

The background of the slide is a dark blue gradient. It features a faint, light blue graphic of a globe with latitude and longitude lines, and a stylized tree with a thick trunk and a canopy of leaves, positioned behind the globe.

The Macroeconomic Context for Forest Product Markets

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UNECE

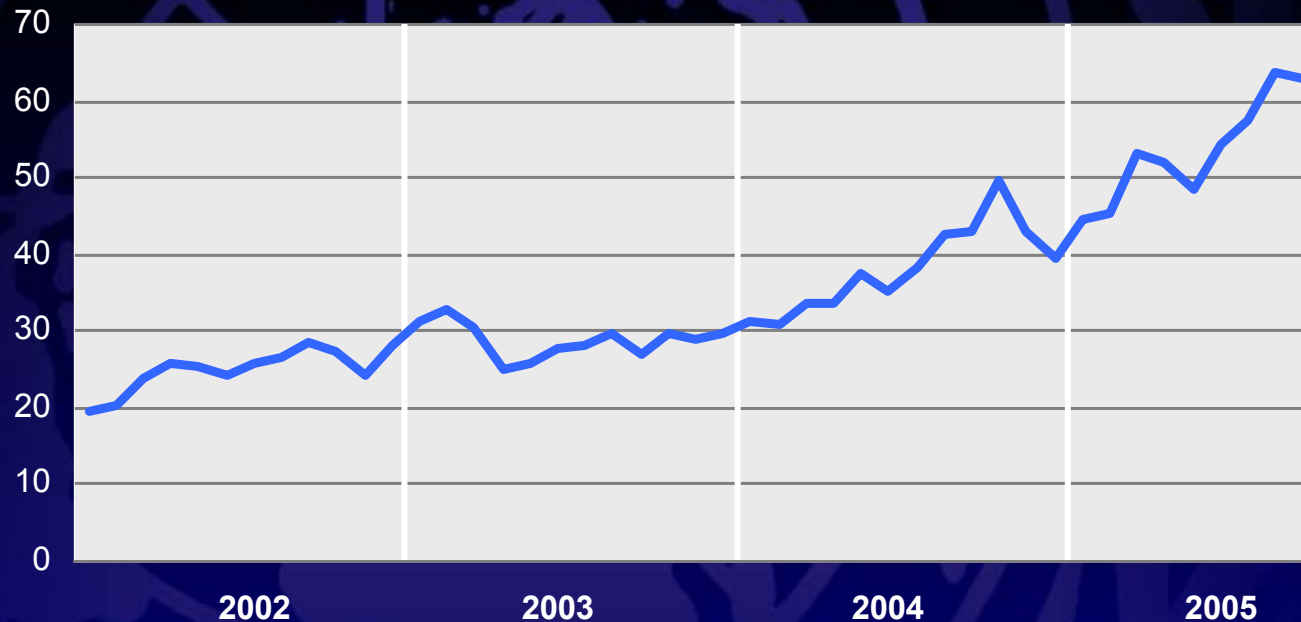
28 September 2005

Main messages

- Global growth remains robust although the pace of expansion has slowed
- China and USA continue to be the major engines of growth
- High and rising oil prices dampen economic activity
- Financial market conditions are expected to remain favourable
- High house price levels may not be sustainable
- Downside risks to growth have increased

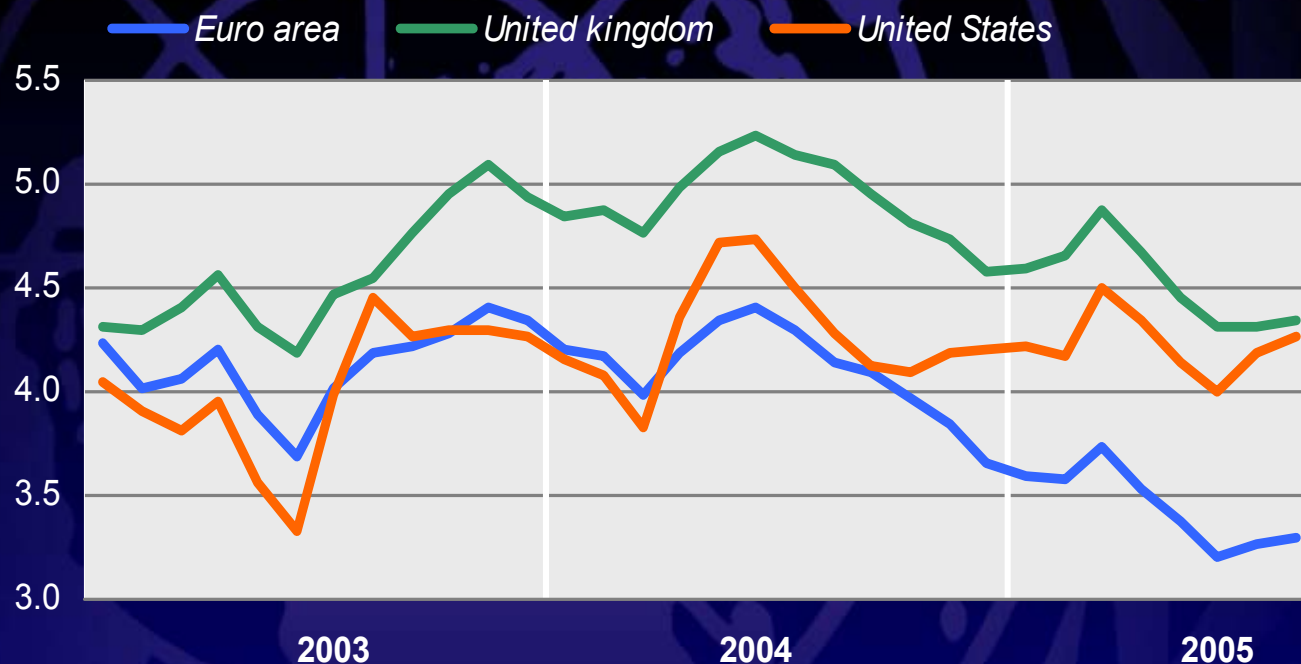
Crude oil prices reach new record levels

January Brent crude, January 2002-September 2005 (\$ per barrel)



Note: Average monthly prices. September 2005: first half of month.

Average monthly nominal long-term interest rates January 2003-August 2005



Source: UNECE SDB.

Note: Yields on ten-year government bonds.

Changes in house prices I, 1997-2005

(Per cent)

Country	Change over same period of the preceding year		Cumulative change
	2004 QII	2005 QII	1997-2005 QII
France	14.9	14.5	56
Germany	-0.8	-1.3	-
Italy	10.8	8.5	76
UK	19.4	2.3	155
Ireland	11.9	6.2	196
Spain	17.4	13.7	171
Canada	7.0	4.3	48
United States	10.0	14.0	79
Japan	-6.4	-5.4	-28

Source: The Economist, 10 September 2005.

Changes in house prices II, 1997-2005

(Per cent)

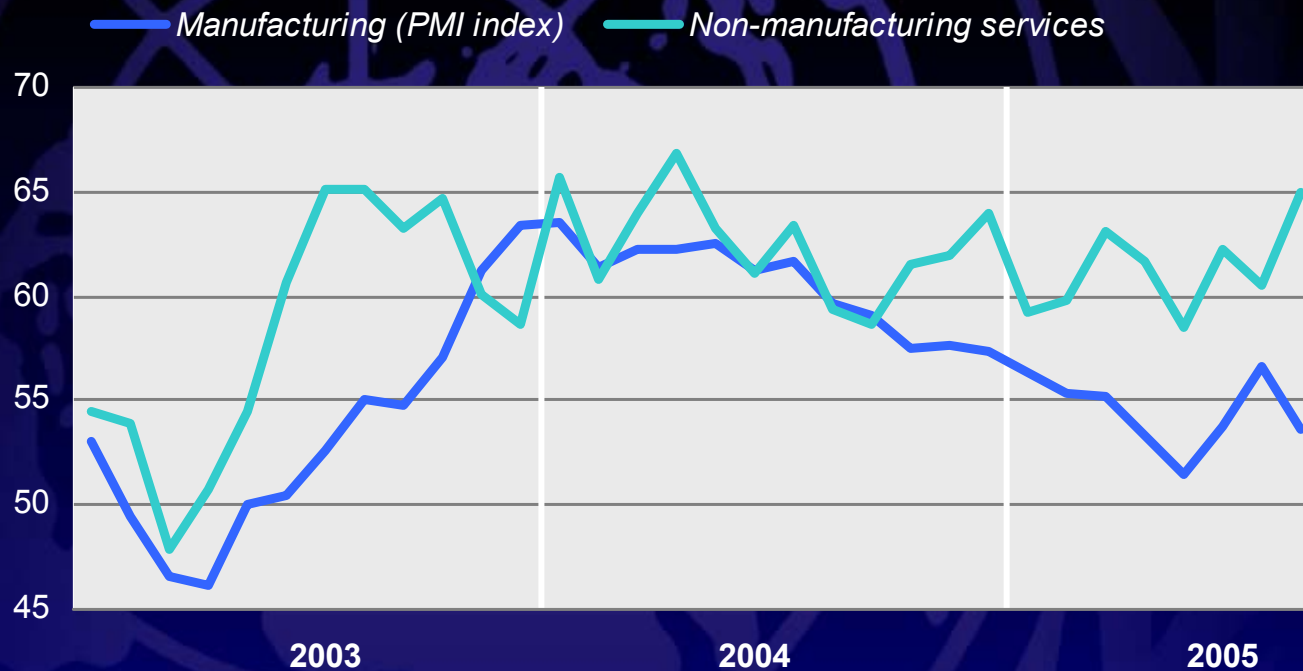
Country	Change over same period of the preceding year		Cumulative change
	2004 QII	2005 QII	1997-2005 QII
Belgium	9.9	9.4	71
Denmark	7.9	12.2	63
Netherlands	3.9	4.2	82
Sweden	9.7	8.3	38
Switzerland	2.1	0.5	11
Australia	12.7	-0.1	123
New Zealand	22.3	14.2	74
China	10.4	8	NA

Source: The Economist, 10 September 2005.

United States: How resilient to new shocks?

- Moderating but still robust growth in 2005 and 2006
- Strong income growth and rising house prices stimulate private consumption
- Direct impact of hurricane Katrina on growth will likely be limited
- But indirect effects via higher energy prices could be more damaging

Survey of business activity in the United States January 2003-August 2005



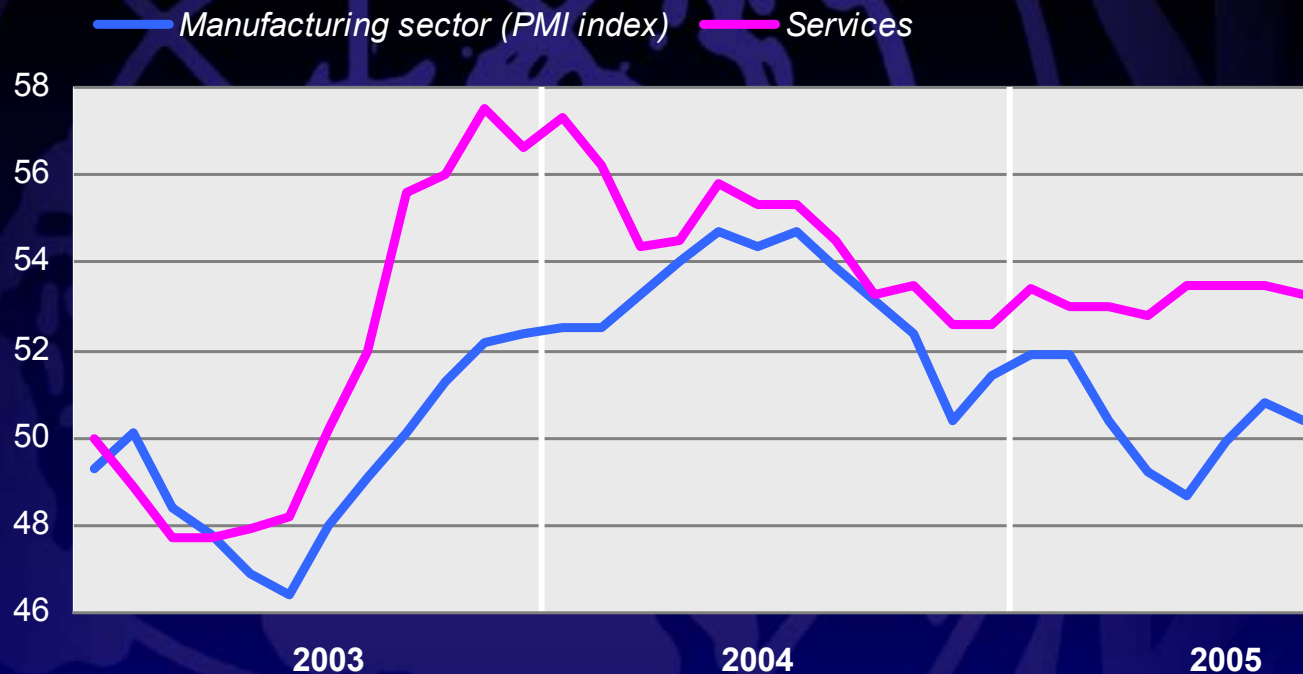
Source: ISM.

Note: A value above (below) 50 indicates that activity is generally expanding (contracting).

Western Europe: A moderate recovery

- **Euro area:** recovery faltered again
- Weak domestic demand remains the major problem
- Strong vulnerability to external shocks
- Monetary conditions are favourable
- But business investment remains weak
- Weak performance in the three major economies
- **United Kingdom:** a stronger than expected slow down

Survey of business activity in the euro zone January 2003-August 2005



Note: A value above (below) 50 indicates that activity is generally expanding (contracting).

Source: Reuters.

Eastern Europe and the CIS : Continued progress in the catching up process

- **New EU member states** : Persistent solid, albeit moderating, economic growth due to robust expansion of exports and domestic demand
- **South-east Europe** : Prospect of EU membership drives economic restructuring and stimulates FDI
- **CIS** : Despite some slowdown, growth is set to remain strong, driven by commodity exports and policy stimulus

Changes in real GDP in major regions (Percentage change over the preceding year)

Country	2004	2005	2006
Euro area	1.8	1.3	1.7
European Union-25	2.2	1.5	1.9
New EU-10	3.8	4.2	4.4
South-East Europe	8.0	5.4	5.0
CIS	8.1	6.2	5.9
North America	4.1	3.5	3.2
Asia-Pacific	4.6	3.8	3.7
World	3.8	3.0	3.0
Developed MEs	3.1	2.4	2.5
Emerging MEs	6.7	5.4	5.3

Source: Consensus Forecasts; JP Morgan; UNECE secretariat estimates.

Note: Data for 2005 and 2006 are forecasts.

Changes in real GDP in major economies

(Percentage change over the preceding year)

Country	2004	2005	2006
France	2.0	1.5	1.8
Germany	1.6	0.9	1.3
Italy	1.0	-0.1	1.0
UK	3.2	2.0	2.2

Canada	2.9	2.8	2.9
United States	4.2	3.5	3.3
Japan	2.6	2.0	1.8

China	9.5	9.0	8.5
Russia	7.1	5.6	5.3

Source: Consensus Forecasts; JP Morgan;

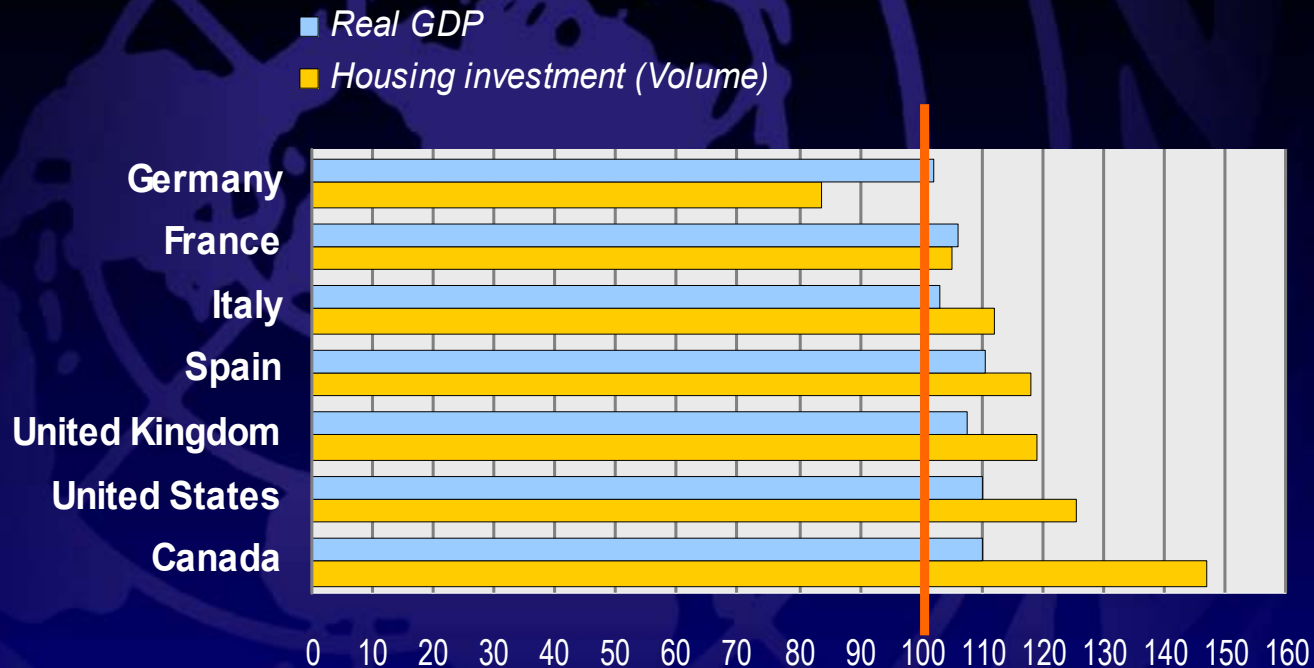
Note: Data for 2005 and 2006 are forecasts.

Main downside risks to the economic outlook

- A further significant rise in oil prices
- Widening of global external imbalances
- A sharp rise in long-term interest rates
- A sudden and sharp reversal of the rise in house prices

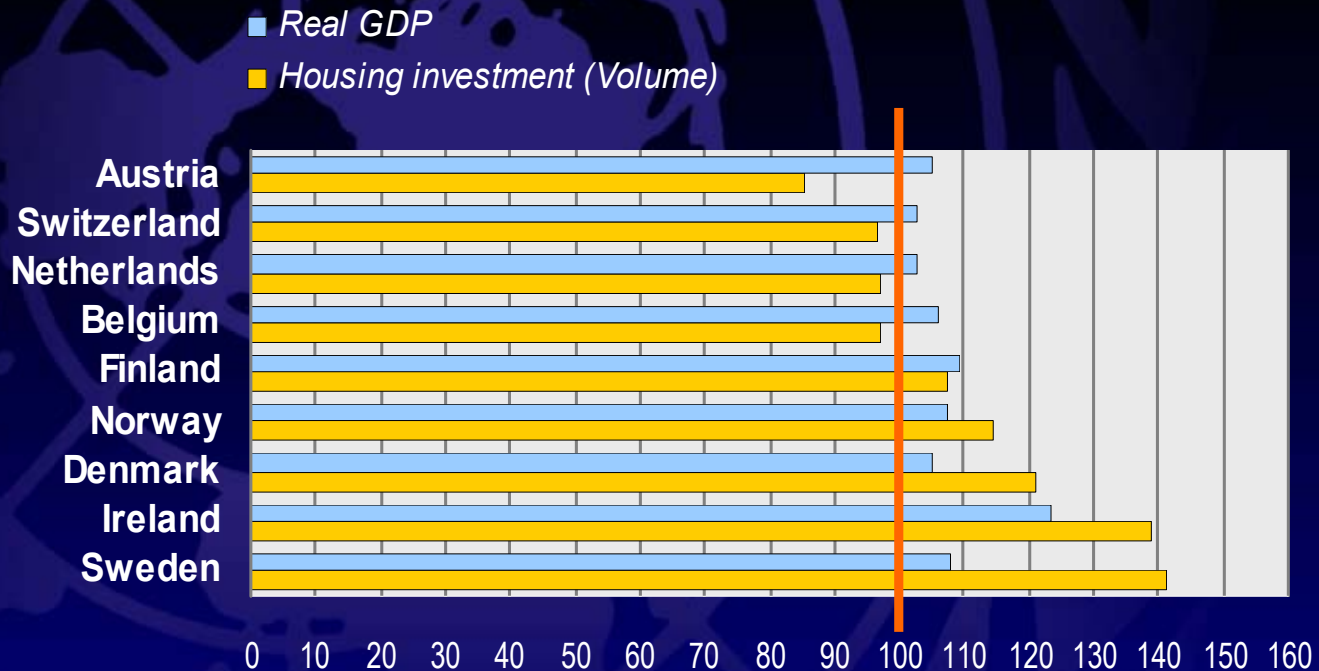
Overall economic activity and housing investment, 2000-2004

(Indices, 2000=100)



Overall economic activity and housing investment, 2000-2004

(Indices, 2000=100)



Volume changes in housing investment, 2004-2006

(Percentage change over the preceding year)

Country	2004	2005	2006
France	3.1	3.3	3.1
Germany	-3.1	-2.8	-0.7
Italy	2.9	0.3	1.9
UK	4.7	3.8	2.5
Ireland	13.0	2.2	-0.3
Spain	4.2	4.0	3.7
Sweden	16.1	9.1	5.4
Norway	12.4	15.5	5.0
Canada	8.4	4.0	0.1
United States	9.7	3.8	-0.8

Source: OECD Economic Outlook No. 77 database, June 2005.

Note: Data for 2005 and 2006 are forecasts.