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The Forest Focus

Summer 2007

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The Sky is not Falling: Optimism amid today's changing US Forest Products marketplace.

Certainly, today's US forest products firms can find reasons for caution. Slower US housing starts have softened demand and prices for many US wood products. Higher energy prices, rising compliance costs and loss of old markets also create challenges. However, many positive trends support a brighter view. Here are a few:

- ✓ **Strong consumer confidence:** It's now at its highest point in 8 years, spurred by US jobs growth, very low unemployment levels, steady US GDP growth and relatively low inflation levels.
- ✓ **Surging global demand:** For the 3rd consecutive year, US forest products exports growth outpaced US inflation. We deliver unmatched consistency and quality. Combine that with a growing Chinese middle class, unflinching European demand and a relatively weak US dollar and it's no wonder US forest products exports stand at an all-time record \$6.3 billion and on pace for another record for 2007.
- ✓ **Favorable forecasts:** US GDP growth will be moderately strong in 2007 and will help several forest products sectors. US home remodeling trends are up. Domestic housing starts have stabilized and will remain at much more sustainable levels than the 2.3 million-unit record in early 2006. Energy prices and interest rates are slated to hold steady.

Overall, we look for 2007 to be as challenging as 2006 for many firms – challenging but no cause for panic. The US forest products industry has shown a terrific ability to continuously adapt and successfully compete in the global marketplace that's full of challenges.

How will the US forest products industry thrive in 2007 and beyond?



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- ✓ Price-oriented **Chinese** customers have begun to realize that "cheaper lumber is not always better." They'll pay suppliers to accommodate special grades and sorts to suit specific needs. Customer service, responsiveness, quality and consistency are where US forest products firms shine compared to many of their foreign counterparts.
- ✓ Large firms will employ expensive technology to capture manufacturing efficiencies from capital projects that their smaller competitors simply cannot justify or afford.
- ✓ Successful **US hardwood lumber manufacturers** will respond to changing market demands and supply chain needs with a renewed focus on customer service, providing only the species, lengths their customers value.
- ✓ Customers will reward **concentration and distribution yards** for sorting, surfacing, handling and merchandising services, as their foreign customers work to align purchases with manufacturing processes.
- ✓ **Plywood, OSB and softwood lumber manufacturers** continue to improve efficiency and may reduce production simultaneously to adjust to new US housing levels that are much more sustainable, dependable and in line with historical averages.
- ✓ **US pulp & paper manufacturers** will continue to leverage their world-class processing and marketing technologies for success domestically and abroad.
- ✓ **Low-grade lumber** remains strong and trends with the US economy.
- ✓ **Logging and trucking** will continue to consolidate. The number of firms is down, yet annual production is up and continues to grow. Successful producers will seek efficiencies from economies of scale and technology.
- ✓ **Forest landowners** will enjoy unrelenting global demand for their raw materials. Their success will depend on market knowledge and timing.



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