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PRESS RELEASE

U.S. OSB to benefit from rising demand, but severe excess capacity is expected to dampen gains in operating rates and prices until 2011 at the earliest

Softwood plywood and OSB outlook calls for modest gains, but still heavily dependent on U.S. economy and housing starts recovery

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The North American OSB and plywood sector is expected to see improving demand and prices, but it will be slow coming, based on the latest five-year outlook released by the WOOD MARKETS Group. Despite a forecasted slow and steady rebound in housing and the U.S. economy, the massive amount of capacity that is either curtailed or closed and is sitting on the sidelines is the major question mark in the sector's price recovery equation. The stage is slowly being set for a better supply-demand balance, but the timing of a more favorable OSB business is expected to be out to 2012 and 2013 when the full impact of a housing recovery is forecast to take hold and new and curtailed OSB capacity can be more readily absorbed.

These and other projections are part of the comprehensive assessments included in the OSB/Plywood Chapter of the recently published multi-client report, **WOOD Markets 2010 – the Five-Year Outlook for North American Solid Wood Products 2010-2014**, published by International WOOD MARKETS Group.

The five year **WOOD Markets 2010** forecast for OSB and plywood indicates that any recoveries in the structural panel market will be tied more to North American supply dynamics and less to demand trends. "The collapse in the U.S. housing market completely changed the business case for new OSB mills, resulting in a glut of existing, under-construction and planned OSB capacity swamping the market as demand plummeted," commented Russell Taylor, President of WOOD MARKETS and the key author of **WOOD Markets 2010**. "This resulted in an unprecedented number of OSB mill curtailments and closures since 2006 (with the bulk in 2008 and 2009) with 12 permanently closed mills and another 13 mills closed on an indefinite basis."

OSB demand and output shrank between 2007 and 2009 to almost half of its 2006 volume. New single-family residential housing normally accounts for 45%–55% of all U.S. domestic plywood and OSB usage. New residential construction is the housing segment that has the greatest risk exposure to recessionary economic conditions. As a result, OSB accounted for less than 30% of U.S. panel consumption in 2009.

With housing starts expected to improve in 2010, structural panel demand is forecast to improve accordingly as new housing starts move higher and towards the long-term trend line. As a result, the WOOD MARKETS OSB consumption forecast almost doubles between 2009 and 2014, but is still well below the levels achieved before the housing slump.

North American plywood consumption will also improve, increasing by a total of 22% in 2014 from 2009's low. Plywood's growth opportunities remain constrained by lower-cost OSB in many structural applications.

Total U.S. OSB and plywood structural panel demand is forecast to rebound steadily at a healthy average annual increase of 14%. Peak production volume in 2014 will be close to the level achieved back in the 2001 mini-recession and slightly below the demand levels of 1999 and 2000. So, the OSB and plywood peak demand forecast in 2014 barely achieves the levels of some 15 years ago – a sign that normal demand will likely be at much lower levels in the next decade.

U.S. OSB imports are dominated by Canada. “In 2009, however, Canadian exports plunged due to a combination of low product prices, higher production costs, unfavourable currency exchange rates and increased transportation costs to market,” said Russell Taylor. “To Canada’s benefit, total U.S. OSB imports are forecast to quickly accelerate in the next five years. This should help Canadian OSB mills ramp up production to offset the negative impact of 14 mill closures across Canada in the last four years.”

As there is a relatively strong correlation between housing starts and OSB mill operating rates and prices, the fortunes of OSB will be tied to housing starts. However, the wild card will still be the schedule that companies follow in starting up curtailed OSB mills.

WOOD Markets 2010 – The Solid Wood Products Outlook for North America: 2010-2014, is produced by International WOOD Markets Group Inc. and is based on 20 years of on-going market research and analysis.

About International WOOD Markets Group

International WOOD Markets Group (www.woodmarkets.com) comprises wood products market and business consulting services for industry and government clients. The firm maintains a global data-base and also offers numerous industry or market specific multi-client reports, including its landmark *WOOD Markets Monthly International Report*.

Strategic business assessments of matching timber resources to global commodity and specialty wood product markets coupled with our feasibility analyses of timber processing options are trademark skills of the firm. Our ability to conduct in-the-field investigations coupled with our global network of contacts and comprehensive data-base delivers strategic results for clients looking to review their domestic or global business and marketing plan or in evaluating other potential solid wood product manufacturing investments.

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