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Excerpt

North American Lumber Forecast | APRIL 2006

Overview

Below are the Table of Contents, List of Tables, and excerpts from the *North American Lumber Forecast*. This report covers softwood lumber and engineered lumber (LVL and wood I-beams). Each issue contains an executive summary and overviews of the North American and international economies and housing. The *Forecast* includes in-depth examinations of the various markets in addition to 68 analytical tables by product area.

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List of Tables
(Appendix Tables in Square Feet & Cubic Meters)

Excerpt–Executive Summary

Our forecast for North American lumber markets is virtually unchanged from last quarter: we expect a pronounced downturn in wood products markets in late 2006–2007, followed by a rebound in 2008–2009. Housing starts are at a 30-year high, with single-family starts hitting record levels in 2005. At the same time, repair and remodeling markets (and the improvements share of those markets) are also at all-time highs (driven up in part by record cash-out refinancing).

Excerpt–Economic Outlook

The U.S. and Canadian economies carried considerable momentum into 2006 and will likely maintain decent growth through the second quarter. Thereafter, we expect U.S. (and eventually Canadian) economic growth to dip below trend in the second half of 2006 and the first half of 2007 due to the lagged effect of higher interest rates, as well as a sharp slowdown in mortgage equity withdrawal (which has propped up U.S. consumer spending). Our U.S. forecast shows real growth dipping to 2.6% in the four quarters ending in 2Q07.

Excerpt–Housing & Other Demand Indicators

Housing starts will remain in the 1.90–2.00 million-unit range through the first half of 2006. Interest rates only began to rise in earnest in the second half of 2005, and it typically takes eight to 12 months for rising interest rates to affect housing starts. Moreover, rapid home price inflation has led to significant investment demand for housing. Home prices need to slip before this investment driven construction cools. Finally, although it has fallen, builder confidence remains positive (the NAHB's housing market index for single-family sales over the next six months was at 62 in March, an indication that the majority of builders surveyed expect continued strength in 2006).

Excerpt–N.A. Softwood Lumber Markets

Total demand for North American softwood lumber will continue to edge higher (year-over-year) in the first half of 2006 as end-use markets remain strong. However, we are nearing the end of the housing boom: long-term interest rates are approaching 5.0% and will continue to rise, income growth slowed in 4Q05 and (after a bounce in 1Q06) will trend lower into 2007, home prices are significantly higher than they were at this time last year, and there is no pent-up demand for housing left.

Excerpt–Engineered Lumber: Wood I-Joists and LVL

A strong start to 2006, reflecting a relatively mild winter, will keep engineered lumber consumption at or slightly above year-ago levels through at least mid-year. However, rising mortgage rates and a “tired” housing market, with no pent-up demand to sustain the 2004–2005 pace of construction, will result in sharply lower housing starts by late in the year.

Sample Table

Table A1
North American Softwood Lumber Summary Report
Quantities in Billion Board Feet

	05:III	05:IV	06:I	06:II	06:III	06:IV	07:I	07:II	2004	2005	2006	2007	2008	2009	2010
NORTH AMERICAN SOFTWOOD LUMBER															
Demand on N. Am. Mills	20.4	18.7	16.8	19.9	19.9	17.8	15.3	17.9	72.8	74.5	74.4	67.8	70.5	74.0	72.6
Total Shipments	18.6	18.2	19.2	20.1	18.2	17.5	17.1	18.0	72.8	74.8	75.0	67.6	70.6	74.3	72.5
Total Capacity	20.5	20.6	20.6	20.6	20.7	20.7	20.7	20.7	79.7	81.9	82.6	82.8	82.4	82.6	83.0
Demand/Capacity Ratio (%)	99	91	82	96	96	86	74	86	91	91	90	82	86	90	87
U.S. SOFTWOOD LUMBER															
Domestic Demand	17.8	15.9	14.2	17.1	17.2	15.0	12.7	15.2	60.9	64.1	63.4	57.1	59.6	63.2	61.8
Exports	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.8	0.9	0.9	0.8	0.7	0.8	0.8
Total Demand	18.0	16.2	14.4	17.3	17.4	15.2	12.9	15.4	61.7	65.0	64.3	57.9	60.3	64.0	62.6
Shipments	10.1	9.9	10.2	10.9	9.8	9.2	8.9	9.6	38.4	40.8	40.2	35.5	37.0	39.2	38.1
Imports	6.3	6.0	6.2	6.3	6.4	5.8	5.4	5.6	23.5	24.7	24.7	22.1	23.3	25.1	24.4
Capacity	10.8	10.9	10.9	11.0	11.0	11.0	11.0	11.1	41.9	43.3	43.9	44.2	44.0	43.9	44.1
Demand/Capacity Ratio (%)	108	93	75	100	100	86	68	89	91	93	90	81	84	89	87
Import Share (%)	39	38	38	37	40	39	38	37	38	38	39	39	39	39	40
CANADIAN SOFTWOOD LUMBER															
Domestic Demand	2.9	2.9	2.7	2.9	2.9	2.8	2.6	2.7	11.6	11.3	11.3	10.7	11.3	11.9	11.8
Exports to the U.S.	5.5	5.3	5.4	5.6	5.5	5.0	4.7	4.9	20.9	21.5	21.6	19.0	19.9	21.0	20.3
Offshore Exports	0.4	0.5	0.6	0.6	0.6	0.7	0.7	0.7	2.5	1.9	2.5	2.8	2.8	2.6	2.7
Total Demand	8.8	8.7	8.7	9.0	9.0	8.5	8.0	8.2	35.0	34.7	35.3	32.5	34.0	35.6	34.8
Shipments	8.5	8.3	9.0	9.2	8.4	8.2	8.2	8.4	34.5	34.1	34.8	32.1	33.6	35.1	34.4
Imports	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.4	0.5	0.6	0.5	0.4	0.5	0.5
Capacity	9.7	9.7	9.6	9.7	9.7	9.7	9.7	9.7	37.8	38.7	38.6	38.6	38.5	38.7	38.9
Demand/Capacity Ratio (%)	90	88	89	92	92	87	81	84	92	88	90	83	87	91	88
Net Domestic Demand as Share of Canadian Shipments (%)	33	33	28	30	33	33	30	31	32	32	31	32	32	32	33