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PRESS RELEASE

Chile's dominate position in the U.S. 'clearwood pine' lumber and moulding market causing shortages and price spikes

The earthquake's impact on Chilean wood product shipments is being quickly felt throughout the U.S. and international supply chains

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As reported in this month's *WOOD Markets Monthly International Report,* Chile has large U.S. market shares for specific pine lumber, moulding and manufactured products. With the sudden disruption to Chile's supply line, the run on prices has already started in most of those products dominated by Chilean supply, including softwood plywood, finger-joint and MDF mouldings; shop and better lumber; and finger-joint blocks and blanks. This is a result of the dominate market share of imported pines from Chile and other regions of the Southern Hemisphere that have evolved following the spotted owl crisis of the early 1990s in the U.S. pine lumber, moulding and millwork market.

Southern Hemisphere plantation pines represent about two-thirds of U.S. softwood finished pine moulding consumption and 40% of industrial clear pine lumber feedstock consumed at U.S. millwork plants. Chile has become the leading supplier from the Southern Hemisphere to the U.S. market of clearwood pine (industrial) lumber and finished pine mouldings as well as MDF mouldings. This is why U.S. clearwood pine lumber and pine and MDF moulding prices are now exploding as a result of the disrupted supply chain from Chile. Some product prices have already jumped 25-35% and some further increases across the board are expected before the supply shock cools. Chile's U.S. market share is summarized in the table below (other products not summarized include value-added pine products such as doors, edge-glued panels, as well as the individual moulding products).

Chile's Market Share in the U.S.: 2009

	US Import Market Share (%)	US Consumption Market Share (%)
All Mouldings	50%	25%
Clearwood Lumber	50%	30%
Sanded Plywood	90%	25%
MDF	10%	5%

Source: WOOD MARKETS Estimates

While much discussion has taken place about the global impact of the disruptions to Chile's market pulp segment (with its 6% of global capacity and 8% of production), the wood products sector has seen limited coverage given that it is more difficult to assess. The publishers of WOOD MARKETS have reviewed its publications — including November's two releases, *Clearwood Pine Lumber & Moulding Outlook to 2014* and *WOOD MARKETS 2010 • The Five-Year Outlook for North America* — as well as its database in an attempt to ascertain the Southern Hemisphere and Chile's market share of key products in the U.S. as well as in other markets.

While it is possible that North American production (in conjunction with products shipped from Brazil, Argentina and New Zealand) could fill part of the short-term gap in U.S. pine markets, log inventories, mill shifting arrangements and marketing efforts taking place in export markets could limit this supply response. As a rule of thumb on price elasticity, a 1% immediate change in supply can cause a price response of anywhere from 2-5%. As a result, prices on a number of pine products are expected to keep rising through May.

Aside from rising prices, the supply chain is seeing a few selected production ramp-ups at some U.S. companies, and some alternative supply options are already being offered. With some generally lean inventories, wholesale inventories may be drawn down if the disruption lasts more than six to eight weeks. This is likely to start showing up at big box stores first.

Chile's radiata pine lumber and plywood also shows up in dozens of export markets. For instance, Chile has a dominant 25%–30% share of softwood lumber imports in the Middle East markets and is very strong in Mexico and Caribbean markets, but is a smaller player in more traditional markets like Japan where its market share of imports is just 4%.

Chile's earthquake — the fifth-strongest since 1900 — killed hundreds of victims, destroyed or heavily damaged at least 500,000 homes, and tore apart highways, buildings and other infrastructure. Reconstruction is now the government's top priority, and some of Chile's wood products output is highly likely to redirected into the rebuilding of the country.

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*. Referenced in this press release are two ongoing multi-client reports that both were started in 1990s*:* ***Clearwood Pine Lumber & Moulding Outlook to 2014*** and ***WOOD MARKETS 2010 • The Five-Year Outlook for North America****.*

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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