

The Condition of U.S. Hardwood Markets

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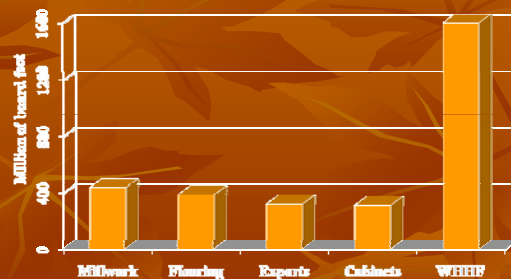
Opening Statement

- We are in the worst market for hardwood products in the U.S. since the great depression
- We have permanently as much as 25 percent of our hardwood lumber production capacity in the last 18 months
- In recent weeks there has been some positive signs but only time will tell

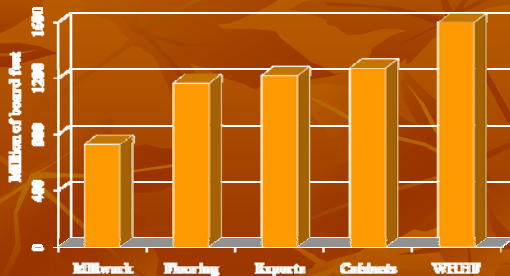
Organization

- Changes in hardwood lumber demand
- Changes in hardwood lumber production
- Log and stumpage prices
- Other unusual observations

Consumption by Major Users of Graded Hardwood Lumber in 1982



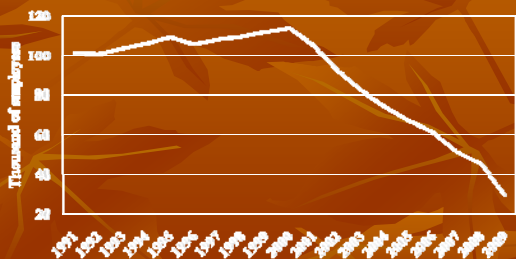
Consumption by Major Users of Graded Hardwood Lumber in 1997



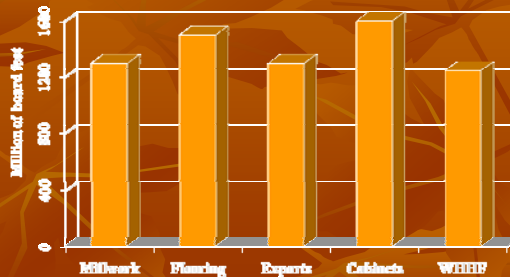
The Chinese Invasion

- Started with furniture then moved to flooring, millwork, and cabinets
- The NC/VA furniture industry is still declining on a monthly basis
- Most firms that produced high volume of price sensitive products have shifted production to China. Some high end manufacturers have gone to Vietnam. Many firms have gone out of business.

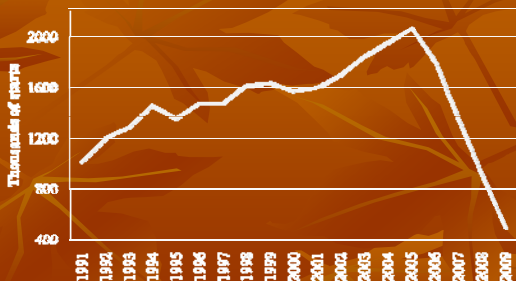
Production Employment in Wood Household Furniture Industry



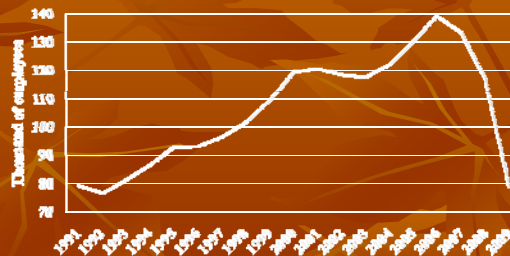
Consumption by Major Users of Graded Hardwood Lumber in 2005



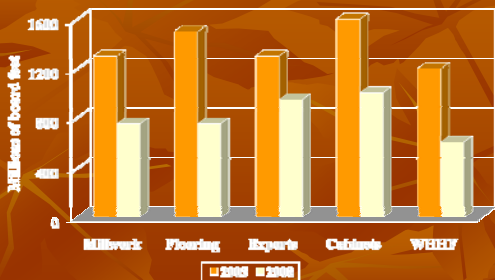
The Boom and the Crash of the U.S. Housing Market



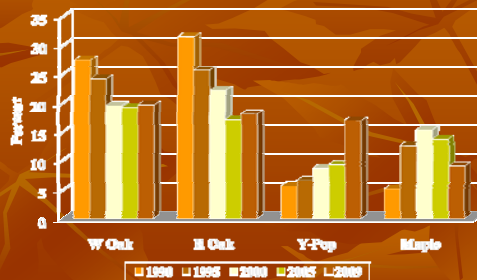
Production Employment in Kitchen Cabinet Industry



Consumption by Major Users of Graded Hardwood Lumber in 2005 and 2008



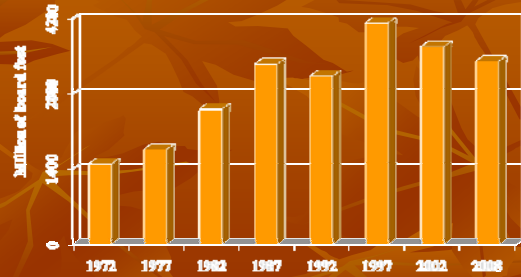
Proportion of Export for Major Hardwood Species



Major Export Markets For Hardwood Lumber 1990, 1999, 2009

1990	Canada 34.1%	Mexico 8.4%	Italy 6.7%	Spain 5.7	Japan 5.5
1999	Canada 34.1%	Mexico 8.4%	China 7.2	Italy 6.7	Spain 5.7
2009	Canada 25.8%	China 23.2%	Mexico 10.0	Vietnam 7.6	Italy 6.5

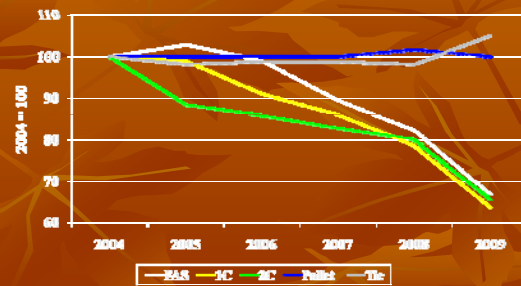
Hardwood Lumber Consumption by the Pallet Industry 1972 to 2008



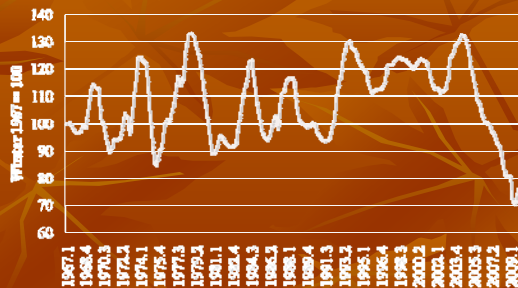
The Percent of Hardwood Lumber Consumed for Industrial and Appearance Applications

User group	1972	1982	1992	2002	Today
Industrial	32	40	34	37	60
Appearance	68	60	66	63	40

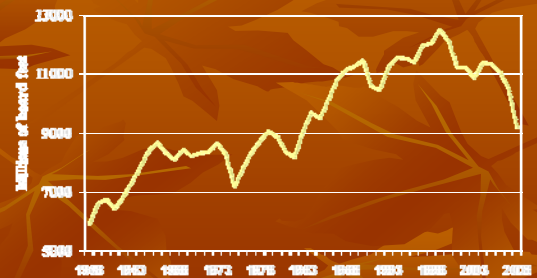
Index of Hardwood Lumber, Cross Ties and Pallet Cant Prices 2004 to 2009



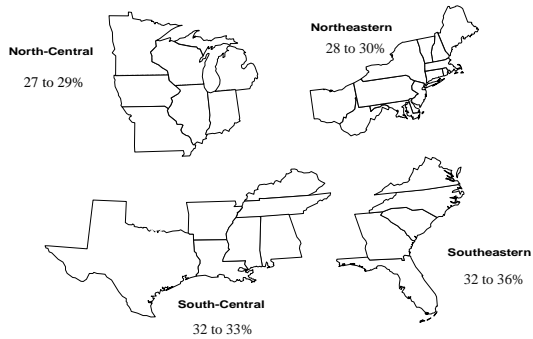
Composite Price Index For Appalachian Grade No. 1 Common



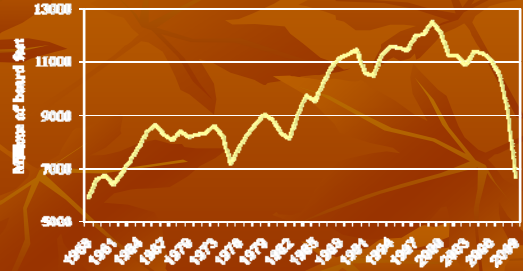
Eastern Hardwood Lumber Production 1958 to 2008



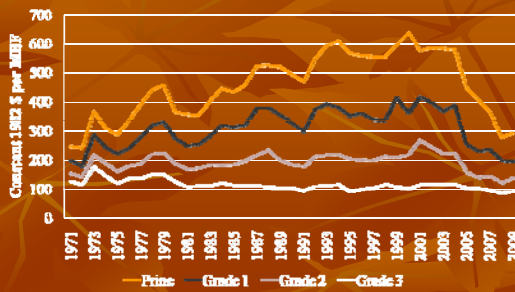
Decline in Hardwood Lumber Production from Winter of 2008 to Winter of 2009



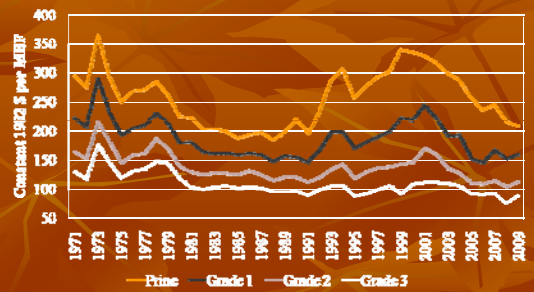
Eastern Hardwood Lumber Production 1958 to 2009



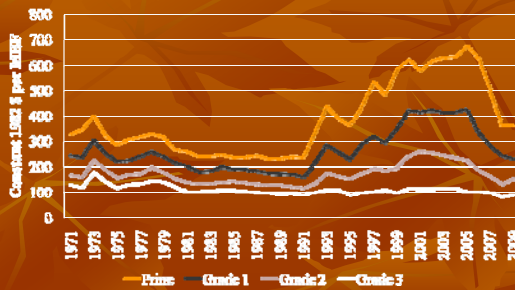
Price of Ohio Red Oak Logs 1971 to 2009



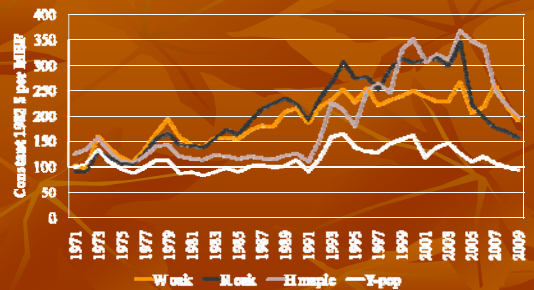
Price of Ohio Yellow-Poplar Logs 1971 to 2008



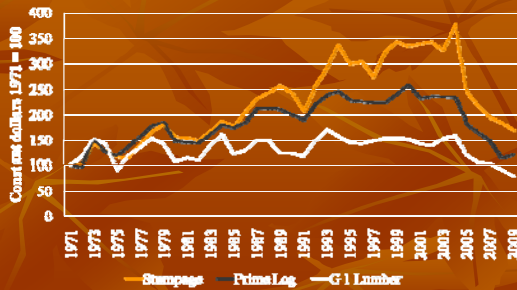
Price of Ohio Hard Maple Logs 1971 to 2008



Ohio Stumpage Prices 1971 to 2008



Index of Red Oak Stumpage, Log and Lumber prices 1971 to 2008



What Else are We Seeing

- Tie log prices being paid for higher grade sawlogs
- Very good looking cross ties, some with FAS faces
- Reports of cherry being used to produce cross ties
- Shortages of residuals (chips, dust, bark, etc). Some of the traditional users of residuals are now consuming roundwood

What's Going to Happen when Demand Picks Up – Short Run

- If demand slowly increases in the near future, the initial impact will be moderate increases in lumber price because of all the inventory currently on hand
- If demand increases in the distant future, inventories will be largely liquidated and prices will shoot up quickly

What's Going to Happen when Demand Picks Up - Long Run

- In the long term, prices could increase substantially with increased demand because we have lost considerable sawmill capacity in both the United States and Canada.
- More troubling is the loss of loggers and the remaining loggers may be harvesting more material for bio fuels