

# WOOD MARKETS



HIGHLIGHTS

MONTHLY INTERNATIONAL REPORT

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Featuring Lumber, Panels and Wood Products Analysis

## Wood Product Demand Drivers Market Recovery is Tied to Key Indicators

**T**here are some obvious demand drivers impacting North American wood products, and some key indicators that need to be considered in assessing market demand scenarios for the rest of 2009 and into the expected recovery of 2010–2012.

### ECONOMY

Many economic variables influence wood products demand as well as housing starts. The significant ones include GDP, interest rates and foreign exchange rates (for exporters/importers). The current global GDP outlook appears more promising: global GDP is back in positive territory entering the second half of 2009 after languishing in (or close to) negative territory in 2008. The U.S. economy is still fragile and economic forecasts have been revised lower in the White House's mid-session review — from -1.2% to -2.8% for 2009, and to +2.0% versus +3.2% for 2010. Canada's GDP is expected to be somewhat similar: -2.3% for 2009 and 2.0% for 2010.

### HOUSING INVENTORIES

The current crisis in the housing market is not expected to come to an end until the overhang in inventories of unsold homes has been liquidated and home-price deflation has come to an end. The good news is that the U.S. inventory of new and existing homes has been dropping in terms of the number of months of unsold

units (down to about nine months through June 2009; figure 1) and needs to retreat to a more normal level of about four months' inventory. Similarly, the absolute number of unsold U.S. housing units is holding at about 3.5 million units and must drop to a more normal 2.0–2.5 million units (figure 2).

The other requirement is that housing prices bottom out and correct to give home buyers more confidence; this was evident in Q2/2009 when home prices finally increased, and is another good sign that we are getting past the bottom of this housing cycle (figure 3).

### ECONOMIC WILD CARDS

There are a couple of wild cards that could stall or slow the housing recovery. First, unemployment in the U.S. has reached almost 10%. While a recovery in unemployment usually lags an economic recovery, significant reductions in unemployment levels will signal that a more normal economy is near.

A second issue is that rising housing starts are being fueled by the Obama government's housing stimulus legislation. When this begins to run out at the end of 2009 or early 2010, the question is whether or not the economy will be stable enough to continue growing on its own. Some economists' views lean toward a "W" type of recovery, whereby another correction occurs before full growth can be achieved. And, with a huge federal deficit

...continued

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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](mailto:info@woodmarkets.com), or visit [www.woodmarkets.com](http://www.woodmarkets.com).

[www.woodmarkets.com](http://www.woodmarkets.com)**WHAT'S NEW:****Pages 2–3****Wood Product Demand Drivers****Market Recovery is Tied to Key Indicators (cont'd)**

...looming, where interest rates will be to support the U.S. dollar is another unknown that may affect housing via mortgages.

A concern for the viability of the financial sector is the next wave of mortgage resets. Sub-prime mortgages are gone, but there's a possibility of toxicity from other types.

The housing cycle rebound has started and starts should accelerate by as early as 2010. Due to immigration, demographics and other factors, an even higher rate of housing starts is expected in the next decade (versus the current one).

Since the median age of U.S. single-family houses is almost 30 years, R&R will continue to grow. Offshore lumber, panels and specialty products will factor into the supply, demand and competitiveness of North American production. Looking ahead, European lumber imports could swell to 2005 levels by the end of the next decade!

With wood products consumption tied so closely to housing starts, a better understanding of the housing market is critical. ■

(The full *WOOD MARKETS* article provides more details, charts and graphs to further describe the looming wood market recovery.)

**Pages 4–5****Top 500 Home Channel Retailers — 2008****Pro Dealers Struggle to Survive the Housing Collapse**

Pro dealer sales in 2009 are expected to be worse than in 2008, which will mean a decline of sales three years in a row. On the other hand, 2008 had higher sales than any other year prior to 2005. Still, pro dealers have taken the brunt of this housing collapse, given that they sell mainly to builders of new homes, and large remodelers.

The financial devastation of some of the largest pro dealers guarantees that a number will not survive the recession.

Total sales revenue for the top 500 dropped 18.8% from 2007 to 2008. In contrast, the top 500 home centre/DIY businesses actually grew by about 2% in 2008 over 2007.

Steady growth of the home channel sector since 1992 has been sharply reversed. Housing starts are not expected to improve significantly until 2011, so it will be a long, hard struggle for many home channel retailers waiting for the next upturn in the cycle. ■

(The complete *WOOD MARKETS* report also provides Chinese lumber, logs and wood products export/import statistics, U.S. and Canadian wood product supply/demand figures, and world lumber and panel pricing.)

**WOOD MARKETS CHINA BULLETIN**

The twentieth issue of our newest publication, *WOOD MARKETS China Bulletin*, is ready for viewing.

The Bulletin includes Chinese industry trends, topics of interest, statistics and prices relevant to the wood industry. Sign up now at [http://www.woodmarkets.com/p\\_chinabulletin.html](http://www.woodmarkets.com/p_chinabulletin.html).

**GLOBAL LUMBER/SAWNWOOD BENCHMARKING REPORT****2008 & Q1/2009 Basis**

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- Economic and housing trends.
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**AVAILABLE IN NOVEMBER****WOOD MARKETS 2010 • The Solid Wood Products Outlook, 2010–2014**

- The fifth edition of this landmark report is in production! Order before October 9 for early bird pricing.

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