



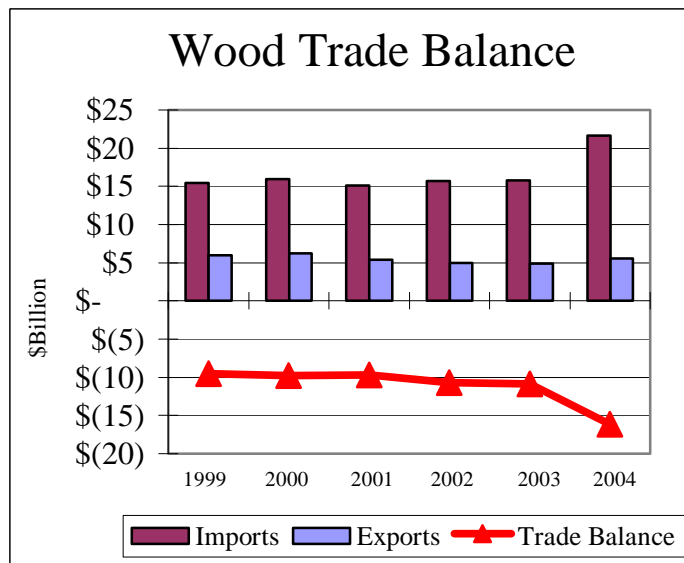
International Trade Report

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Robust Housing Market Causes Wood Trade Deficit to Soar

In fiscal year 2004, the value of wood imports surged nearly \$6 billion over the previous year to total \$21.7 billion, while exports increased \$600 million to total \$5.5 billion. The sharp increase in imports pushed the wood trade deficit from \$10.9 billion in FY 2003 to \$16.2 billion in FY 2004.

However, the increased trade deficit was not primarily caused by higher import volume. Instead, it was largely caused by increased domestic prices for softwood lumber and panel products, two commodities accounting for 65 percent of the value of wood imports and just 15 percent of wood exports.



Softwood Lumber Imports

Spruce, pine and fir (SPF) lumber from Canada dominates U.S. lumber imports. In FY 2004, the domestic price of SPF lumber increased 50 percent over the previous year and caused the value of softwood lumber imports to jump 41 percent. During this same period, the volume of softwood lumber imports increased just 9 percent. In FY 2004, lumber imports were valued at \$7.4 billion. The value of softwood lumber imports could decrease in FY 2005, because SPF lumber prices are currently only 15 percent above the 2003 average.

Panel Product Imports

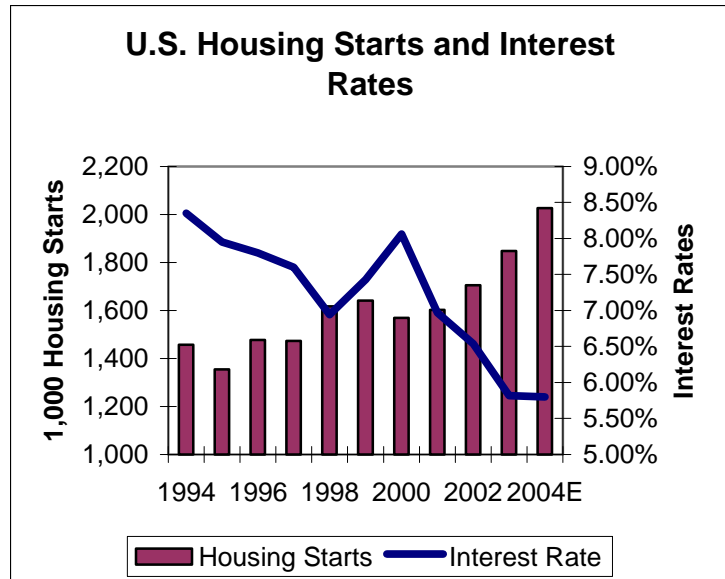
In FY 2004, the domestic composite price for structural panel products (plywood and oriented strand board) increased 59 percent over the previous year and caused the value of panel product imports to increase 76 percent. During this same period, the volume of panel imports increased 23 percent. In FY 2004, panel imports were valued at \$6.6 billion. The value of panel imports could decrease in FY 2005, because the structural panel composite price is currently only 1 percent above the 2003 average.

Housing Market Has Loggers Yelling “Timber”

Over the last several years, the U.S. housing market has been booming. In October 2004, privately-owned housing starts were at a seasonally adjusted annual rate of 2.0 million units, a 31-percent increase compared to 2000. Demand has primarily been driven by low interest rates, which decreased from 8.1 percent in 2000 to 5.8 percent in November 2004 for 30-year fixed mortgage rates. When rates were as high as 10.1 percent in 1990, housing starts were just 1.2 million.

Housing starts drive softwood lumber and structural panel consumption. On average, housing starts consume an impressive 43 percent of the U.S. softwood lumber supply and 54 percent of the structural panel supply.

While the short-term outlook for housing demand depends primarily on interest rates and the strength of the economy, demographic trends offer a glimpse of longer-term trends. Over the next ten years, robust housing demand is expected to continue due to strong household growth, longer life expectancies and increased immigration. These forces will contribute to the likely building of an additional 19 million houses over in the next ten years, representing a 16-percent increase over the 16.3 million houses built over the previous decade.



The house remodeling and repair industry consumes an additional 31 percent of the U.S. softwood lumber supply and 21 percent of the structural panel supply. In first quarter 2004, expenditures for improvements and repairs were on pace to hit \$200 billion for the year. Ten years ago, these expenditures totaled just \$125 billion. Improvements and repair expenditures are expected to remain strong because over 48 percent of existing homes were built before 1970. As homeowners repair these older homes, newer homes are being built larger. Houses built in 1970 averaged 1,600 square feet compared to houses built in 2003, which averaged 2,330 square feet.

All of the factors mentioned above argue for continued high prices, but open access to imports has helped temper prices while providing a robust market for domestic products.

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