

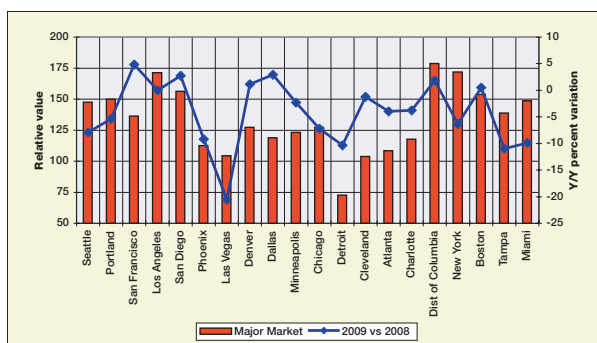


Housing demand uncertainties

For many years, the U.S. housing market has been dissected in minute detail. Research papers, government reports, and long-term forecasts analyzing its future have been authored by public and private organizations alike. Although opinions have ranged from rosy optimism to skeptical disbelief, most agree new construction is unlikely to gain real traction until consumer demand is renewed. Exactly how such demand is expected to materialize, however, is an altogether different question. Examples abound.

Individuals threatened by or already suffering from loss of employment do not qualify for mortgage loans. Millions of current homeowners across the country – about two-thirds in Nevada alone – owe more on their existing mortgages than their homes are worth (New York Times) and are expected to augment the 900,000 new foreclosures that occurred during the first quarter of 2010 (RealtyTrak). Moreover, home values in 13 of the country's 20 largest markets were lower in 2009 than in 2008 (Table 1). Major improvement in at least one of these variables will be needed if sustainable increase in demand is to be triggered.

Table 1: U.S. Home Price Index



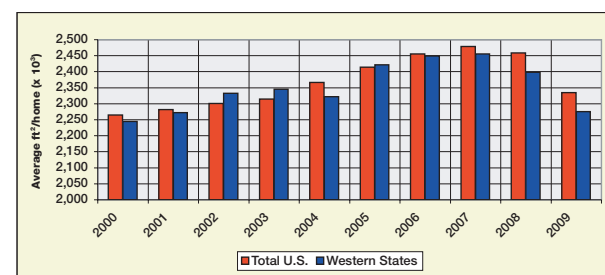
Source: Standard & Poor's/Case-Shiller Composite 20

Smaller, more affordable homes

Whether or not such improvement occurs is just cause for concern given its potential to impact housing demand. Meanwhile, other facets of the housing market have already begun to change. For example, from 1996 to 2007 average floor area in new, single-family homes increased each year (Table 2). Since then, however, average area has subsided (National Association of Home Builders). All other considerations being equal, smaller homes reduce utilization of softwood lumber volume.

Evidence of this trend can be found at Toll Brothers, one of the nation's preeminent builders of large, luxury homes. According to the company's spokesperson, average floor area and sales price of new, single-family homes Toll built in 2009 were 3,400 square feet and \$590,000, respectively. However, in 2010 the company best known for its 'McMansions' plans to construct houses in select market areas averaging less than 1,700 square feet of floor area priced in the low-\$200,000 range (Reuters).

Table 2: New, Single-Family Home Floor Area



Source: National Association of Home Builders

Shifting buyer trends

Seventy-eight million, aging 'baby-boomers' may exert an even greater affect on future demand for

U.S. Softwood Lumber Industry Activity by Region (million board feet)

Production	Full Year		2 months YTD		Feb-10	Jan-10	Feb-09	M to M %	Y to Y%	4th Qtr-09	4th Qtr-08	% Chg
	2009	2010	2009	% Chg								
West	10,300	1,832	1,586	15.5	915	917	792	-0.1	15.5	2,512	2,678	-6.2
South	11,788	1,710	1,904	-10.2	823	887	979	-7.2	-15.9	2,600	3,068	-15.3
Other	1,233	198	195	1.5	97	101	99	-3.6	-1.9	285	321	-11.0
Total	23,320	3,739	3,685	1.5	1,835	1,904	1,870	-3.6	-1.9	5,397	6,067	-11.0

Shipments

West	10,583	1,784	1,589	12.3	900	884	822	1.9	9.5	2,576	2,657	-3.0
South	11,788	1,710	1,904	-10.2	823	887	979	-7.2	-15.9	2,600	3,068	-15.3
Other	1,248	195	195	0.0	96	99	100	-2.7	-4.3	289	319	-9.6
Total	23,620	3,689	3,687	0.0	1,819	1,869	1,901	-2.7	-4.3	5,465	6,044	-9.6

New Orders

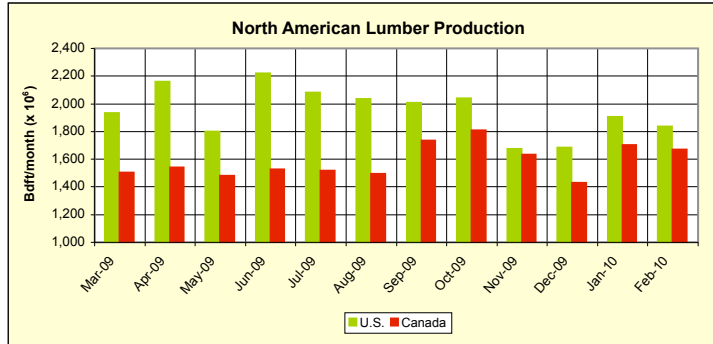
West	10,546	1,831	1,460	25.4	839	992	721	-15.4	16.5	2,598	2,645	-1.8
South	11,788	1,710	1,904	-10.2	823	887	979	-7.2	-15.9	2,600	3,068	-15.3
Other	1,246	198	188	5.3	93	105	95	-11.5	-2.2	290	319	-9.0
Total	23,580	3,739	3,552	5.3	1,755	1,984	1,794	-11.5	-2.2	5,488	6,031	-9.0

Unfilled Orders

	Feb-10	Feb-09	
West	453	501	38.1
South	807	807	0.0
Other	122	124	6.6
Total	1,382	1,432	11.4

Inventories

	Feb-10	Feb-09	
West	991	1,039	-18.3
South	1,818	1,818	0.0
Other	268	271	-4.6
Total	3,077	3,128	-7.3



Source: Southern Forest Products Association, U.S. Census Bureau, Council of Forest Industries-CAN, WWPA

Canadian Softwood Lumber Industry Activity by Region (million board feet)

Production	Full Year		2 months YTD		Feb-10	Jan-10	Feb-09	M to M %	Y to Y%	4th Qtr-09	4th Qtr-08	% Chg
	2009	2010	2009	% Chg.								
British Columbia	9,681	1,837	1,501	22.4	884	953	662	-7.2	33.5	2,549	2,688	-5.2
East of the Rockies	9,123	1,532	1,630	-6.0	784	749	787	4.7	-0.4	2,324	2,818	-17.5
Total	18,804	3,369	3,131	7.6	1,668	1,701	1,449	-2.0	15.1	4,873	5,507	-11.5

Shipments

British Columbia	9,979	1,852	1,502	23.3	890	962	711	-7.5	25.2	2,601	2,758	-5.7
East of the Rockies	9,486	1,507	1,566	-3.8	749	759	771	-1.4	-2.9	2,412	2,727	-11.6
Total	19,466	3,360	3,069	9.5	1,639	1,721	1,482	-4.8	10.5	5,013	5,485	-8.6

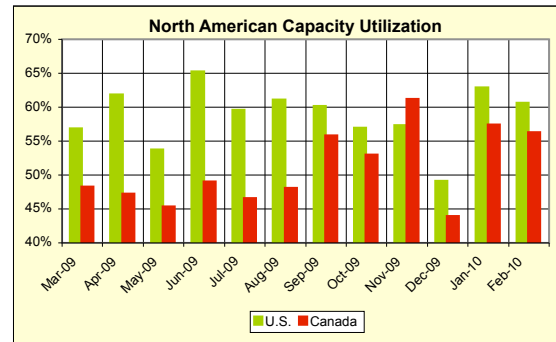
Inventories

	Feb-10	Feb-09	
British Columbia	943	928	-25.2
East of the Rockies	1,408	1,432	-21.9
Total	2,350	2,360	-23.2

Source: Statistics Canada, Council of Forest Industries-CAN

Production as Percent of Practical Capacity

	Full Year		2 months YTD		Feb-10	Jan-10	Feb-09
	2009	2010	2009	% Chg.			
West	59%	74%	68%		74%	74%	57%
South	56%	52%	74%		50%	54%	57%
Total U.S.	58%	62%	72%		61%	63%	57%
British Columbia	51%	62%	67%		60%	64%	42%
East of the Rockies	48%	52%	63%		53%	50%	50%
Total Canada	49%	57%	65%		56%	57%	46%



Source: USDA Profile: Softwood Sawmills in the United States and Canada, WWPA

Trade Statistics

U. S. Softwood Lumber Imports (million board feet)

	Full Year		2 months YTD		Feb-10	Jan-10	Feb-09	M to M %	Y to Y%	4th Qtr-09	4th Qtr-08	% Chg
	2009	2010	2009	% Chg.								
From British Columbia	5,075	839	754	11.2	453	385	390	17.6	16.1	1,385	1,611	-14.0
East of the Rockies	3,228	488	473	3.0	252	235	261	7.3	-3.5	813	1,035	-21.5
Total Canadian Imports	8,303	1,326	1,228	8.0	706	621	652	13.7	8.2	2,113	2,484	-14.9
From Latin America	284	42	55	-23.9	20	22	24	-8.6	-18.1	64	93	-31.2
From Europe	177	15	67	-77.6	9	6	33	52.8	-73.0	28	66	-58.2
Total Non-Canadian	551	68	132	-48.1	34	34	62	-0.7	-44.9	116	183	-36.9
Total Lumber Imports	8,855	1,395	1,360	2.6	740	655	714	12.9	3.6	2,229	2,667	-16.4

U. S. Softwood Lumber Exports (million board feet)

	Full Year	2 months YTD										
	2009	2010	2009	% Chg.	Feb-10	Jan-10	Feb-09	M to M %	Y to Y%	4th Qtr-09	4th Qtr-08	% Chg
To Canada	268	65	30	116.7	34	32	16	6.0	114.1	84	52	60.8
To Japan	115	20	18	13.3	11	10	10	7.5	6.8	36	34	5.1
To Mexico	182	30	32	-6.3	14	15	16	-6.7	-10.7	45	49	-9.3
To Other Countries	417	65	58	12.3	35	30	26	15.2	31.7	120	95	26.4
Total Lumber Exports	983	180	138	31.1	93	87	68	7.1	37.2	284	230	23.4

U. S. Softwood Log Imports (million board feet)

From Canada	89	5	20	-75.9	3	2	5	117.6	-27.9	13	41	-67.5
Non-Canadian Sources	1	0	0	-6.5	0	0	0	0	0	0	0	0
Total Log Imports	90	5	20	-75.8	3	2	5	117.4	-27.8	13	42	-67.5

U. S. Softwood Log Exports (million board feet)

To Japan	430	59	64	-7.8	32	27	42	15.6	-24.0	122	155	-20.9
To Canada	537	124	130	-4.2	69	56	73	23.2	-5.9	115	111	4.1
To Other Countries	537	88	46	93.0	48	40	29	19.6	68.6	165	115	44.3
Total Log Exports	1,504	272	240	13.4	148	123	143	20.3	3.7	403	380	6.0

Source: U.S. Department of Commerce, U.S. International Trade Commission, Foreign Agricultural Service

Canadian Softwood Lumber Exports (million board feet)

To U.S.	8,303	1,326	1,228	8.0	706	621	652	13.7	8.2	2,040	2,484	-17.9
To Japan	918	160	125	27.2	84	76	59	10.2	42.6	271	295	-7.9
Other	1,824	311	163	91.5	172	139	107	23.7	61.0	517	329	57.2
Total Lumber Exports	11,046	1,797	1,516	18.6	961	836	817	15.0	17.6	2,829	3,107	-9.0

Source: Statistics Canada, Council of Forest Industries-CAN

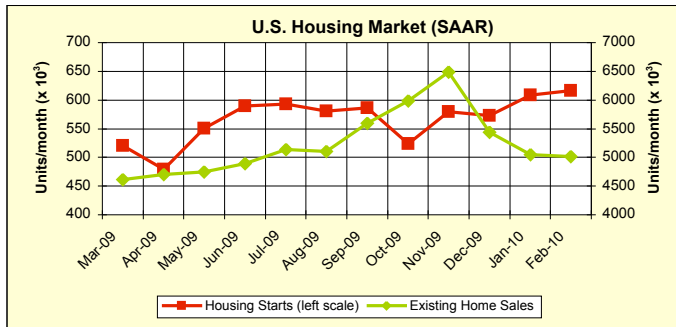
U.S. Softwood Lumber Consumption (million board feet)

	Full Year	2 months YTD										
	2009	2010	2009	% Chg.	Feb-10	Jan-10	Feb-09	M to M %	Y to Y%	4th Qtr-09	4th Qtr-08	% Chg
Lumber Shipments	23,620	3,689	3,687	0.0	1,819	1,869	1,901	-2.7	-4.3	5,465	6,044	-9.6
Plus Imports	8,855	1,395	1,360	2.6	740	655	714	12.9	3.6	2,229	2,667	-16.4
Minus Exports	(983)	(180)	(138)	31.1	(93)	(87)	(68)	7.1	37.2	(284)	(230)	23.4
Apparent Consumption	31,491	4,903	4,910	-0.1	2,466	2,438	2,547	1.2	-3.2	7,410	8,481	-12.6

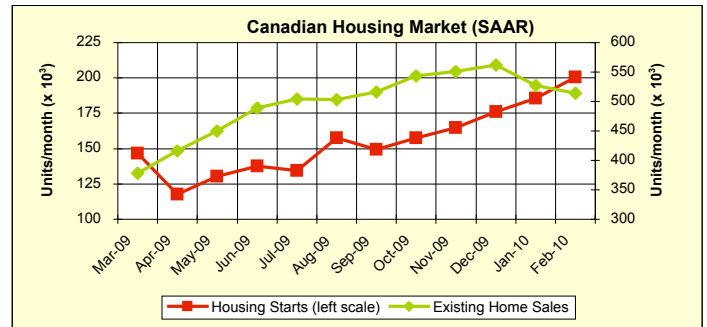
Canadian Softwood Lumber Consumption (million board feet)

	Full Year	2 months YTD										
	2009	2010	2009	% Chg.	Feb-10	Jan-10	Feb-09	M to M %	Y to Y%	4th Qtr-09	4th Qtr-08	% Chg
Lumber Shipments	19,466	3,360	3,069	9.5	1,639	1,721	1,482	-4.8	10.5	5,013	5,485	-8.6
Plus Imports	289	71	33	116.7	36	34	17	6.0	114.1	90	56	60.8
Minus Exports	(11,046)	(1,797)	(1,516)	18.6	(961)	(836)	(817)	15.0	17.6	(2,829)	(3,107)	-9.0
Apparent Consumption	8,710	1,633	1,585	3.0	714	919	682	-22.4	4.6	2,275	2,434	-6.5

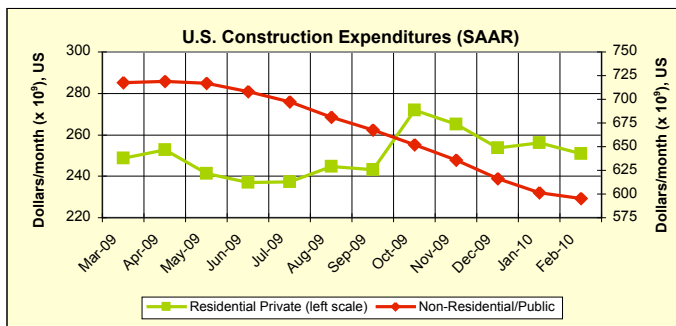
U.S./Canada Lumber Demand Indicators



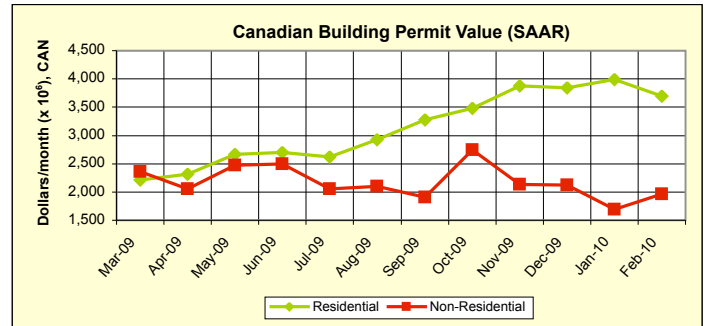
Source: National Association of Realtors, U.S. Census Bureau



Source: Canadian Real Estate Association, Canada Mortgage & Housing



Source: U.S. Census Bureau



Source: Statistics Canada

new housing. In an article published by the Journal of the American Planning Association, researchers from the University of Southern California showed that, beginning in 2011, major demographic shifts could have a huge impact on demand for housing in the U.S. The article contends that, as boomers retire and withdraw from the market, excess housing inventory will build depressing both prices and demand.

Countering this possibility, some have suggested the sharp climb in immigration – from 500,000 in the 1980s to one million in 2007 (U.S. Census Bureau) – will help offset boomers' removal from the market. This may be true for select geographic regions whose entry-level price points are low relative to others. But it is unlikely to have broad implications, particularly for those areas where home purchase price and cost-of-living are above average.

Others insist an influx of younger generations will be sufficient to fill the demand vacuum created by boomers' absence. But statistics cloud this argument as birth rates in the U.S., which have trended downward for the past 12 years, are at their lowest level since national data have been available (U.S. Centers for Disease Control).

Summary

Late this year or early next, home prices and new residential construction will have begun to improve.

The more important question, however, involves the rate at which improvement will occur. Robert Shiller, co-developer of the Case-Shiller Home Price Index, found that, from 1890 through 2008, average home price increased about one-half of one percent each year.

Increase in home prices is often correlated with increase in wages. But across-the-board wage increases put the cart before the horse and will not take place until job growth improves. Chairman of the Federal Reserve, Ben Bernanke, seconded this view stating recently that, "we have yet to see evidence of a sustained recovery in the housing market." Bernanke added that, "although layoffs have eased in recent months, hiring remains very weak."

In March 2010, 162 thousand new jobs were added in the U.S., the largest monthly improvement since the first quarter of 2007 (U.S. Department of Labor). Encouraging news to be sure, but it must be assessed in a broader context. For example, if the country is to regain its pre-recession unemployment level of five percent, new jobs created in March must increase 68-fold to about 11 million (Economic Policy Institute), a statistic that says nothing whatsoever about 'underemployment', which climbed to 17 percent in March.

For more information on Lumber Track or other WWPA statistical reports, contact David Jackson at 503-306-3466 or djackson@wwpa.org