

Canada's Solid Demand for U.S. Wood Products

By William Bomersheim

The United States exported more than \$1.79 billion of solid wood products to Canada in 2003 and is on pace to export a record \$1.96 billion in 2004. U.S. solid wood exports to Canada grew 6.5 percent in 2003, and were up another 10.1 percent through June 2004. U.S. exports of hardwood lumber, hardwood veneer, hardwood logs, builder's carpentry and softwood logs each set new record highs in 2003. A strong economy underpinned by a housing boom and robust consumer demand has propelled Canadian demand for solid wood ever higher.

Market Fundamentals Are Solid

Strong economic fundamentals, especially an expanding GDP (gross domestic product) combined with low unemployment, inflation and interest rates, have created the conditions for increased solid wood demand. Real Canadian GDP expanded 2.4 percent in the first quarter of 2004, following an increase of 3.3 percent in the fourth quarter of 2003, while real personal disposable income has risen for several consecutive quarters. Real personal disposable income grew 4.3 percent in the first quarter of 2004, and real personal disposable income per capita set a new record, nearly 14 percent above the 1996 level.

The Canadian economy created over 110,000 net new jobs in the first six months of 2004, and from August 2003, when the recent upward trend began, through June 2004, has added 342,000



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new full-time jobs. Consequently, unemployment through most of 2004 has been less than 7.4 percent.

Inflation, recorded in June at only 2.5 percent, has remained under control. This enabled the Bank of Canada to lower the overnight rate target to 2.0 percent in April 2004, driving the prime interest rate to just 3.75 percent.

Record Housing and Renovation Activity

Attractive mortgage rates coupled with strong consumer confidence and employment have helped support a building boom. Housing starts in 2003 reached their highest level since 1998. Total housing starts for 2003 are estimated at 217,800, 6.2 percent above 2002, while another 120,000 permits were added in the first half of 2004.

In 2003, the total value of building permits set a new record for the eighth consecutive year, as municipalities issued \$38.24 billion in residential and non-residential permits. With only half of 2004 accounted for, municipalities are set to

shatter this record, having already issued another \$20.5 billion in building permits through June, up 9.4 percent from the pace set in 2003.

In addition, housing renovation, a vital part of the housing industry, has been on an upward trend since 1996. According to the Canada Mortgage and Housing Corporation's 2003 housing outlook report, renovation spending was expected to have increased from \$22.4 billion in 2002 to a new record of over \$24.1 billion in 2003. A further increase in renovation activity was forecast for 2004. Renovations, including room additions, new kitchen cabinets and other remodeling, increase demand for U.S. wood products, especially hardwoods.

Strong Furniture Sector

Canada's healthy furniture sector has also driven demand for U.S. solid wood products. Canadians, confident about their jobs, have generally increased spending on durable goods. The housing market has remained buoyant, and Canadian furni-

ture spending has led all other retail sectors in sales growth in every year since 1998. Canadian furniture purchases rose 11.6 percent from the previous year in 2002, and another 6.5 percent in 2003.

Additionally, Canadian furniture manufacturers have been able to double their exports since 1995. Canada is the world's third-largest furniture exporter, following China and the United States. Slightly more than one-half of all Canadian furniture production is exported.

Short-Term Outlook Positive

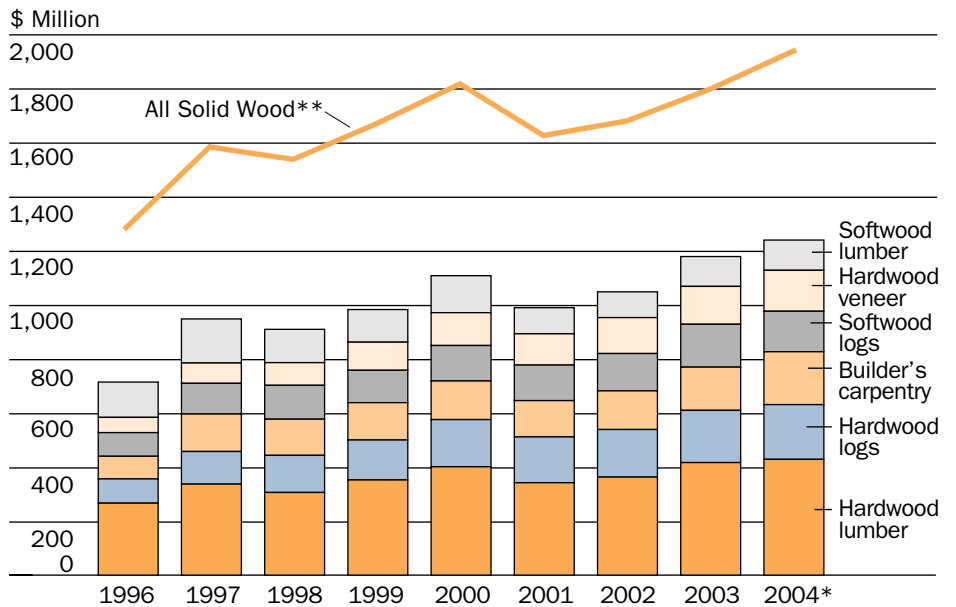
The outlook for U.S. wood product exports to Canada for 2004 as a whole is favorable. In June, the Canadian composite index of leading indicators posted its 13th consecutive monthly increase, as nine out of 10 components continued to rise, and the red-hot housing sector drove continued outlays for furniture and appliances.

Although an increase in mortgage rates could slow the housing market somewhat, most economists are forecasting continued strength in the housing



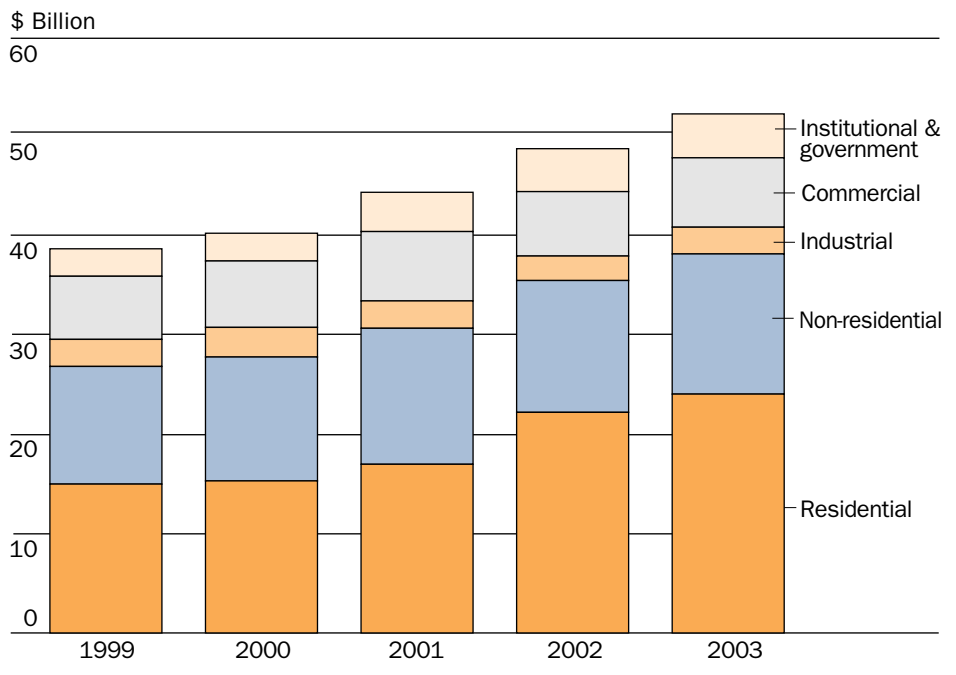
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U.S. Solid Wood Exports to Canada Have Grown Steadily



*Projection, based on January-June data.
**Includes products not listed in columns.

Since 1999, the Value of Canadian Building Permits Has Increased Across Major Categories



U.S. SOLID WOOD EXPORTS TO CANADA GREW 6.5% IN 2003, AND WERE UP ANOTHER 10.1% FOR THE FIRST SIX MONTHS OF 2004.

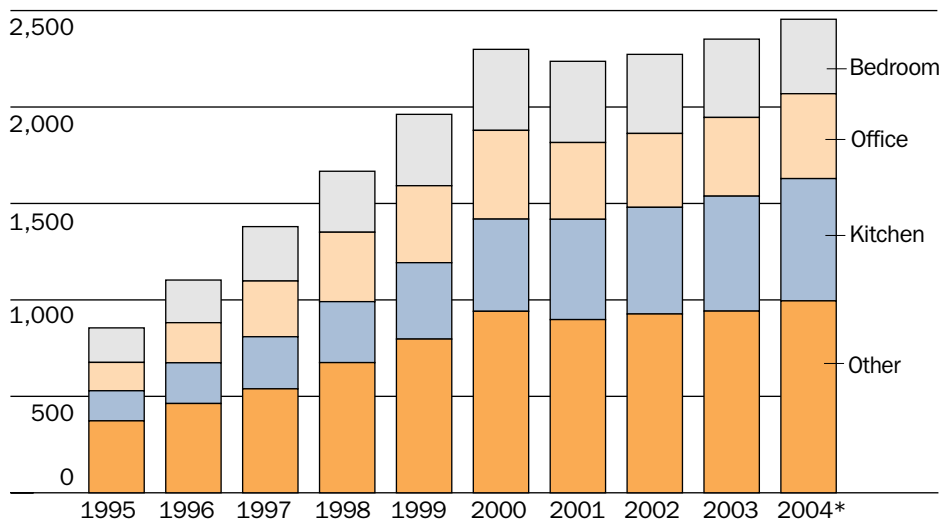
Canada's Leading Indicators

Indicator	January 2004	February 2004	March 2004	April 2004	May 2004	June 2004
Composite Leading Indicator (1992=100)	189.5	190.6	192.0	193.3	195.6	197.8
Housing Index (1992=100)	137.1	135.0	136.6	139.0	141.9	146.2
Business and Personal Services Employment (million)	2.633	2.632	2.627	2.621	2.613	2.608
Stock Price Index (1975=1,000)	7,959	8,232	8,395	8,472	8,511	8,516
Money Supply, M1 (\$ million, 1992)	90.27	90.67	91.67	92.91	94.31	95.86
U.S. Composite Leading Indicator (1992=100)	113.1	113.5	113.8	114.2	114.5	114.9
Average Work Week (hours)	38.7	38.7	38.7	38.7	39.0	39.1
New Orders, Durables (\$ million, 1992)	15,793	16,053	16,585	16,433	16,694	16,919
Shipments/Inventory of Finished Goods (ratio)	1.72	1.74	1.77	1.78	1.81	1.84
Furniture and Appliance Sales (\$ million, 1992)	1,500	1,507	1,513	1,524	1,539	1,556
Other Durable Goods Sales (\$ million, 1992)	5,908	5,799	5,699	5,709	5,721	5,757

Source: Statistics Canada.

Since 1995, Canada's Wood Furniture Exports Have Grown Steadily

\$ Million
3,000



*Projection, based on January-June data.



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sector for the remainder of 2004, with relatively low interest rates and strong income growth. Canadian demand for U.S. wood products in housing components and interior applications, as well as furniture and other furnishings, is expected to remain strong. In addition, an upturn in the U.S. economy, as the United States' composite of leading indicators also posted its 13th straight monthly increase, could continue boosting demand for Canadian goods, including furniture, thus spurring additional Canadian demand for U.S. solid wood products. **n**

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For details, go to www.fas.usda.gov/ffpd/Newsroom/wood_market_news.htm, and select "America's Largest Market Increases its Demand for U.S. Wood," March 2004.

