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PRESS RELEASE

U.S. softwood lumber demand and prices poised to rise slowly in 2012 but gaining momentum in 2013 as demand climbs - price surges to start in 2014!

Softwood lumber outlook calls for modest short-term gains as the U.S. economy and housing starts recover slowly and steadily - but still some risks ahead

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The ongoing U.S. housing market slump is expected to linger for much of 2012 before a steady acceleration of new house construction starts to occur in 2013. However, there are still a number of domestic and global road blocks that could further delay or even derail this already long-delayed recovery. The *WOOD MARKETS 2012-2016* outlook predicts a return to increased lumber production levels with improved U.S. housing starts with higher prices to occur by 2014, with a subsequent surge that should take prices through the roof by 2015!

These and other outlooks, including a detailed forecast of U.S. and Canadian housing starts, North American consumption trends, production output by supplying region, and five-year price forecasts are part of the comprehensive assessments in the Softwood Lumber Chapter from the multi-client report published by International WOOD MARKETS Group. ***WOOD Markets 2012 – the Five-Year Outlook for North American Solid Wood Products*** is its third annual and seventh overall five-year outlook produced by WOOD MARKETS since 1996. This year's report continues to investigate a number of new (and old) factors impacting the demand for structural lumber and wood products given the poor state of the U.S. housing market and considering the impact of the U.S. and global economies, not to mention the lingering potential of a regional recessions.

The ***WOOD Markets 2012*** forecast for softwood lumber outlines a number of structural changes that are occurring in lumber supply dynamics in North America. "With permanent timber supply cut backs in Eastern Canada and the mountain pine beetle-killed lumber starting to negatively impact the economics of processing logs to lumber in B.C., Canada's lumber production will increase until the middle of the decade before it peaks and then declines" explained Russell Taylor, President of WOOD MARKETS. "This will leave a hole in the supply side dynamics for North America, as Canada's market share of U.S. consumption is expected to remain below 25% for all years in the forecast vs. a more normal 32-34% between 2001 and 2008." The key question after 2015 will be where the U.S. will get its lumber from, as a potential supply deficit is forecast and only record level prices will be able to stimulate enough supply to match with demand. While this paints a picture of some much needed good news for producers in the U.S. looking out towards 2016, it will also benefit European lumber exporters (but also substitute products) when prices soar.

There are many wild-cards that can impact lumber prices in each year of the five-year forecast. "A big element impacting the lumber price outlook will be the industry's schedule or strategy for putting curtailed or even closed sawmill production back on line, not to mention the log inventories companies can, or are willing to, build in advance of demand," commented Gerry Van Leeuwen, Vice-President. "How it balances or doesn't balance with lumber demand will show up in how lumber prices move in the next five years. **But by 2014 and especially 2015 when demand should outstrip supply at various stages, commodity stud and dimension lumber prices should climb to exceed an average annual level of US\$400/Mbf for W-SPF 2x4, or some US\$150/Mbf higher than 2011 average levels!**" The prospects of higher prices

will be welcomed by all players in the North American lumber sector, but cost pressures such as rising log costs may not directly translate into major windfalls – but modest profits, yes!

Despite some strong gains in export markets, the hold up in the overall lumber recovery is still tied to the U.S. economy and housing starts. WOOD MARKETS continues to present one of the more conservative housing forecasts, as it has since 2009 – these have turned out to be the most accurate forecasts among wood products forecasters. Simply put, the WOOD MARKETS' forecast is not tied to a simplistic economic model that other forecasters might use. WOOD MARKETS has been stating for three years that the current U.S. housing market slump – the worst since the Great Depression – is like no other and we are in uncharted territory that no model (so far) has been able to predict. As a result, WOOD MARKETS forecasts that it will take until mid-2014 before housing starts crack the one million unit level (as compared to about 600,000 units today) – that is when the lumber market will start to soar and when the full benefit of much higher prices will start to show up.

Some of the other highlights from the Softwood Lumber Chapter of **WOOD Markets 2012** include:

- Total U.S. lumber consumption is forecast to increase from about 33.5 billion bf in 2011 (1.7 billion bf higher than 2009's record low) to just under 50 billion bf in 2016 — a huge 49+% rise from 2011.
- From 2005's peak of 28.6 billion bf of lumber consumed in new U.S. residential housing construction, lumber demand plummeted to 6.5 billion bf in 2009. By 2016, and in using what appears to be a conservative housing forecast, lumber consumption in new housing is expected to rebound to 19 billion bf in 2016 — a huge gain but still well below the peak of 2005.
- All U.S. and Canadian regions are expected to rebound with average annual increases of at least 10% in output from 2011 to 2016 as sawmill operating rates improve from dismal levels averaging just 50% in 2009 to almost 90% levels by 2016 – a key indicator that will drive prices higher.
- Total North American lumber production peaked at 75 billion bf in 2005 and bottomed out dramatically lower at 43 billion bf in 2009. Since then, lumber production has grown to 48.8 billion bf in 2011, but more due to rapid growth in export markets such as China and not from domestic demand. Steady increases are forecast with output reaching 64.5 billion bf in 2016, allowing most remaining mills to resume production at more normal operating rates.

WOOD Markets 2012 – The Solid Wood Products Outlook for North America: 2012-2016, is produced by International WOOD Markets Group Inc. and is based on 20+ years of on-going market research and analysis in North America and global markets. **Note: details on the WOOD Markets 2012 five-year forecast for structural and non-structural panels will be released later in December.**

About International WOOD MARKETS Group

International WOOD MARKETS Group (www.woodmarkets.com) offers 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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