



ERA Chart Of The Week

**Wooden Railcars and Blimps To Resolve Lumber Transportation Backlogs;
Positive for all producers of everything**

April 1, 2022



What the photos tell us: Lumber producers are getting creative in the face of adversity, combining forces with rail service providers to build wooden railcars, drawing on lumber inventory accumulations (photo, left). In addition, the Québec government's recent investment in airship company *Flying Whales* may also be tapped for alternative transport. Reports of hyperloop solutions have not been confirmed by ERA.

Why it matters: Supply chain constraints—and particularly railcar shortages—have multiplied since late last year, hurting access to market for lumber and pulp based in British Columbia. Floods in November 2021 reduced BC road and rail capacity and have increased backlogs on main supply lines to the Port of Vancouver (critical for ~2.5MMmt of NBSK) and North-South links (critical for ~8Bbf of lumber exports to the U.S.). Earlier this week Canfor announced it would be implementing reduced operating schedules at its Western Canadian sawmills as of early April (estimated production impact of at least 100MMbf), reflecting pressures from the “cumulative effects of the unprecedented global supply chain crisis” and with an aim to reduce unsustainable inventory levels. Other Western Canadian producers (WFG, IFP) will be facing the same challenges. The impact is not limited to lumber: previously Canfor indicated that it would take a second ~25kmt of downtime at their Taylor BCTMP mill. Supply chain challenges have limited availability of both lumber and pulp, contributing to record lumber prices in Q1/22 and steep increases in global pulp prices.

Who wins? Newly-minted wooden railcars will simultaneously ease supply chain backlogs and reduce lumber inventory overhangs. The improved flow of goods will relieve shortages not only of lumber but also all other stalled commodities. New, more robust wooden railcar prototypes may be able to transport oil and gas in time (fire-resistant wood is under development by the Canadian Forest Products Association). We expect lumber producers to benefit from relieved inventory pressure and the development of the new business lines, but impact on 2022 EBITDA is difficult to forecast at this time.

Who loses? No one in our universe loses from improved rail service. Major railroads CP and CN have experienced a litany of environmental and self-inflicted challenges over the past year. As improved service (i.e., the promised number of cars delivered at the promised location at the promised time) from the new fleet of wooden railcars gains traction, we expect CN/CP to suffer in comparison.

How to trade it: We continue to like everything based on wood. Wood is good, as we all know, especially on the first day of April.

