

WOOD MARKETS



HIGHLIGHTS

MONTHLY INTERNATIONAL REPORT

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Featuring Lumber, Panels and Wood Products Analysis

The Key Driver is Housing Key Indicators Can Predict Demand Trends!

We are continuing with our recent theme on the importance of existing home sales and housing starts as they relate to wood products demand. As one of the most important drivers of lumber and OSB demand, housing tends to be a key barometer for gauging the U.S. market.

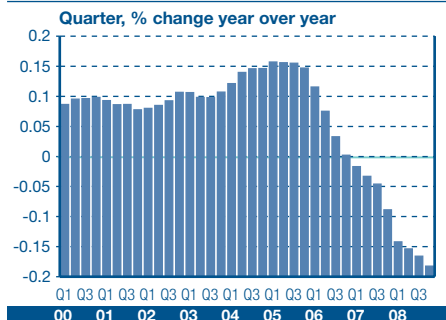
Much of the evidence on the plight of wood products can be derived from a careful glance at just a few important demand indicators. As has been documented very clearly, U.S. housing inventories of new homes — as measured by months' supply of new homes in inventory at the current rate of sales — have been rising for almost four years, and new single-family home starts has been on the decline for almost three years (figure 1). With more than 13 months' supply of new housing inventory on hand, it is obvious there is an

overbuilding problem. Since these two indicators are highly correlated, this will be the situation with housing starts going forward until such time as housing inventories are reduced substantially.

A similar trend has been evident with existing home sales, although this indicator has been trending lower since mid-2008 after reaching a peak of 11 months' inventory. This caused the rate of housing prices to slow starting in 2006, with a more rapid descent occurring in 2008 (figure 2).

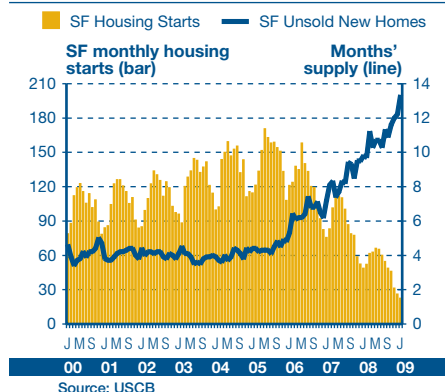
The recent announcement of the Obama Homeowner Plan, in tandem with the fiscal measures announced in the US\$787 billion economic stimulus package, will be key elements of the recovery that is expected to unfold slowly beginning in the second half of 2009. ■

**Figure 1
CASE SHILLER NATIONAL
HOME PRICE INDEX***



Source: S&P/Case Shiller
*Existing homes

**Figure 2
U.S. NEW SINGLE-FAMILY HOMES:
STARTS & INVENTORIES**



Source: USCB

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GLOBAL PRICE TRENDS

International WOOD MARKETS Group Inc. (IWMRI & R.E. Taylor & Associates Ltd.) is pleased to provide you with an overview of our monthly 12-page WOOD Markets newsletter. The excerpts displayed in this two-page summary showcase why, since 1996, WOOD MARKETS has been the leading report addressing strategic issues and global topics that impact the solid wood products sector.

WOOD MARKETS (full 12-page report) is available by annual subscription for US\$530 (international US\$565) or Cdn\$565 per year. Call 1-604-801-5996, by e-mail at info@woodmarkets.com, or visit www.woodmarkets.com.

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WHAT'S NEW:

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Canada/U.S. "Top 20" Lumber Producers

Stunning Impact of Severe Housing Downturn

Total Canadian softwood lumber production dropped drastically (by 20.5%) in 2008, with the largest decreases coming from Eastern Canada — more than a 32% decline from the peak in 2004. The United States did not fare as badly, with a 17.5% reduction — a drop of 28.3% from the 2005 peak. More production curtailments are required in 2009, as well as mill closures, to reduce supply and lift prices from their lowest levels since 1992. The top six Canadian softwood lumber producers gen-

erated 50.6% of all of Canada's softwood lumber output.

West Fraser overtook Canfor for the first time ever to gain the top spot in Canada, while Weyerhaeuser continues to hang onto its leading role in U.S. output. Another first-timer, West Fraser, surpassed Weyerhaeuser as North America's largest producer of softwood lumber. The top six U.S. softwood lumber producers achieved 35.7% of total U.S. lumber production in 2008. ■

(The full *WOOD MARKETS* article provides charts and graphs to further detail the top 40 North American softwood lumber producers in 2008.)

Pages 4–5

U.S./Canada Lumber Outlook for 2009–11

U.S. Market to Bottom in H2 2009, But Prices Still to Lag

The rapid decline in the U.S. housing market from overbuilding and overfinancing continues to negatively impact lumber demand in North America. Housing starts have declined by a massive 78% since 2005.

Both Canadian and U.S. output is projected to dip by 42% from their 2004 highs. The increasingly grim outlook for 2009 follows a 34% production decline by some companies in 2008 over 2007. The good

news is that lumber demand is forecast to increase in 2010.

Until then, the glut in capacity and ongoing weakness in housing and the economy will continue to cause further weakening in pricing, until supply and demand come back into balance.

Consequently, prices for benchmark W-SPF 2x4 #2 KD random length lumber are not likely to rebound until the second half of 2010. ■

(The complete *WOOD MARKETS* report also provides a detailed forecast to 2011 for the U.S. and Canada, including production by region, consumption, imports and exports.)

WOOD MARKETS CHINA BULLETIN

The fifteenth issue of our newest publication, *WOOD MARKETS China Bulletin*, is ready for viewing at <http://newsletter.woodmarkets.com.cn>.

The Bulletin includes Chinese industry trends, topics of interest, statistics and prices relevant to the wood industry. To join, visit http://www.woodmarkets.com/p_chinabulletin.html.

GLOBAL LUMBER/SAWNWOOD BENCHMARKING REPORT 2008 & 2009 Q1 Basis

- Available May 2009.
- Benchmarking costs and revenues of top-quartile and average sawmills in 25 major countries/regions.
- Includes full 2008 costs/revenues, plus Q1/2009.
- Includes delivered log costs and stumpage costs, lumber and chip revenues, recovery of logs to lumber, and sawmill costs.
- Includes sawmill proformas at actual as well as "normal" operating rates.
- Full brochure, with pricing details on the back page available at http://www.woodmarkets.com/p_globalreport.html.

GLOBAL WOOD BOOK Trends & Statistics • 2nd Edition

- Available mid-April 2009 with special pricing until March 31.
- Profiles the 35 largest producing, importing, exporting and consuming countries that drive the global market.
- Coverage of softwood and hardwood production and consumption trends in timber harvest, lumber (sawnwood), plywood, OSB, MDF and particle-board.
- Economic and housing trends.
- Full statistical section with more than 300 data tables and summary graphs.
- Full brochure, with pricing details on the back page available at http://www.woodmarkets.com/p_globalwoodbook.html.

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