



Market Trends for Forest Products: Domestic Challenges Offset by Foreign Opportunities

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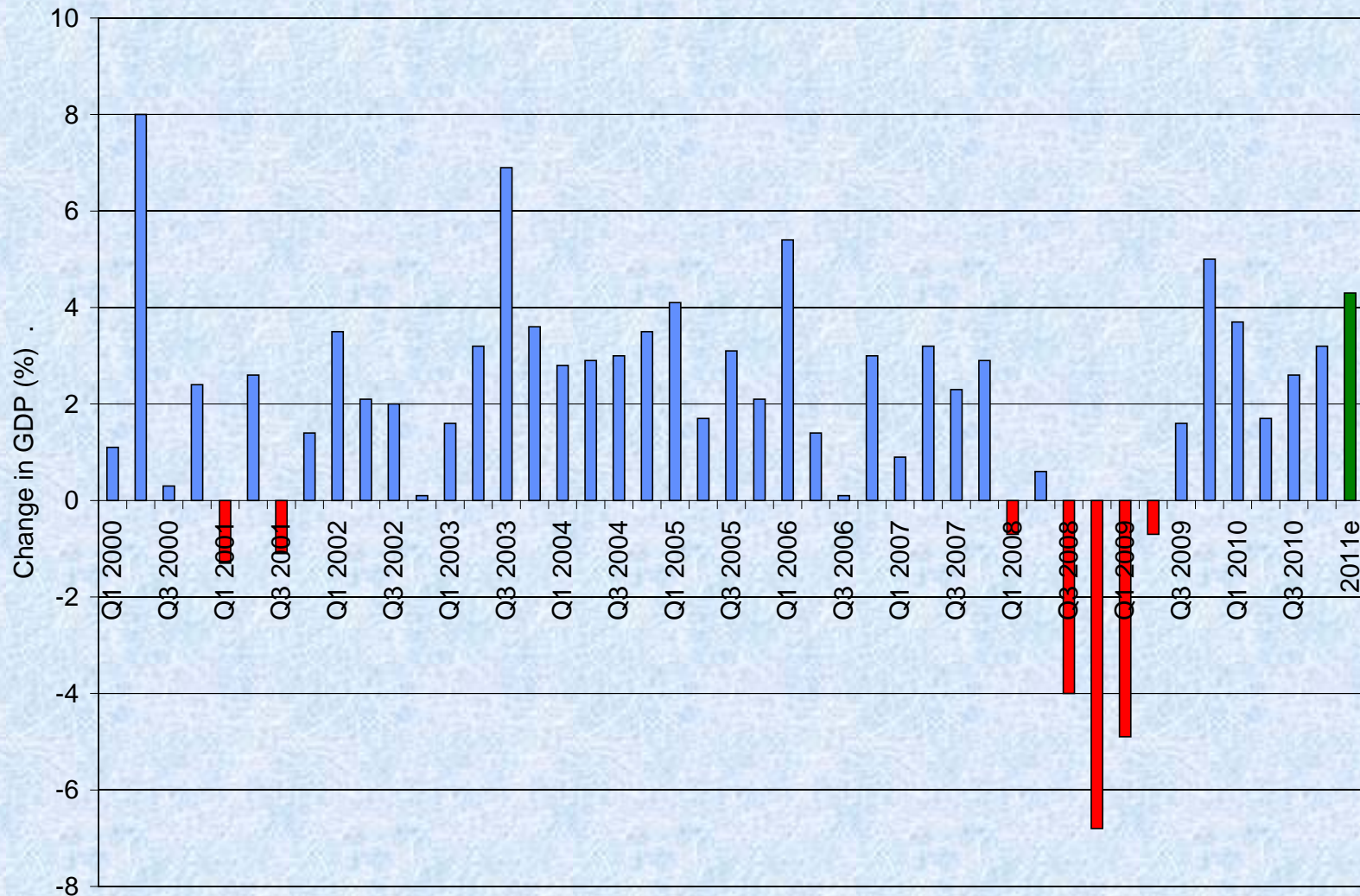
1-2 April, 2010



Outline

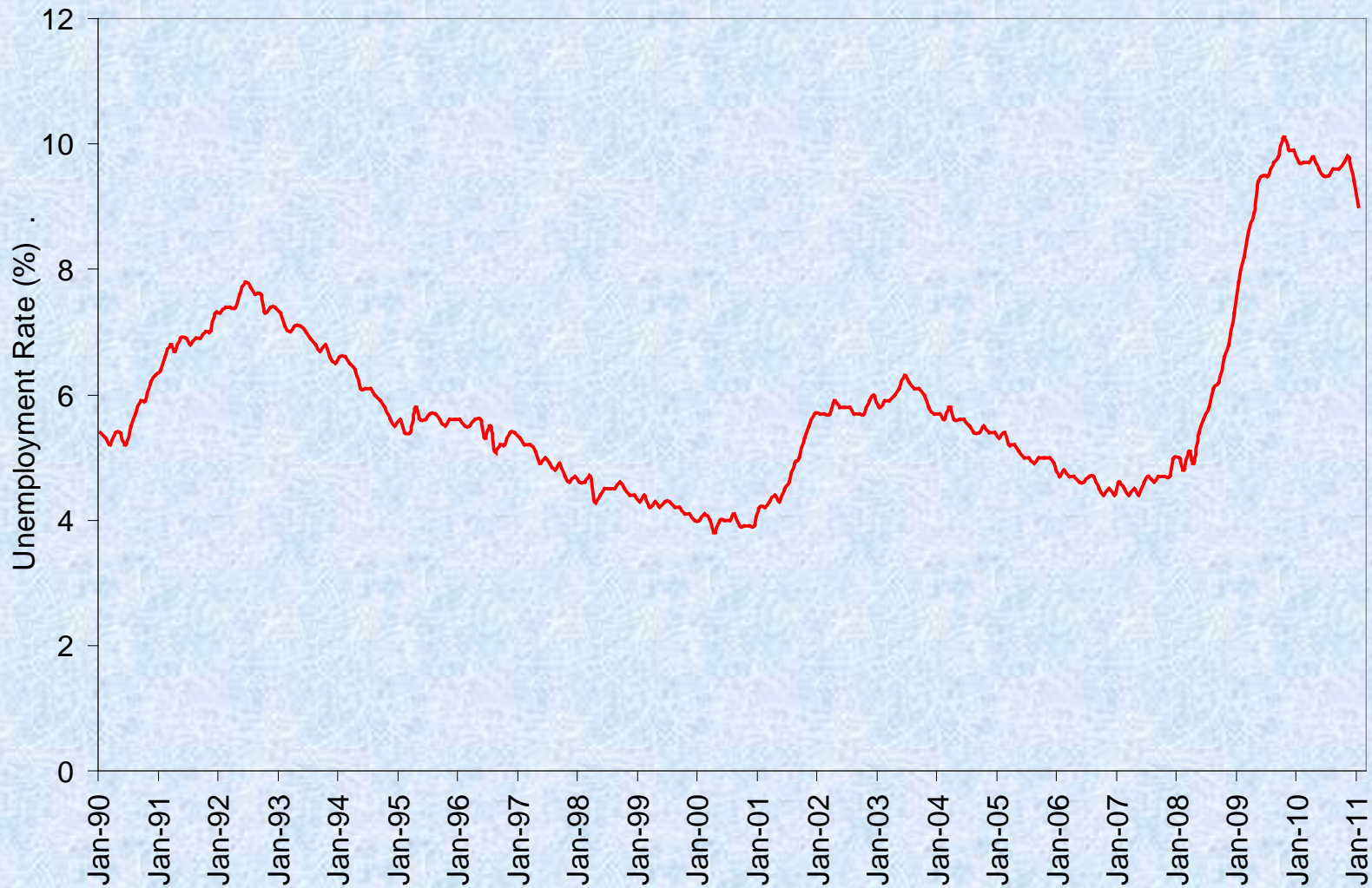
- 1) US Economic and Housing Sector Overview
- 2) Wood Industry Overview
- 3) US Wood Exports Overview
- 4) Opportunities for US Wood Exports

Quarterly Changes in US GDP



Economic growth is expected to be strong in 2011

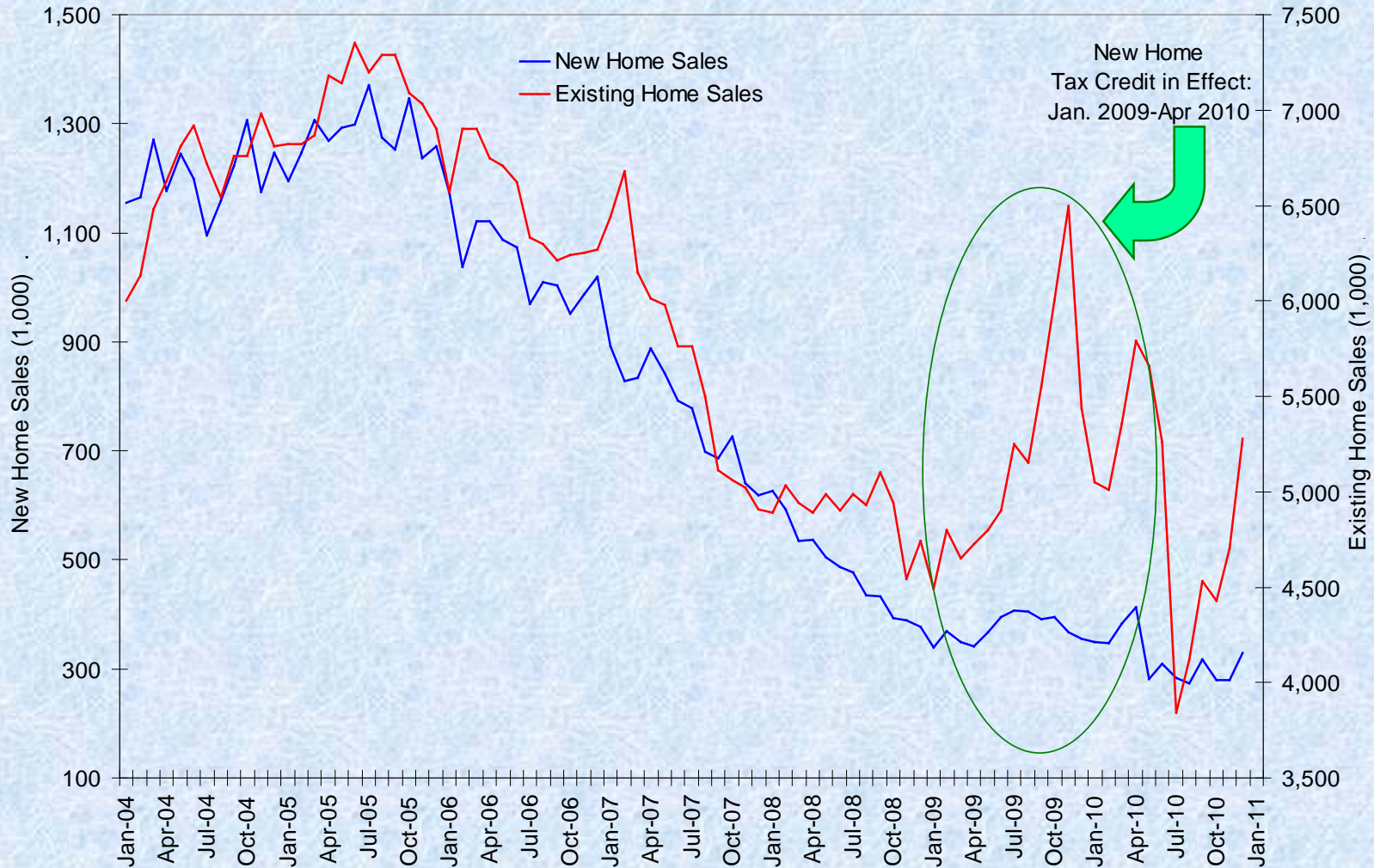
US Unemployment Rate



Forecast is for average job growth of about 150,000 jobs/month in 2011 but unemployment is not expected to drop significantly until 2012



US Home Sales

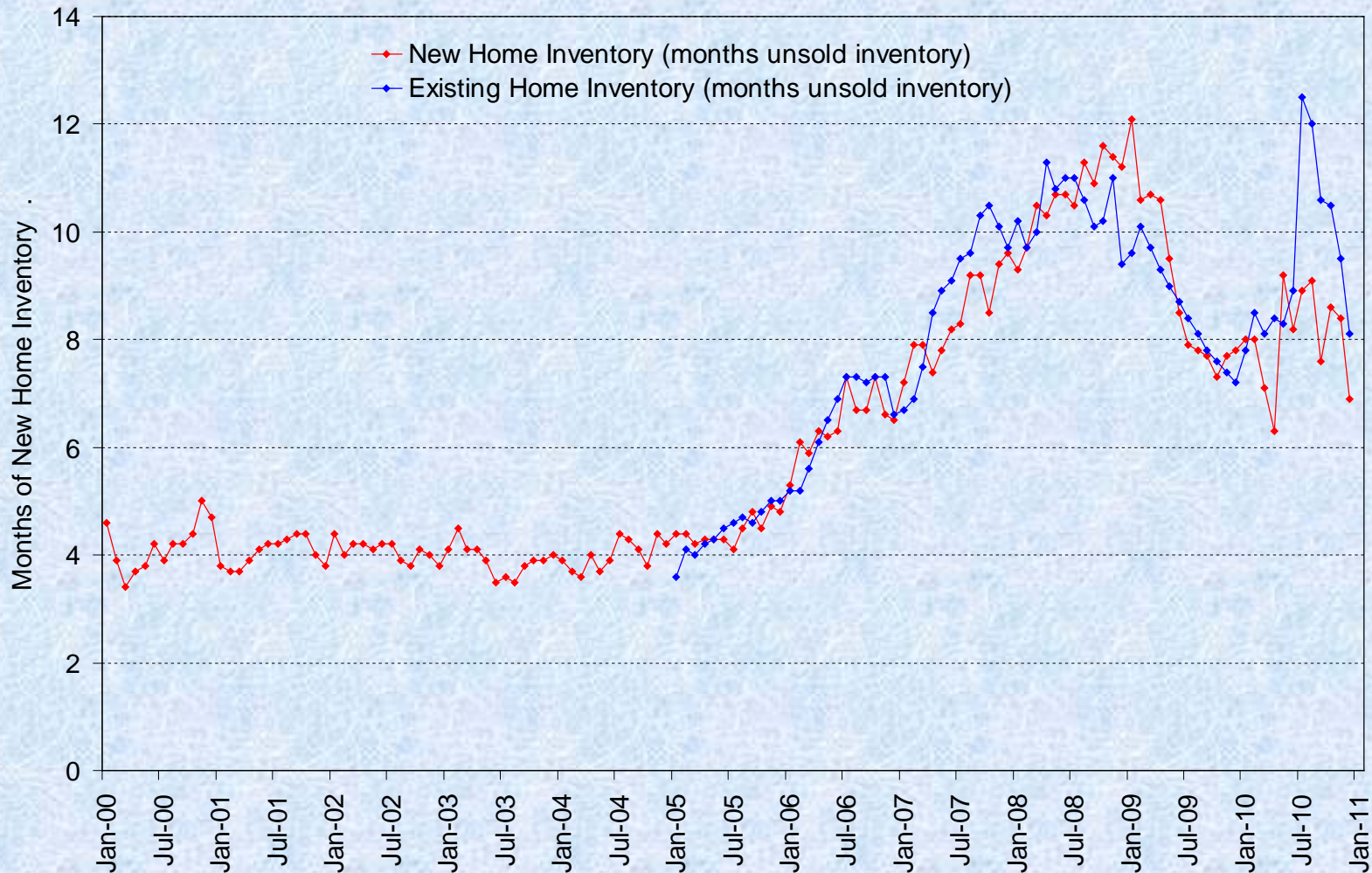


Source: census.gov/const (Newhomes)

Source: www.realtor.org (Existing homes)

Home sales were recovering at the end of 2010 and this is expected to continue into 2011, although rising mortgage rates may affect sales

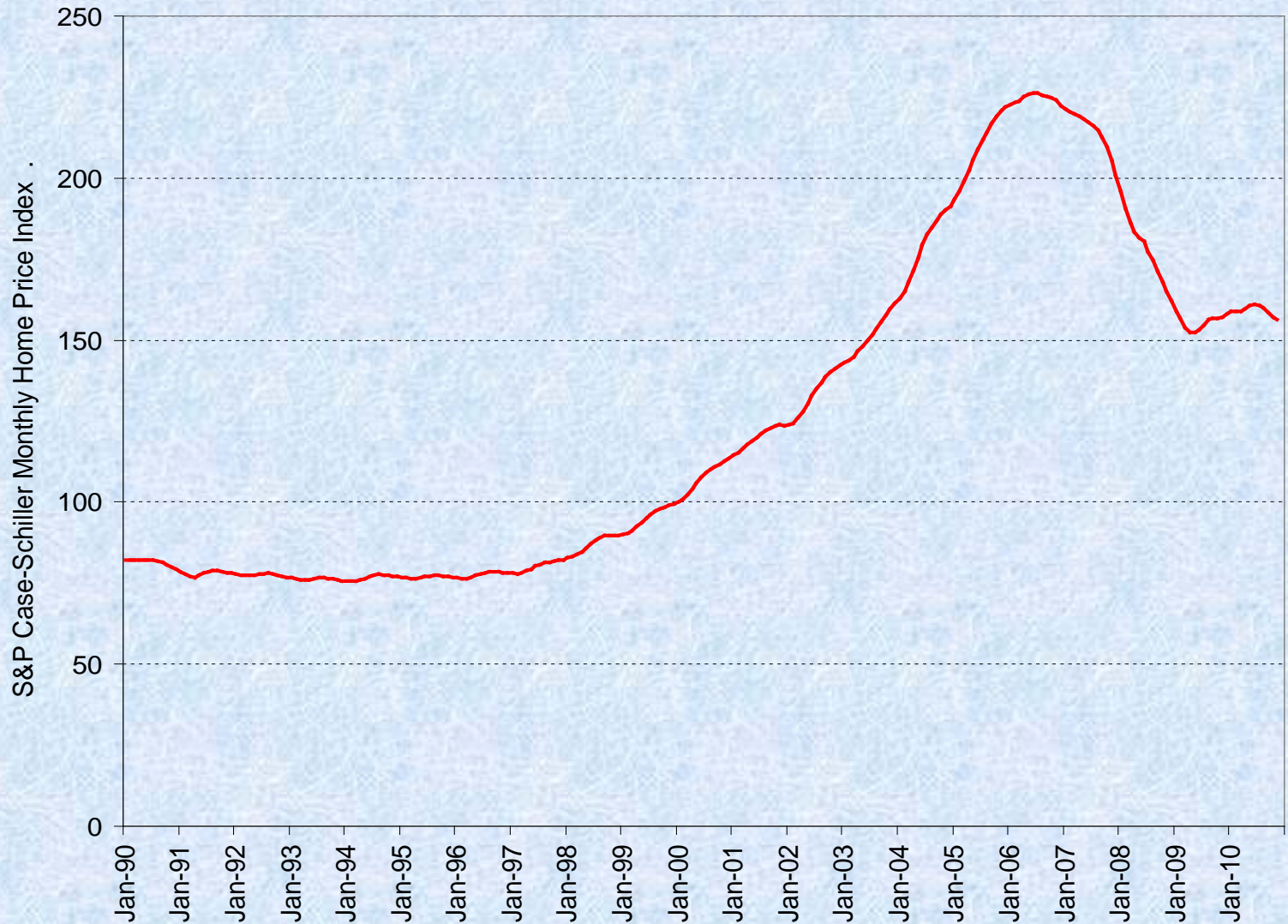
Unsold Housing Inventory



Source: census.gov/const

Inventories are dropping but are still higher than the average of 4 months and the backlog will likely add to the inventory in the first quarter of 2011

Trend in Home Prices



Source: www.homeprice.standardandpoors.com

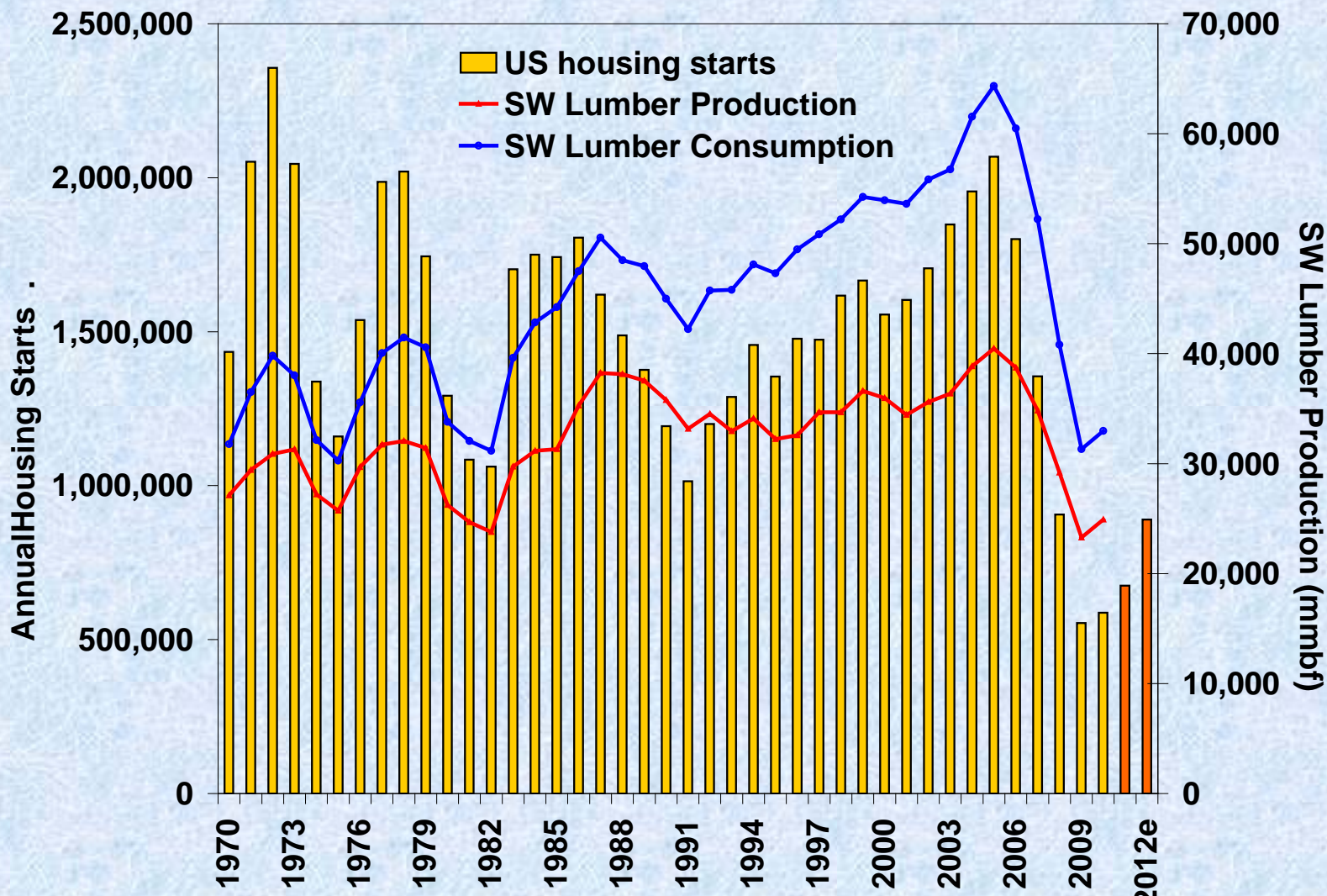
Prices will continue falling during first half of 2011 as new foreclosures increase inventories and rising mortgage rates slow purchases

Spending on Residential R&R



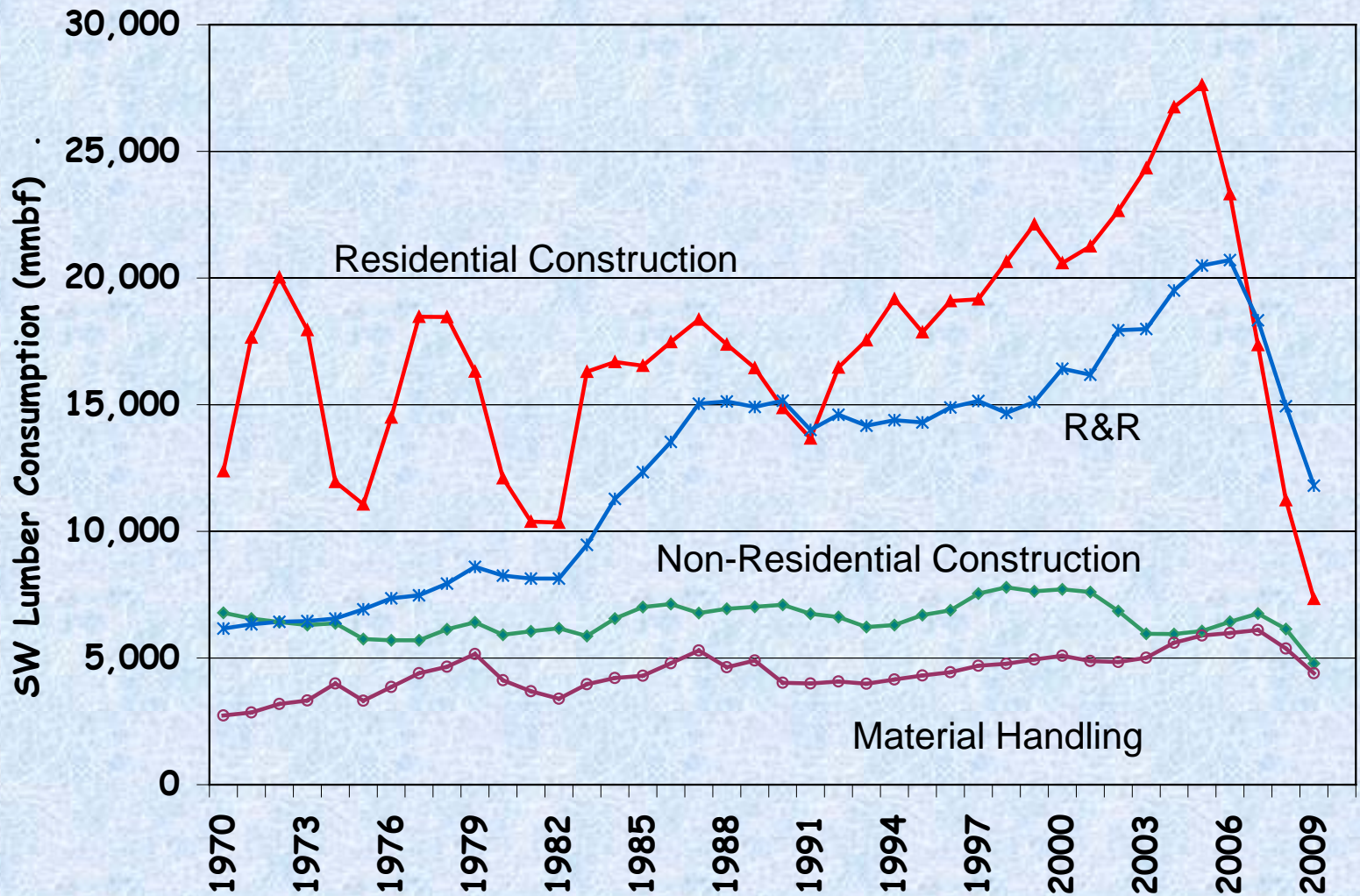
Good news is that expenditures on R&R will pick up in 2011 as economy improves but projects will be more modest

US Housing Starts and SW Lumber



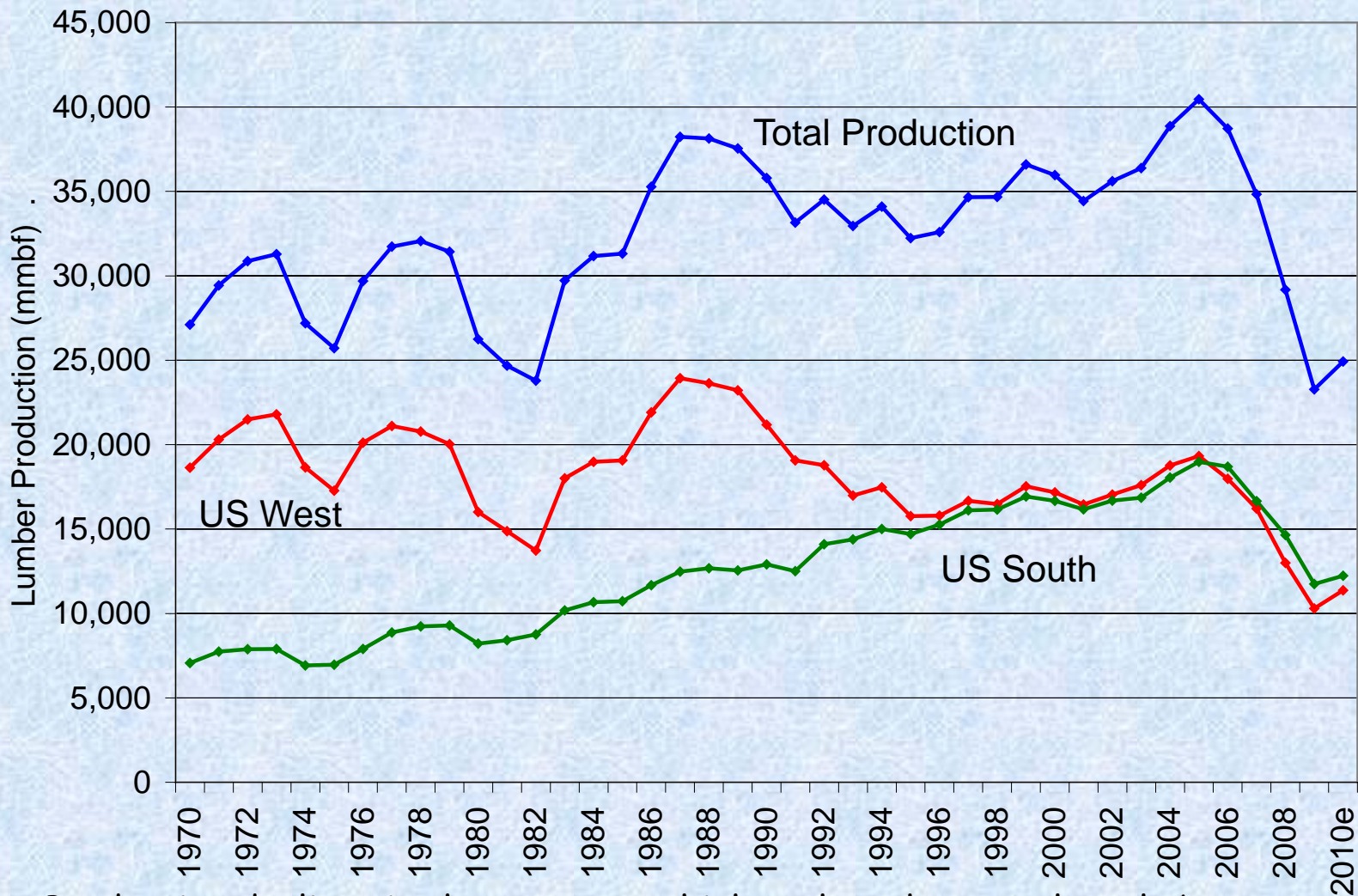
SW lumber production strongly correlates with housing starts and production volume will remain low through 2012

SW Lumber Markets



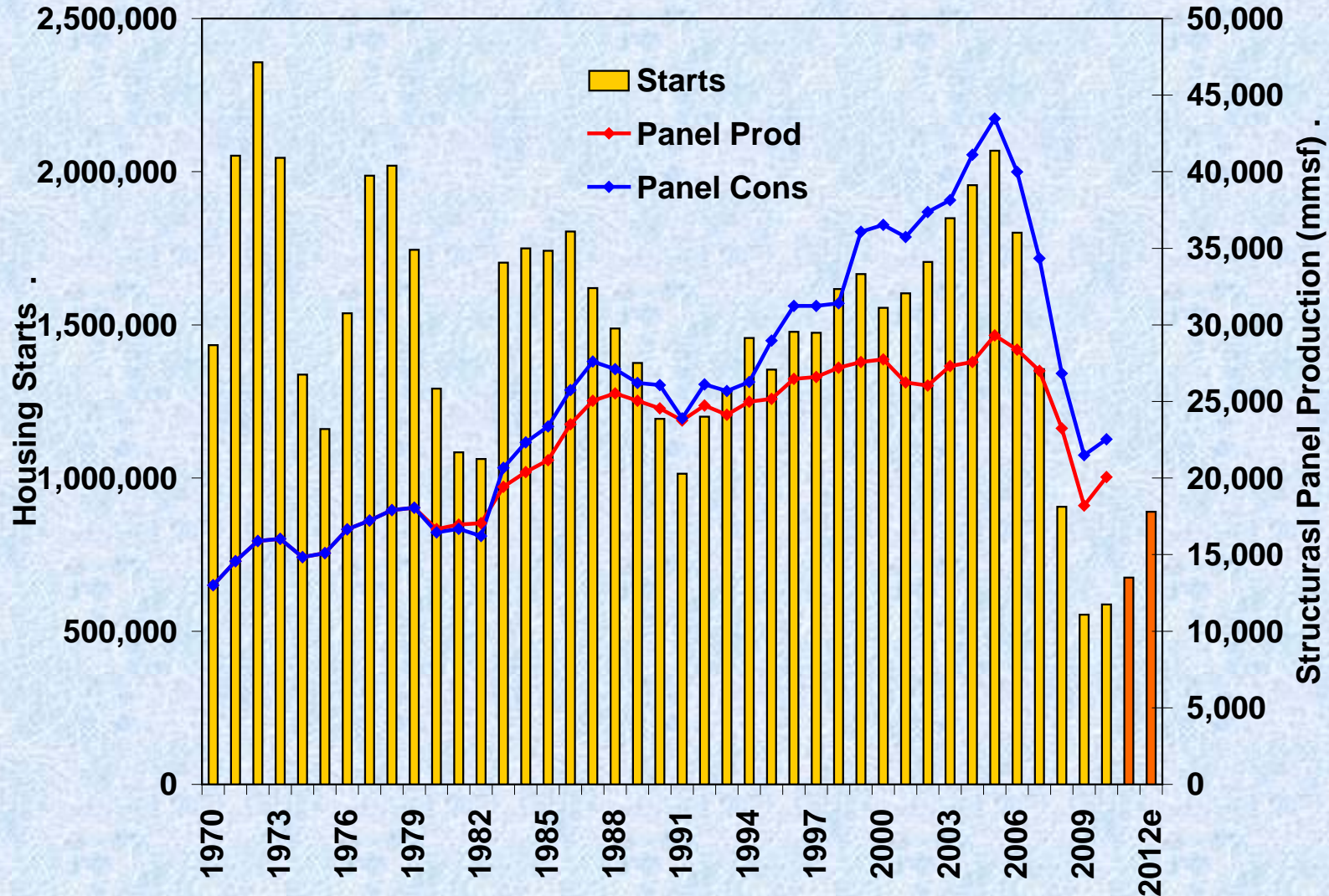
With record low housing starts, lumber consumption in R&R market exceeds that in residential construction

SW Lumber Production, by Region



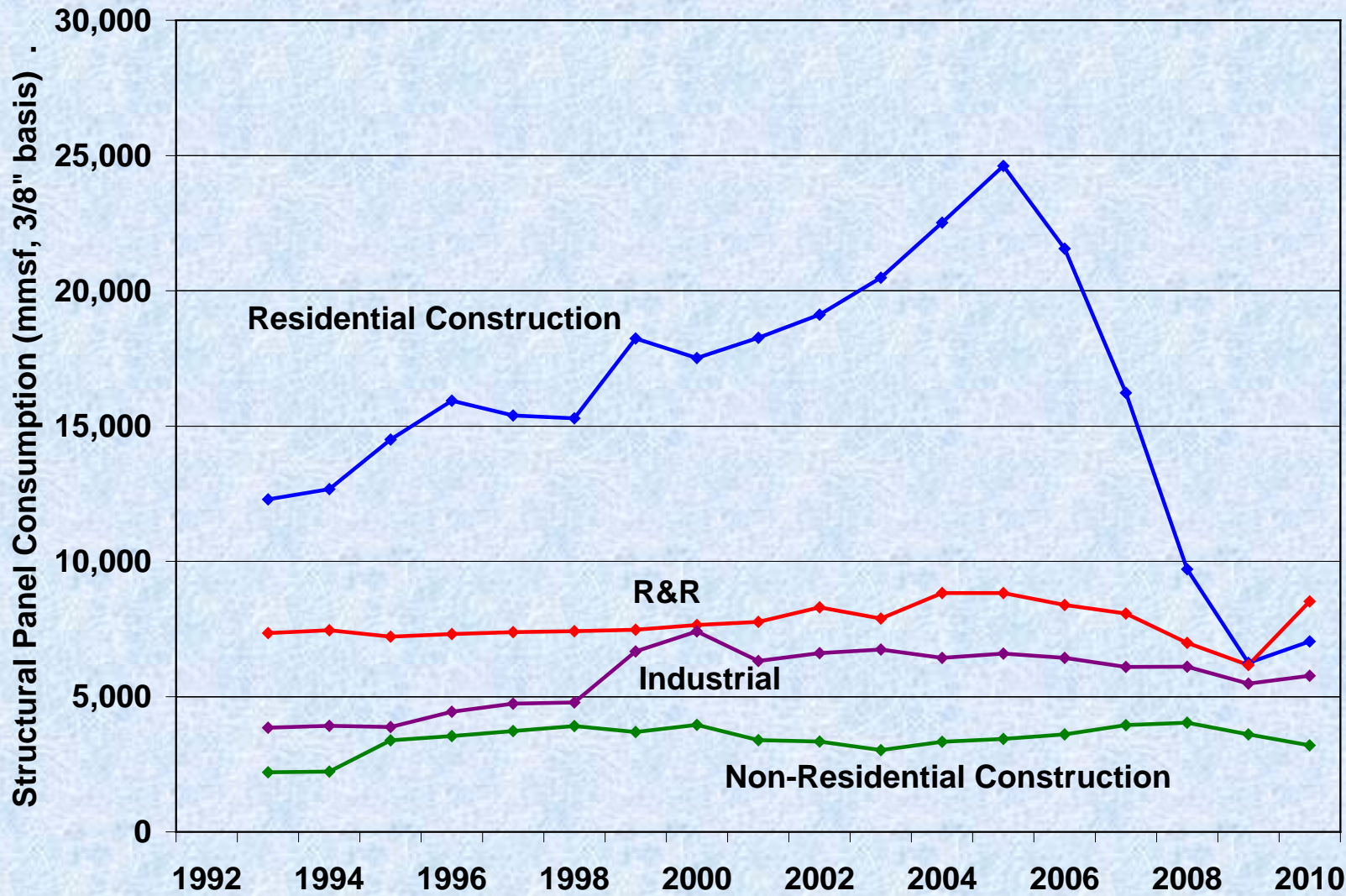
Production declines in the west were higher than the east, largely because some of the worst hit new housing markets were in the western US

US Housing Starts and Structural Panels



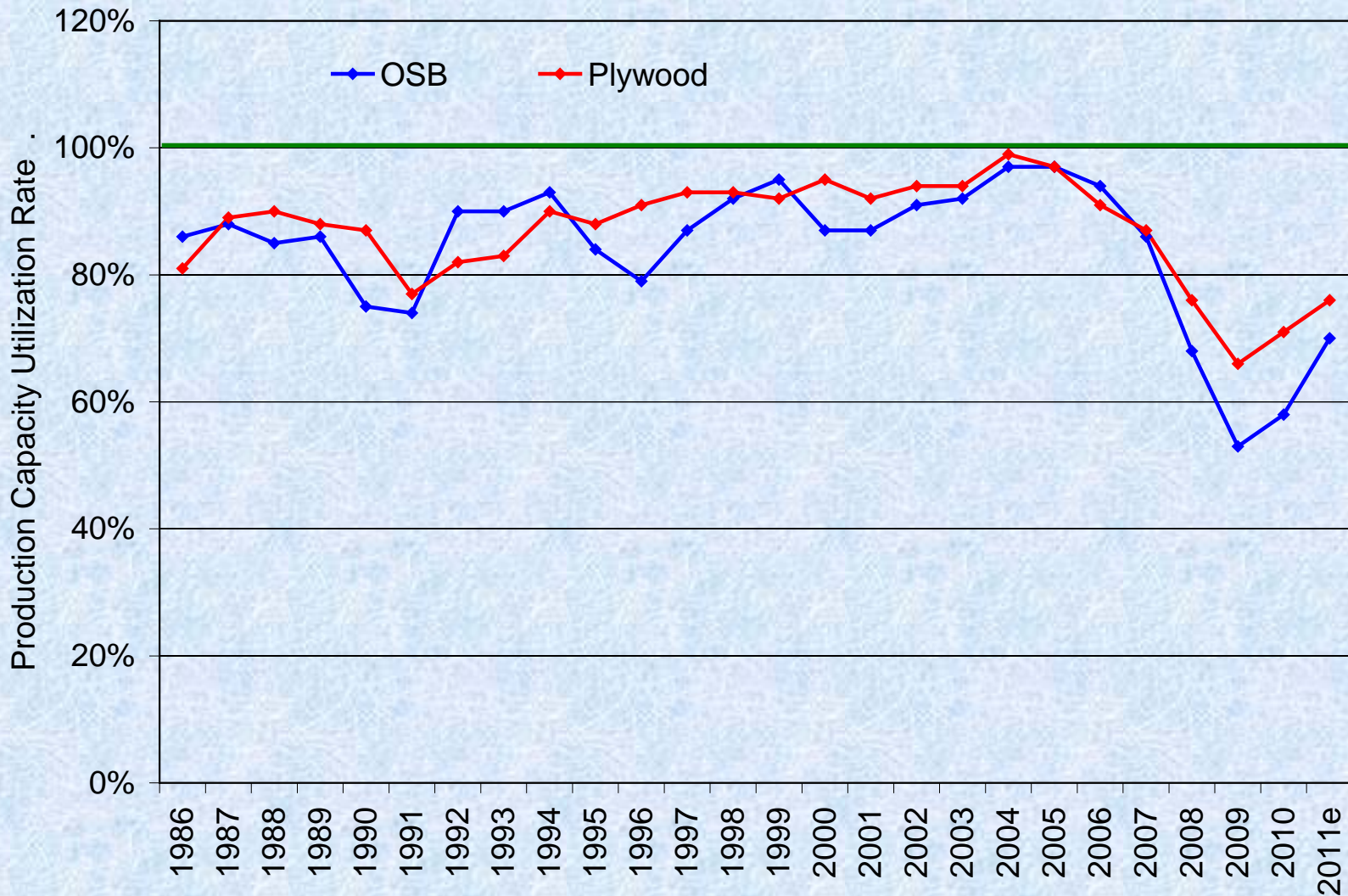
Similar to the lumber market, structural panel production dropped precipitously and will recover slowly.

Structural Panel Markets



Structural panel consumption in residential construction dropped below that in the R&R market for the first time

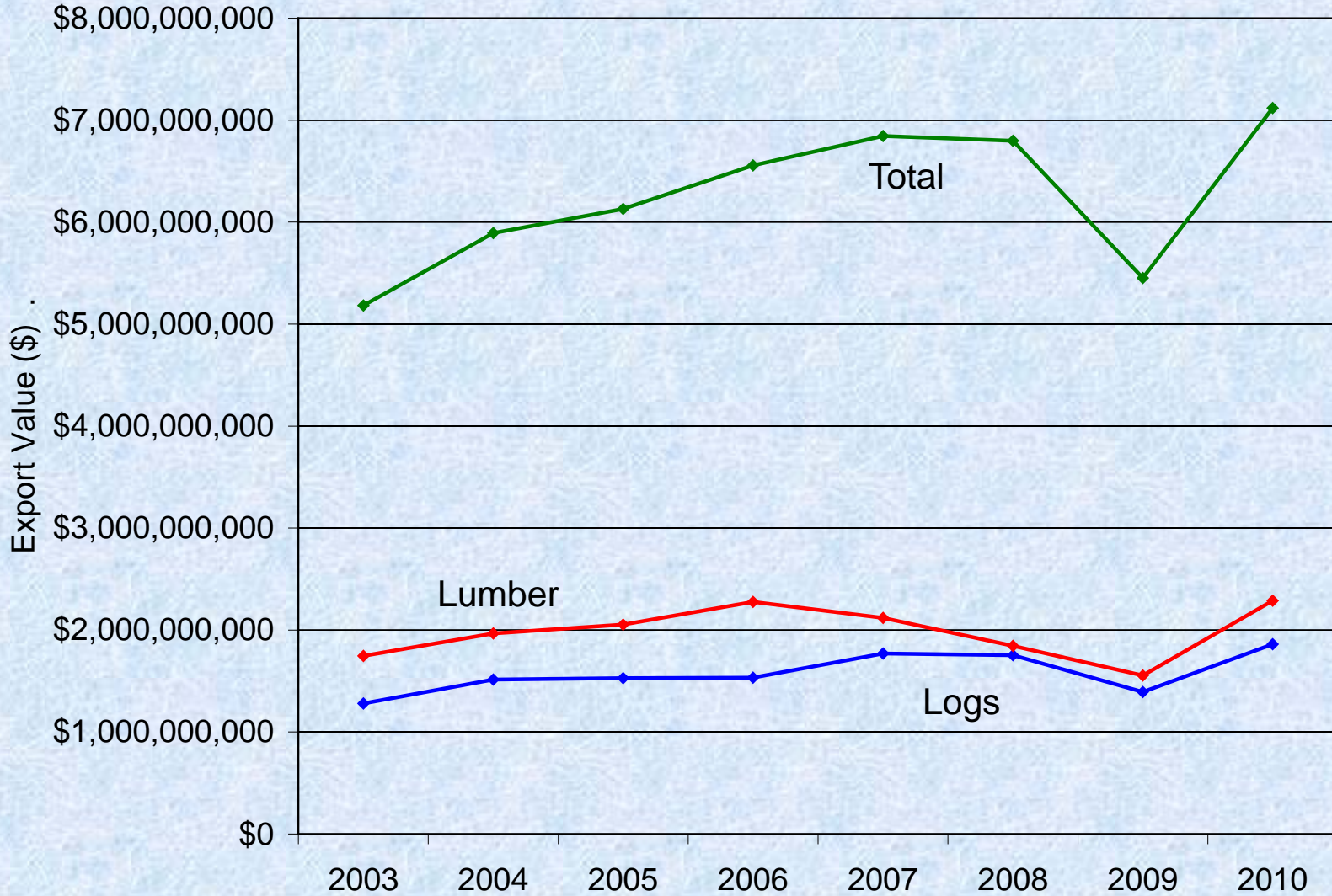
Structural Panel Capacity Utilization



Capacity utilization rate is still below 80% but has been improving since reaching a low point in 2009

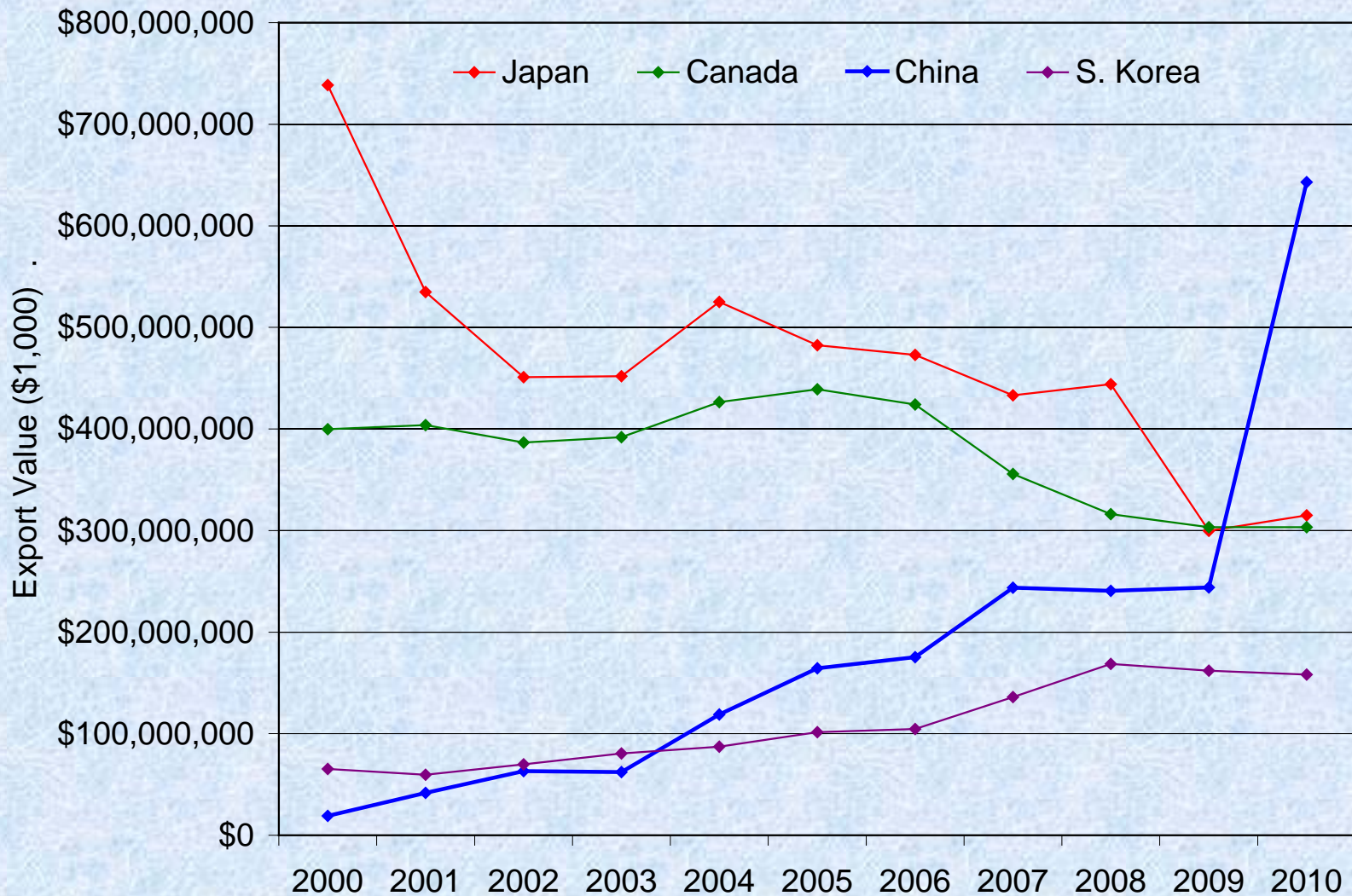


US Wood Exports



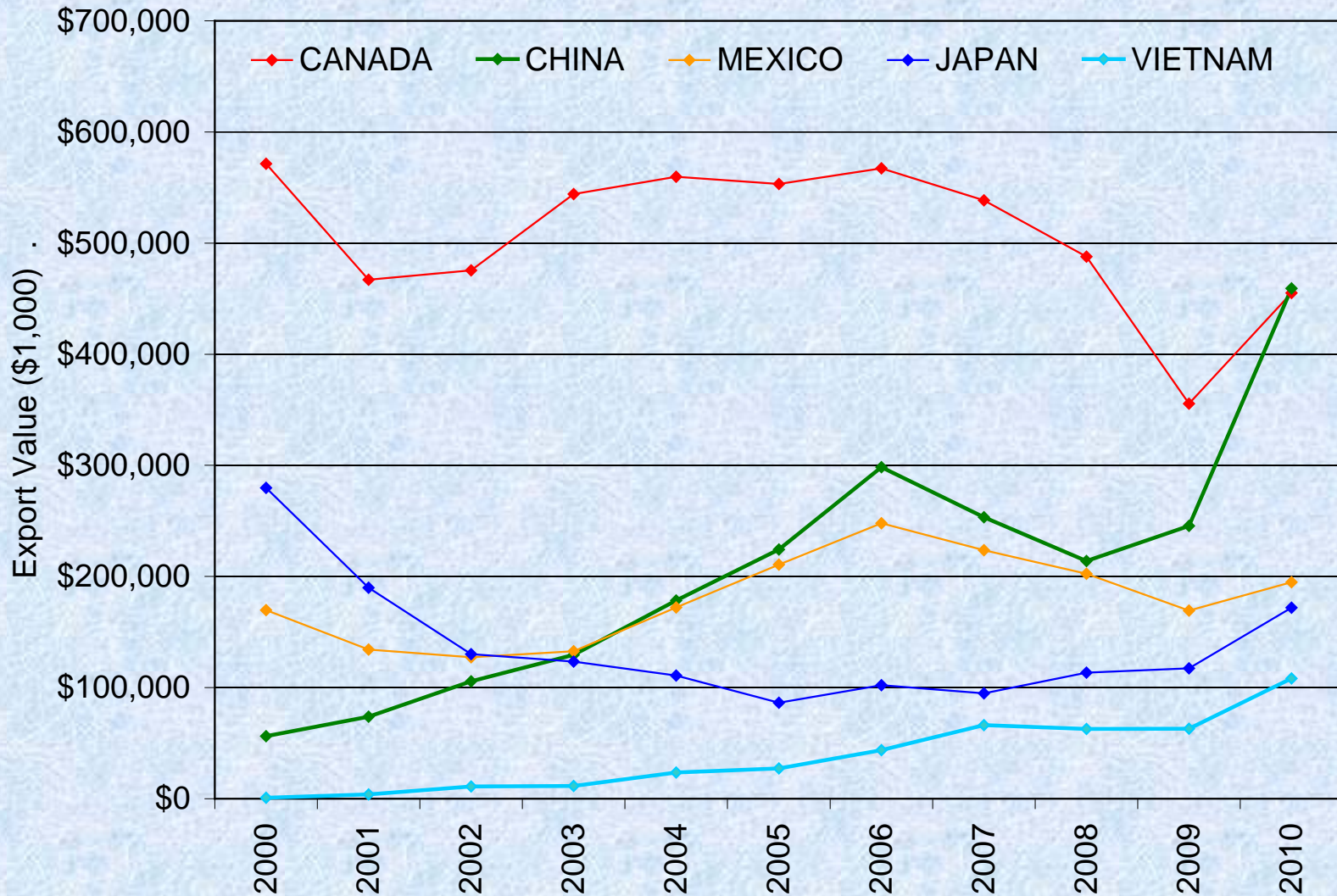
On the other hand, wood exports surged in 2010, rising by 30%

US Log Exports



Rising demand in China, fueled much of the export growth of US wood products, including logs...

US Lumber Exports



...although exports of lumber were strong across a number of markets

Summary Observations

Outlook for domestic market is weak but improving over the next three years

- ❖ Economic indicators will continue to improve slowly with employment growth lagging
- ❖ Housing starts will remain below historical average due to second wave of foreclosures and high inventory levels
- ❖ Housing price declines will continue:
 - ❖ Housing affordability will improve
 - ❖ More homeowners will find themselves upside down and opt to walk away from their homes increasing home inventory and further delay recovery of new housing starts
- ❖ Domestic consumption of lumber and structural panels will remain weak through 2012
- ❖ R&R expenditures will increase and are a bright spot

Summary Observations (2)

Outlook for US wood exports is bright over next three to five years

- ❖ Obama administration focus on growing exports
 - Increase exports by 50% by 2015
- ❖ Weak domestic demand encourages producers to look offshore
- ❖ Weak US dollar improves competitiveness
- ❖ Russian 25% log export tariff limits global log supply
- ❖ Legality legislation in US, EU and Japan will provide new opportunities for US suppliers
- ❖ Green building programs support demand for sustainable wood