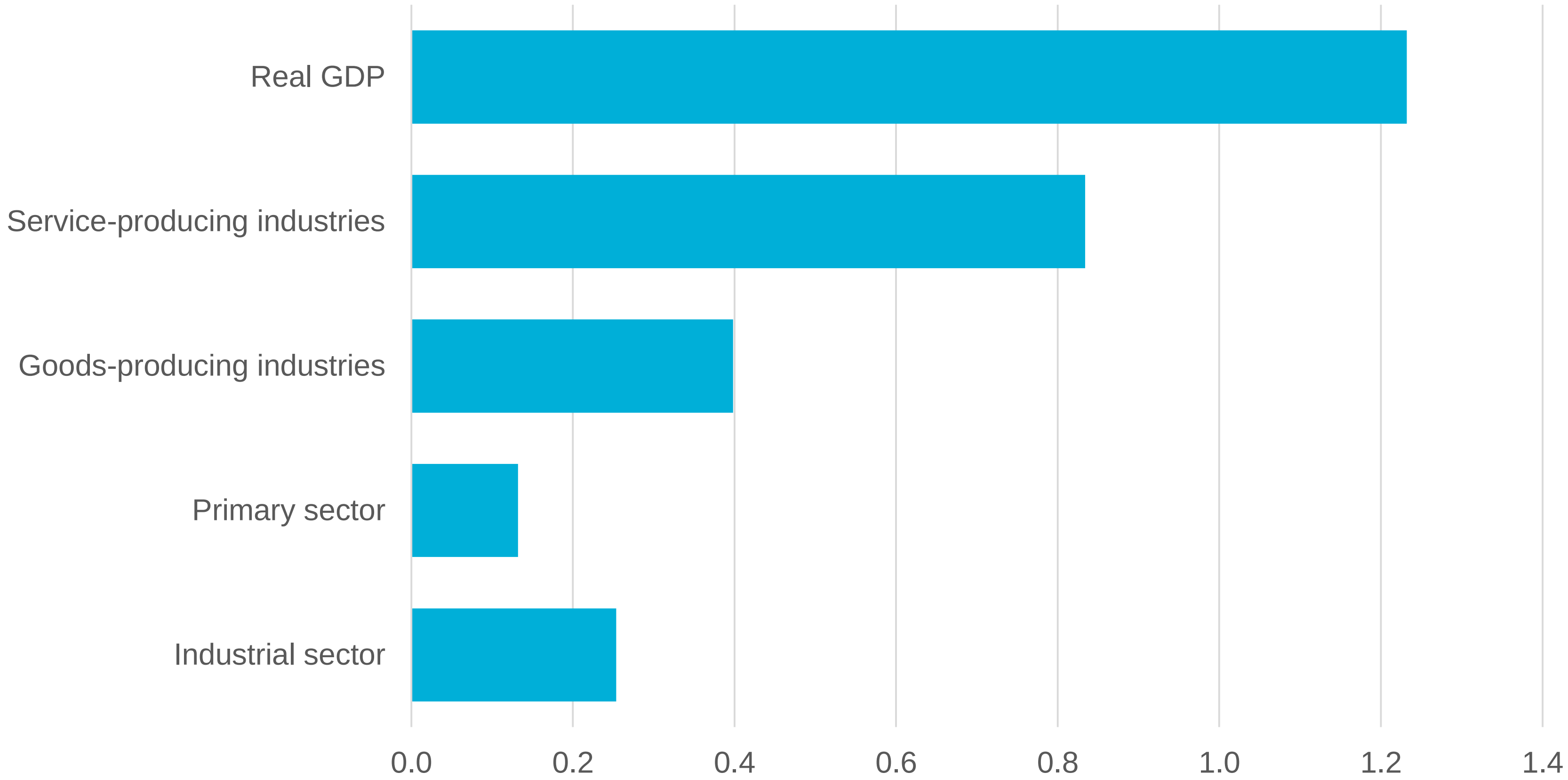
Contributions to New Brunswick Real GDP Growth

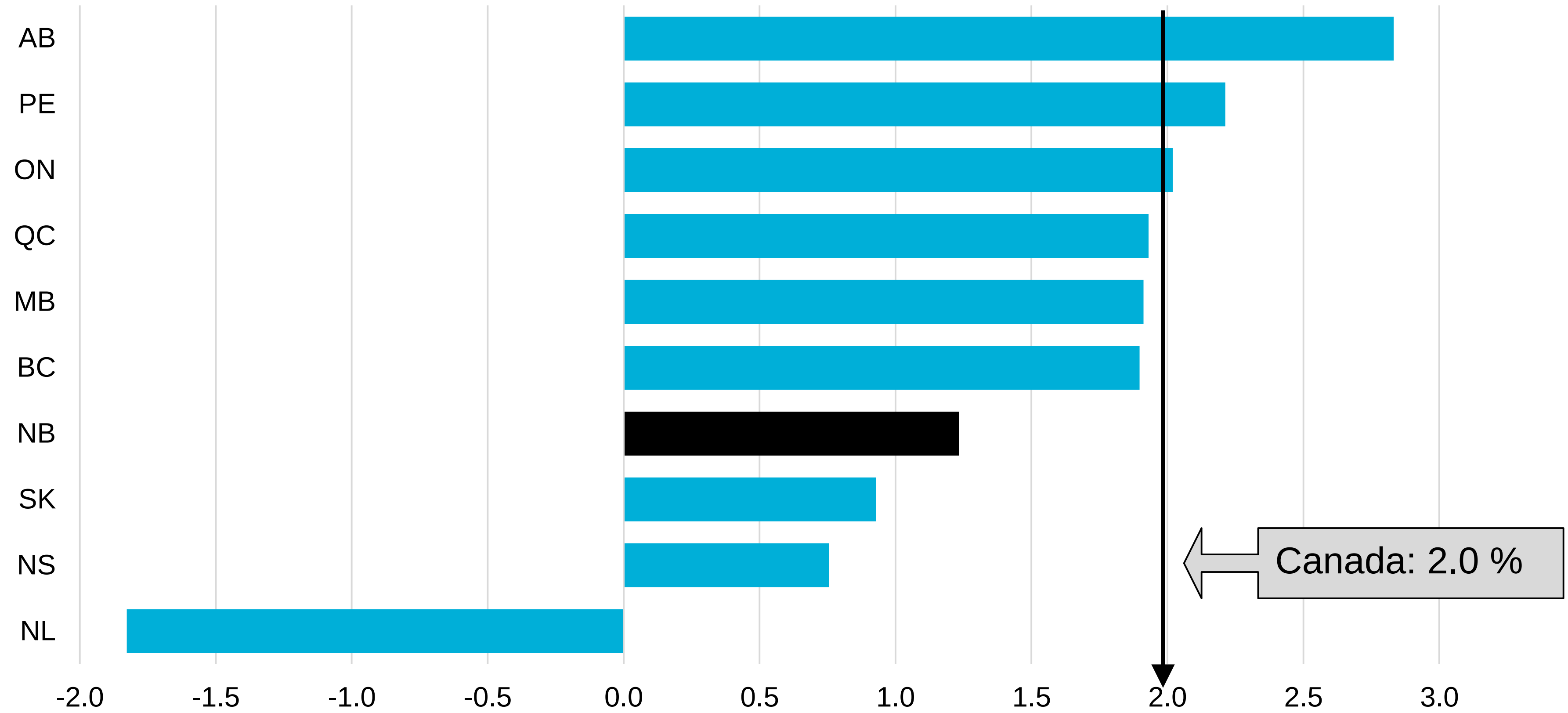
by industry/sector, percentage point; GDP, per cent, 2017



Sources: The Conference Board of Canada; Statistics Canada

2017 Real GDP by Province

per cent change, basic prices, $2007



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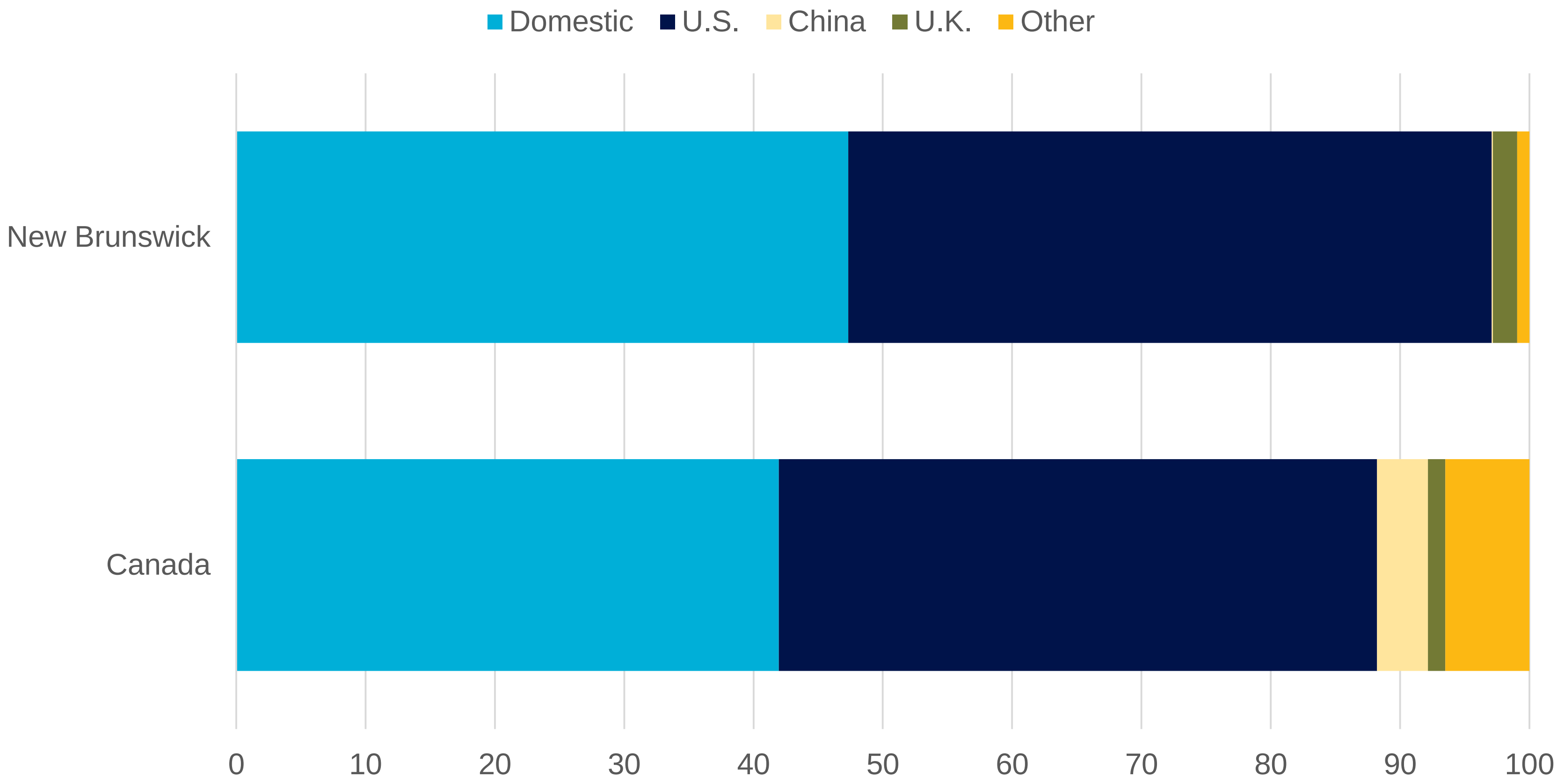
Wood Products Industry Dependent on North American Demand

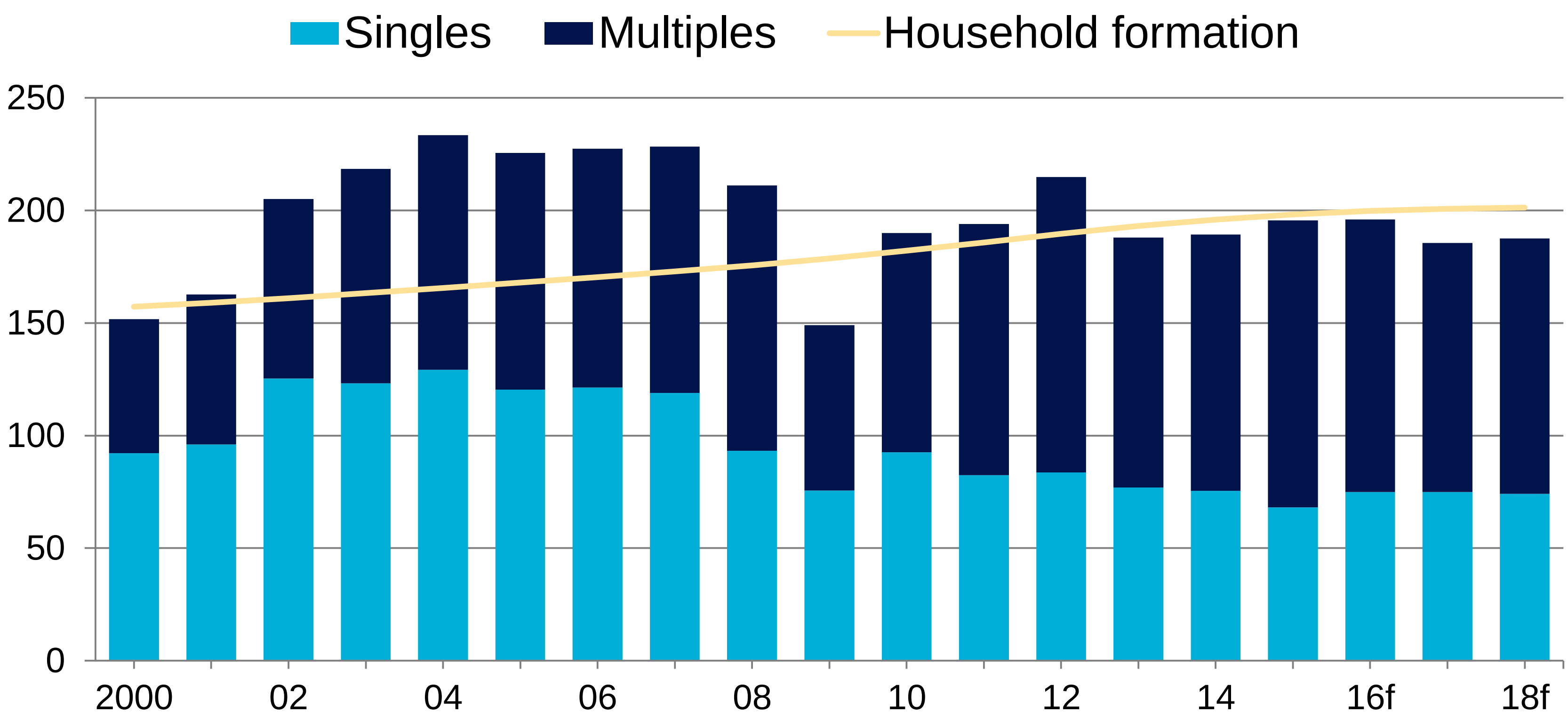
wood product sales by destination, 2016, per cent



Sources: The Conference Board of Canada; Industry Canada.

Slowdown in Home Construction Led by Drop in Multi-Family Segment

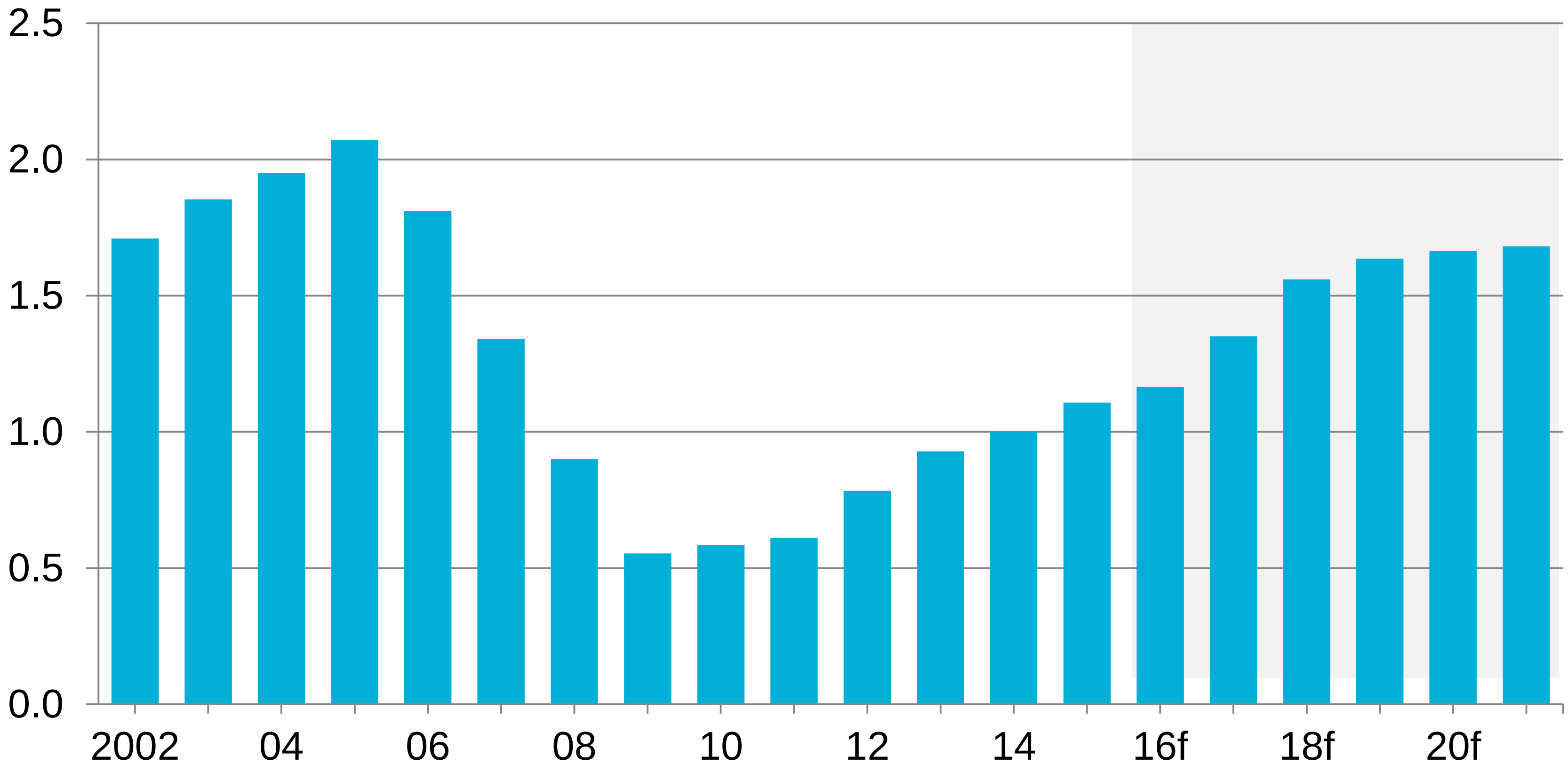
unit starts, SAAR, thousands



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.
f = forecast.

U.S. Housing Market Gaining Momentum

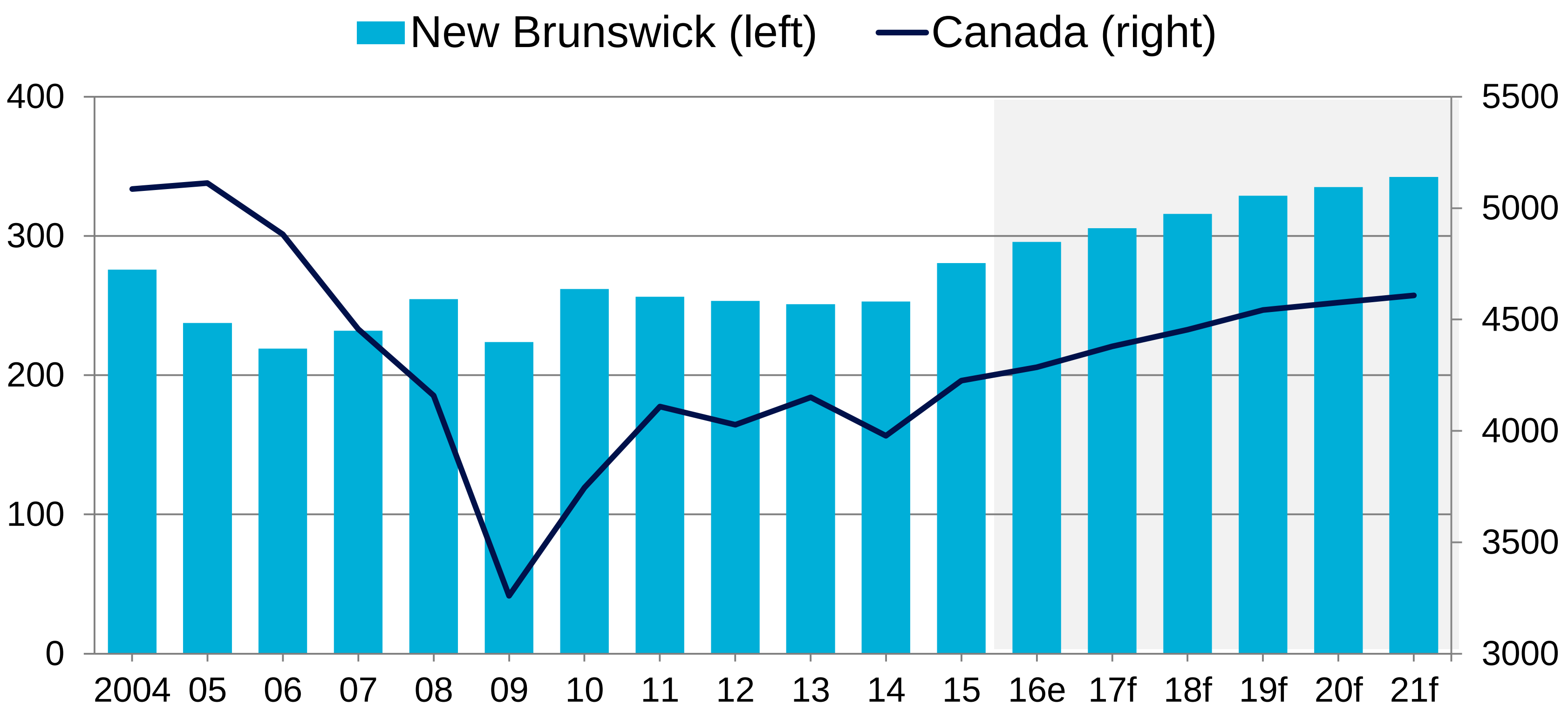
U.S. housing starts, millions (SAAR)



Sources: Bureau of Economic Analysis; The Conference Board of Canada.
f = forecast

Logging and Forestry Output Growth to Slow but Remain Healthy

Real GDP, 2007 $ millions



Sources: The Conference Board of Canada; Statistics Canada
e=estimate.
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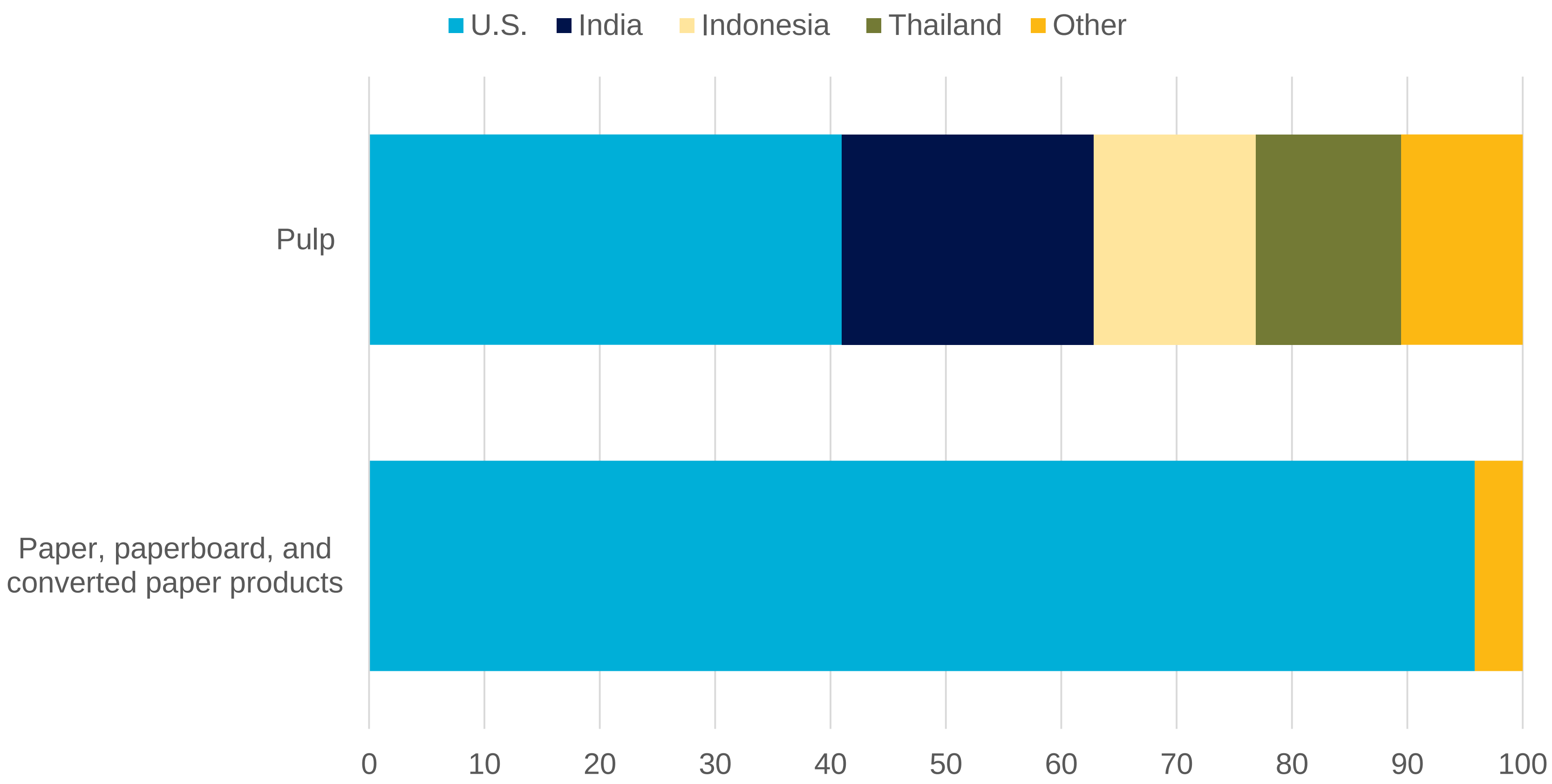
Pulp Exporters More Diversified

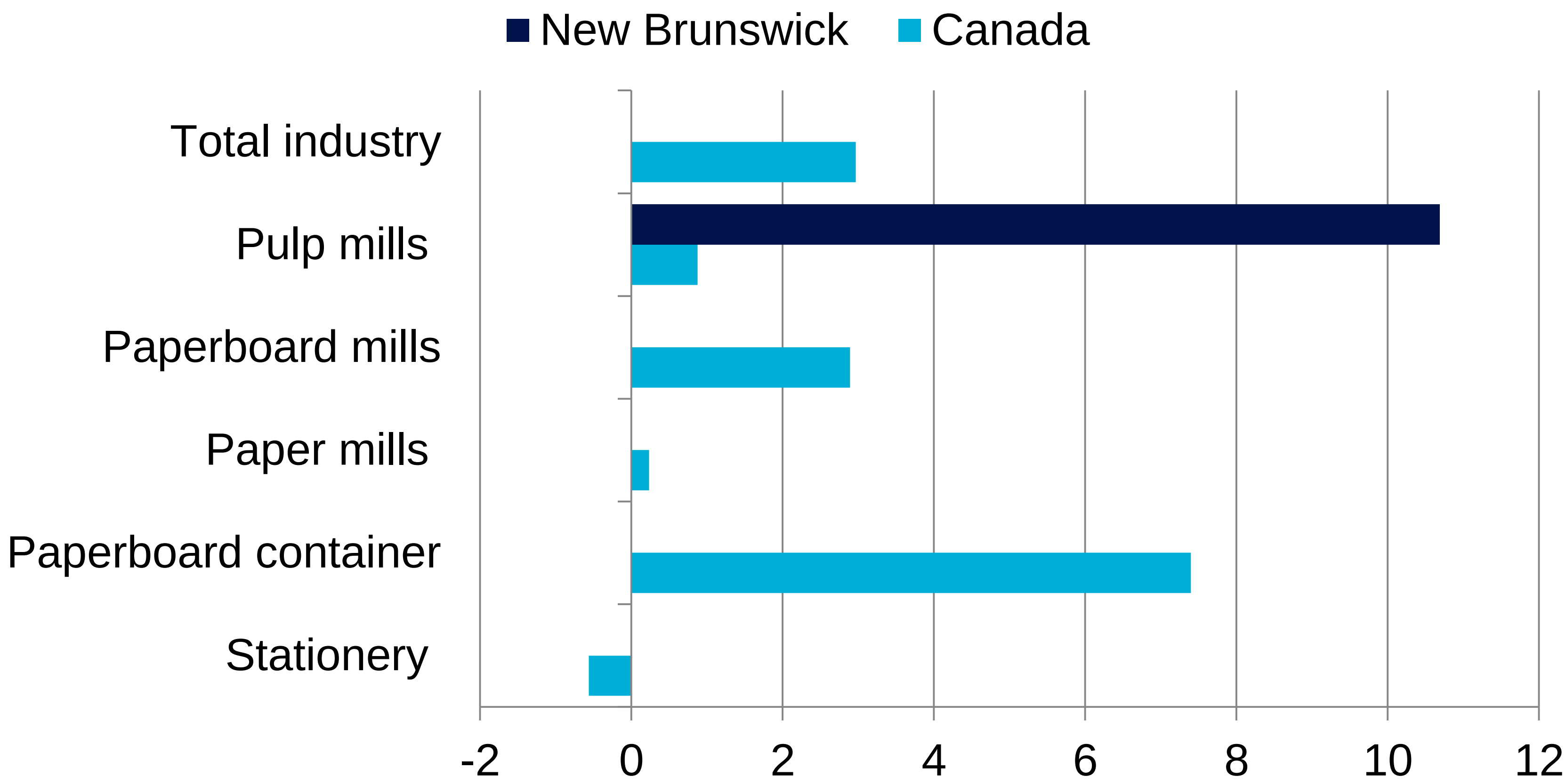
paper product exports by destination, 2016, per cent



Sources: The Conference Board of Canada; Industry Canada.

Sales Rising Across Most Industry Segments

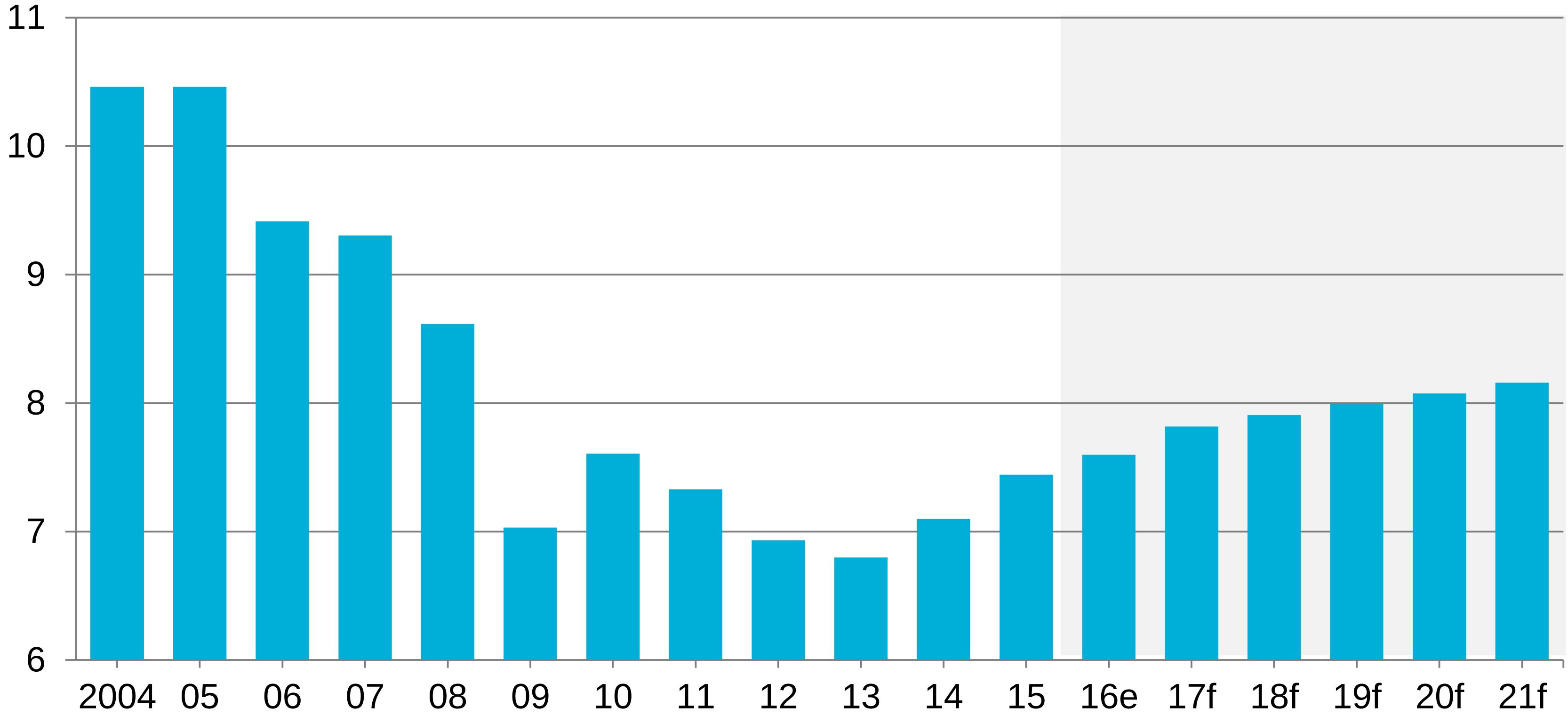
manufacturing sales by segment, CAGR, 2014-16



Sources: Statistics Canada; The Conference Board of Canada.

Paper Products Output To Grow, But Unlikely to Recover to Pre-Recession Levels

Canada real GDP, 2007 $ billions



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Softwood Lumber Dispute Remains a Key Risk

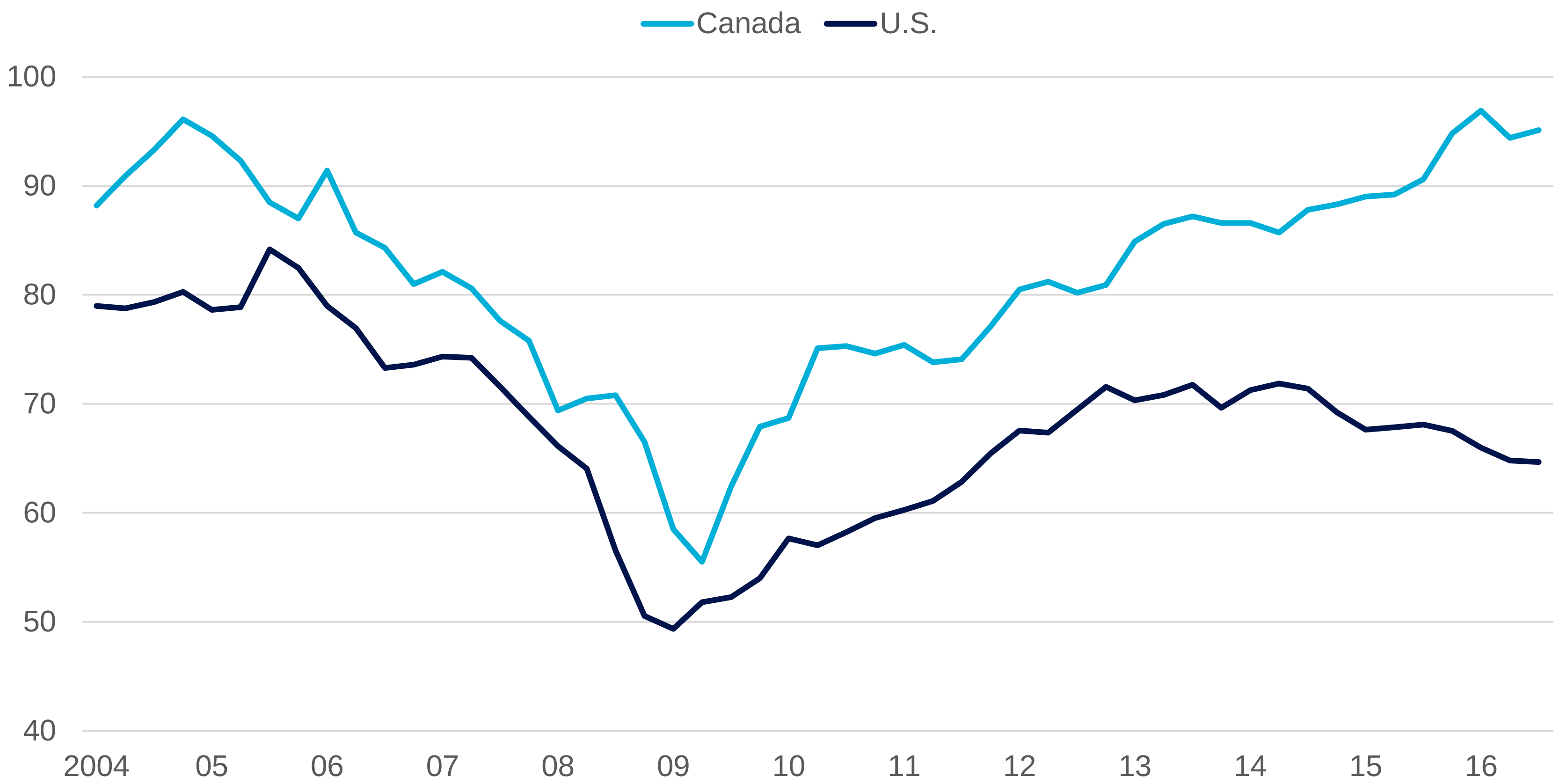
- Rising protectionist sentiment south of border.
- U.S. Lumber Coalition claims conditions of unfair trade remain.
- Trade restrictions on Canadian lumber expected in the form of import duties ranging from 25 to 40 per cent.
- Coverage of products as well as quota remains a particular concern.

Implications of Tariff Measures for New Brunswick Producers

- Mill closures cannot be ruled out throughout forestry supply chain.
- Deter investment in industry.
- Influence future trade diversification strategies.

Market Share At Heart of Dispute

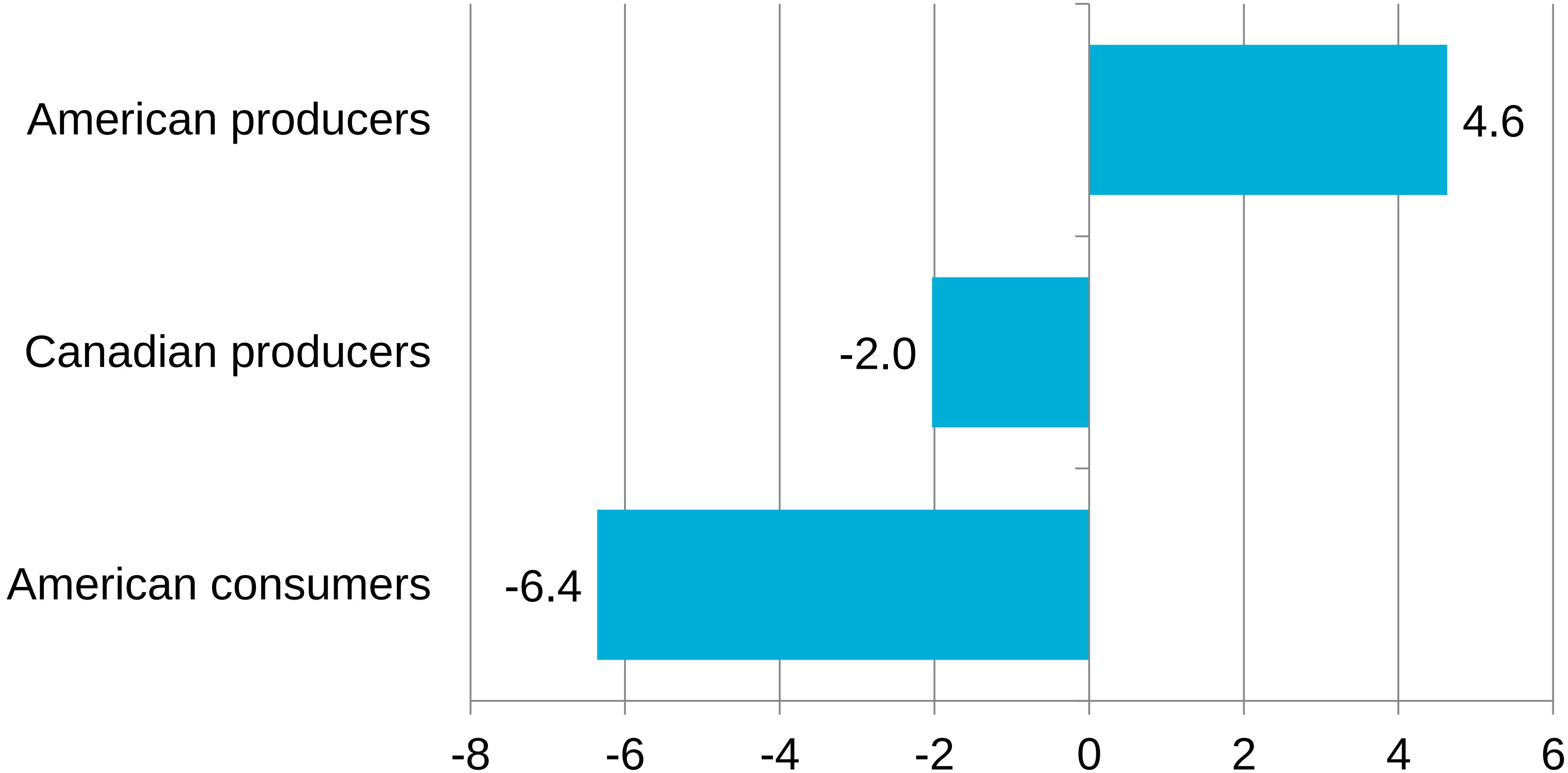
capacity utilization rate, wood products industry, percent



Sources: The Conference Board of Canada; Statistics Canada; Federal Reserve Board.

American Consumers Experienced Largest Losses From Previous Softwood Lumber Agreement Due to Higher Prices

estimated costs or benefits of 2006 SLA by group, 2006-2015, $ billions



Source: Montreal Economic Institute.

Preparing for Lumber Duties

- Large B.C. producers continue to invest in U.S. sawmills.
- Quebec and Ontario have considered use of loan guarantees.
- Federal-provincial softwood lumber task force established.

Oversupply to Threaten Global Pulp Markets

- New pulp capacity entering the global market more quickly than demand is rising.
- Overcapacity to put downward pressure on pulp prices.
- Could soften foreign demand for various grades of New Brunswick's chemical wood pulp.

Changing Paper Demand

- Shift away from newsprint and stationary products towards:
  - packaging papers
    - supported by the rise in e-commerce
  - sanitary papers
    - supported by demographic changes in both developed and developing markets
    - transition supported by competitive advantages including access to fluff pulp

Taller Wood Buildings

- UBC's Tall Wood Building Residence, and Quebec's Origine Project.
- Changes to national building codes supporting domestic demand.
- Lower carbon footprint than concrete and steel counterparts.
- Potential to drive rising demand for wood products over medium- and long-term.

Comprehensive Economic and Trade Agreement (CETA)

- Increasingly likely to come into effect in 2017.
- EU is world's third largest importer of forest products – $46 billion in 2015.
- Current EU tariffs for forest products range from 2% to 10%.
- Continued potential for New Brunswick wood pellet producers.

Summary

- Pickup in investment has supported recent output growth.
- Outlook for forestry sector remains positive despite likely trade restrictions.
- Upside growth potential lies in taking advantage of free trade agreements as well as other opportunities (e.g. changing building codes and shifting paper demand).

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