

WOOD MARKETS



HIGHLIGHTS

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Featuring Lumber, Panels and Wood Products Analysis

Global Lumber Outlook '09

Housing Collapse Impacting Most Markets

After a six-year global growth trend in softwood lumber consumption, a 1% decrease in 2007 has set the stage for a dismal outlook for the rest of 2008 and 2009, particularly in light of the ongoing global financial crisis. As evidenced by pricing trends, all major softwood lumber markets appear to be heading toward a state of oversupply. The main factors impacting global lumber supply/demand, along with the outlook for various markets, are presented in this extended analysis.

GLOBAL ECONOMY

As the recent global economic crisis shifts from one country to another and the ripple effect of the financial market collapse is felt by businesses, there does not appear to be any consensus as to how bad it will really get before the bottom is reached, or which countries will be impacted the most/least. The initial view is that the current crisis represents the most dangerous financial shock since the 1930s, with negative growth expected in most advanced economies into the first half of 2009.

Collectively, governments, agencies and experts around the world are putting forth forecasts that range from mildly optimistic to pessimistic in varying degree. Predicting when the recovery period will begin is probably the biggest wild card. While most experts are ready to write off 2009, all bets seem to be off

in terms of whether the recovery starts in late 2009, early 2010 or even further out. One thing seems undeniable: many economic forecasters got it dramatically wrong in 2008, and many will do so again in predicting 2009 and beyond. This makes any wood product forecasts difficult, as there is still no reliable consensus on baseline trends. This is further amplified by the fact that currency rates and commodity prices are swinging wildly and unpredictably.

Of note, *WOOD MARKETS* called for a slower housing market recovery in its forecast for 2008 and 2009 (published in our February 2008 issue). Even in July 2008 when evidence of a much more dramatic housing market crash was unfolding, a number of expert economic and housing forecasters continued to call for a modest recovery in 2009 followed by a breakout year in 2010. *WOOD MARKETS'* outlook still remains cautious on 2009 and 2010, when we believe the economic and wood markets recovery will be slower than most forecasters are anticipating. While we expect 2009 demand to be lower than that of 2008, we anticipate a modest global recovery in 2010. However, the timing remains a big question mark. We foresee global markets taking off when consumer and investor confidence return, and we are looking for a break-out year in terms of strong prices due to a shortage of supply relative to demand in 2011 (and most likely again in 2012).

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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.

www.woodmarkets.com**WHAT'S NEW:****Pages 2–5****Global Lumber Outlook '09 *cont'd*****GLOBAL DEMAND**

Global softwood lumber/sawnwood demand is now in freefall after peaking in 2006. In 2007, the initial impact of the sub-prime mortgage crisis caused new U.S. residential housing starts to collapse, starting a ripple effect that lowered global demand to 311.6 million m³ (-4.0%). U.S. softwood lumber consumption, which peaked at one-third of all global demand in 2005, will be off by a staggering 24% in 2008.

Global softwood lumber demand in 2009 is expected to continue sinking. European demand, which had a particularly strong rally from mid-2006 to mid-2007, should plunge by about 9% in 2008. In 2009, a further decline of at least 4% is anticipated, as the housing market bubble in the U.K., Spain and other key markets has burst. Further consumption growth in Russia was projected before the global financial economic crisis, while Canada and Japan are anticipated to see more modest declines thanks to better stability in domestic markets. However, the unfolding global banking crisis may create even lower demand trends or limit any recovery in 2009. The gap in lumber consumption between North America and Europe continues to widen, as Europe (excluding Russia) now consumes more lumber than

North America.

GLOBAL SUPPLY

As with consumption, global softwood lumber production reached a cyclical peak in 2006 of 326 million m³, due to strong U.S. and European markets. For 2007, a decrease in output to 314 million m³ (-3.5%) resulted, with virtually all of the reductions occurring in North America.

In 2008, global sawnwood production is expected to drop to 281 million m³, mirroring world demand. Output in North America will drop again by 20%, while European production should be off by 6%.

In 2009, global output is expected to lessen due to the weak global economy, reaching less than 270 million m³, representing a drop of 57 million m³ (17%) from its 2006 peak.

EUROPEAN SUPPLY & DEMAND

The outlook for lumber/sawn softwood consumption looks weak across most European countries in 2009, with a further decrease of 4%+ expected.

A tightening supply of freshly cut logs, along with timberland owners' push for increases in log prices, could mean a tougher business scenario for sawmills during 2009, as market demand may not support higher raw material costs. ■

(The full *WOOD MARKETS* report also provides analysis of Russia, North American supply and demand, Japan, China and other markets.)

WOOD MARKETS CHINA BULLETIN

The twelfth 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. For an interim period, this publication will be a free service to subscribers. To join, visit http://www.woodmarkets.com/p_chinabulletin.html.

**CLEARWOOD REPORT
Pine Lumber, Moulding &
Millwork Sector Outlook to 2012
4th Edition**

IWMG has just released the 4th edition of its multi-client report on the supply/demand dynamics of:

- Global pine timber and appearance lumber;
- Mouldings: solidwood, finger-joint, MDF, & plastic (including five-year price forecasts); and
- Other millwork, including windows, doors, clear boards and other segments.

New to this edition is a cost benchmarking of finger-joint and MDF moulding producers from major producing regions, as well as updated analysis on the distribution channel for mouldings within the U.S.

This report provides our strategic insight of the current/anticipated trends in the clear pine lumber & moulding sector, plus our analysis of the resulting downstream market implications. For info, please contact Peter Butzelaar (peterb@woodmarkets.com).

RUSSIA LOG EXPORT TAX

Release of Final Report: Mid-December 2008

- How will the postponement of this crippling 80% export tax impact your business or market?
- Final Report's release is postponed until mid-December to allow us to implement the new tax info, schedule and impact analysis due to Russia's 9- to 12-month delay in implementing the 80% tax.

Brochure with order form available at http://www.woodmarkets.com/p_russialogeptax.html.

Global Lumber/Sawnwood Cost Benchmarking 2008 & Q1/2009

First announcement forthcoming, with a scheduled release date of April 30, 2009.

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