- Since 1980 the industry in all regions has gone through the deepest market downturn in 40 years. Softwood lumber production in 1982 reached only 38 million cubic metres, a reduction of 16 per cent since 1980 in volume terms and considerably more in value, reflecting the drastic fall in lumber demand. While improvement occurred in demand in 1983 and 1984, the industry is still in a situation of oversupply, prices are depressed and competition is intense.

- The industry's financial position is currently weak due to heavy losses incurred in most sectors in 1981 and 1982 when debt load greatly increased, investment was drastically curtailed and repair expenditures were reduced significantly. The long term debt/equity ratio for the Wood Industries rose from 0.46 in 1980 to 1.16 in 1984. The financial situation diminished the industry's ability to obtain financing and resulted in several mill closures. This situation has improved somewhat more recently.

- The over-riding problem currently facing the industry arises from the lumber oversupply situation in North America and the next two years can be expected to be critical as intense competition is expected to continue. Little improvement in profitability can be expected until lumber prices strengthen.

- Even through prices are depressed, many companies have no other option but to continue operating to maintain cash flow and to service debt. Since the industry is highly integrated, many mills need to keep operating to supply chips to pulp mills.

2. Strengths and Weaknesses

Structural

- Economic mill size varies greatly and is governed by log availabilty, size, quality and geographic dispersion as well as the regional demand for pulp chips. Generally, sawmills larger than 20 million board feet annual capacity are more efficient than smaller units.

- Small sawmills, numbering about 2,000, have limited impact on total capacity but process pockets of resource unattractive to larger organizations, often produce specialties, service regional markets, and provide employment in numerous single industry communities, particularly in eastern Canada.

- While there is some need for further rationalization in the industry to enhance productivity and yield, the scale of lumber producing operations generally compares favourably with those in other producing countries.

- The industry in several regions of Canada is operating at the upper limit of economic wood supply. In addition, due to declining quality and decreasing average log diameters coupled with increasing distance between harvesting and mill sites, wood costs are rising. As a result industrial adaptation and modernization of production facilities are needed. In addition, further integration with the pulp and paper and other wood products sectors should take place to achieve improved raw material utilization.

- The industry is overly dependent on the U.S. market which consumes about 60 per cent of Canadian softwood lumber production. The current competitive environment is intense due to lumber oversupply. While the Canadian industry is generally cost competitive in U.S. regional markets and has the important benefit of a favourable exchange rate, competition will likely increase from the U.S. South due to its proximity to the fastest growing regional economies in the U.S. Exports to the U.S. are largely in the standard sizes of lumber from the higher volume SPF mills in the B.C. Interior and east of the Rockies. The B.C. Coast producing region has relatively high wood and labour costs and is generally less competitive in North American standard structural markets.