

# News Release

## U.S. Moulding Sector projected to be the hardest hit of all major building materials

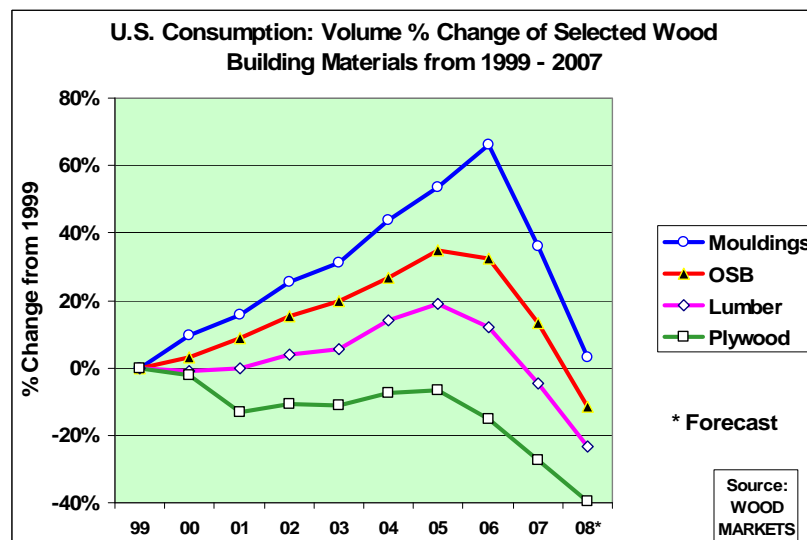
### Housing market slump impacts offshore moulding producers the most as “perfect storm” stalls U.S. market

For Immediate Release

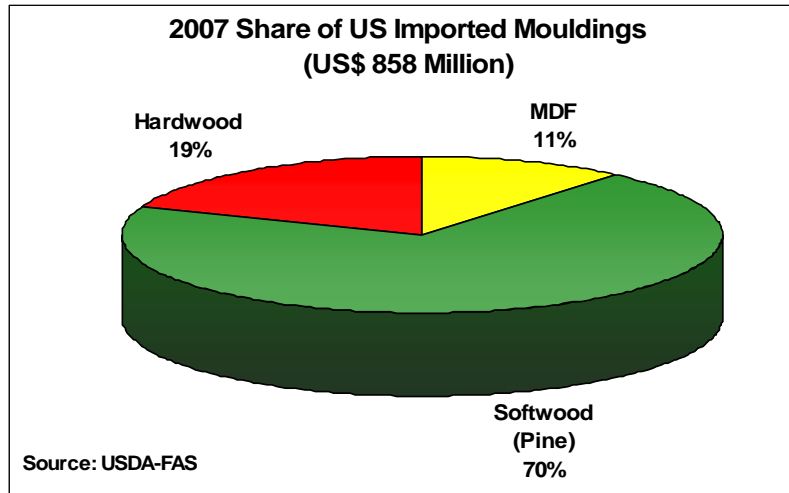
October 3, 2008

Vancouver, BC — International WOOD MARKETS Group announces the release of the 4<sup>th</sup> Edition of its acclaimed *Clearwood (Pine) Lumber, Moulding & Millwork Sector Outlook to 2012*. The report shows clearly that North American and offshore moulding producers, as well as channel intermediaries, face a very difficult reality — one that includes oversupply, below break-even prices and declining sales. The market outlook for 2009 remains grim until a delayed recovery starts in 2010.

Since 1991, offshore pine moulding producers from South America, New Zealand and other countries have generally benefited the most during an unprecedented period of rising North American moulding consumption: a staggering average annual growth rate of over 8% (compounded) through 2006. “However,” said Russell Taylor, President, “The years 2007 and 2008 have proven very difficult, with moulding exporters struggling to adapt to a rapidly weakening U.S. dollar, as well as rising costs for raw material, labour, energy and ocean freight. At the same time, U.S. moulding prices have tanked, creating one of the worst market situations ever — especially for offshore exporters.”



It is now evident (see the graph above) that, of all the wood-based commodity building materials used in U.S. housing construction (as well as repair and remodeling), mouldings has enjoyed the longest duration of sustained expansion and the greatest percentage increase from 1991, and especially since 1999. However, moulding consumption is now plunging at the fastest rate of decline relative of all building materials. And it shows signs of even further drops right through 2009, pulling consumption well below the levels of a decade earlier and making mouldings the worst affected by the housing market (and now the economic downturn).



“Chronic oversupply is due to a lack of industry discipline,” indicated Peter Butzelaar, Lead Project Manager and Senior Consultant, “that has had the dire consequence of pushing prices to below break-even levels for even the most efficient producers. Only through further substantial and extended curtailments will it be possible for prices to stabilize and eventually recover.” Identifying those companies that are likely to be squeezed out is a key deliverable of the *Clearwood Report* and is based on research conducted by WOOD MARKETS that compares benchmarked costs and earnings (EBITDA) between main offshore and domestic producers, and between finger-joint and MDF mouldings.

“Knowing the cost curve of the moulding industry during a down-cycle,” said Butzelaar, “is critical in terms of determining who is least able to survive a prolonged downturn and who will likely be best positioned to take advantage of rising prices once the market switches to expansion mode.” As the report indicates, U.S. domestic producers and South American producers have emerged as winners on the cost side, but in selected products only.

“The good news is that volume and prices are forecast to rebound sharply once the housing market has absorbed the excess inventory of unsold houses,” said Taylor, “but the wait may be too long for smaller or less capitalized producers and channel intermediaries.” Added Butzelaar, “The survivors can expect volatile price swings caused by supply shocks (producers and channel players exiting the business) and demand surges

when the supply chain finds itself unable to source mouldings to meet resurging market demand. When the market comes back in 2010, it should come fast!”

Given the recent financial uncertainty and the ripple effects that this might have on the entire supply chain (producers, distributors, pro dealers, builders and retailers), the findings in this report have never been more important to senior executives aggressively looking for ways to survive the unprecedented challenges now facing them, and to position their companies for the inevitable upturn. This strategic report will certainly be a “must have” resource for those companies trying to plot their future in unsettled times.

From their extensive global travels and analysis, WOOD MARKETS will be presenting highlights, insights and outlooks from this report on Sunday, October 12 at the 44<sup>th</sup> Annual Convention for the Association of Millwork Distributors in Kissimmee, Florida.

International WOOD MARKETS Group has been reporting on and consulting for the moulding and millwork industry since 1990 and is known as the sector’s leading team of market research analysts and forecasters. Mouldings represent a niche North American wood markets segment of high-value finished products, with consumption totaling about two billion board feet and annual sales of some US\$3 billion. U.S. moulding imports have soared over the last 15 years, with over 70 countries exporting softwood mouldings to the U.S. in 2007 alone (and 80 countries exported hardwood mouldings!).

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For more information, including a report brochure and a further two-page summary, please contact:

Russell Taylor  
President  
[retaylor@woodmarkets.com](mailto:retaylor@woodmarkets.com)

Peter Butzelaar  
Senior Consultant & Report Lead  
[peterb@woodmarkets.com](mailto:peterb@woodmarkets.com)

International WOOD MARKETS Group Inc. Vancouver, B.C. (604) 801-5996  
[http://www.woodmarkets.com/p\\_clearwoodreport.html](http://www.woodmarkets.com/p_clearwoodreport.html)