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General Economic and Major Market Trends

The United States economy performed very well in 1998. Economic activity, as measured by the gross domestic product (GDP), rose at an annual rate of 4.2 percent in 1998 to $7589.2 billion (1992 dollars). This was up from $7269.8 billion (1992 dollars) during 1997. U.S. economic activity as measured by the GDP continued to increase strongly in the first quarter of 1999-- increasing by 4.3 percent--and prices paid by U.S. residents increased by only 1.6 percent, the second smallest increase since 1964. The current economic expansion, now into its ninth consecutive year, still has a lot of fundamental strength. This is reflected by the first quarter of 1999 that began with good forward momentum in the economy and housing sector, but the challenges to further expansion are mounting. Despite some dampening forces such as instability in some foreign economies, the economic expansion maintained considerable momentum into 1999. But advanced estimates of GDP showed a slowdown in economic growth to an annual rate of 2.3 percent from a 4.3 percent rate in the first quarter of the year.

Despite the dip in growth during the second quarter, the economy remains strong: Leading economic indicators are increasing and real personal consumption expenditures (PCE) increased 6.8 percent in the first quarter 1999 after increasing 5.0 percent in the fourth quarter of 1998. Many of the factors usually considered in analyses of PCE remained strong, increasing at about the same rate in the first quarter of 1999 from a year ago. The unemployment rate edged down to 4.3 percent from 4.4 percent. In addition, expenditures for nondurable goods increased 9.4 percent in the first quarter 1999 compared to 4.2 percent for the fourth quarter of 1998. Expenditures for durable goods increased 12.9 percent after jumping 24.5 in the fourth quarter of 1998. Expenditures for services increased 4.3 percent during the first quarter 1999, up from the 1.7- percent level during the fourth quarter of a year ago. Secondly, industrial production which had risen only 0.2 percent in May and 0.1 percent in June 1999, increased 0.7 percent in July. Because of high temperatures and the heavy use of air conditioning, electric utility output rose more than 3 percent; manufacturing output increased 0.6 percent, and mining output, 0.8 percent. At 135.1 percent of its 1992 average, industrial production in July of 1999 was 3.6 percent higher than in July 1998. The rate of capacity utilization for total industry rose 0.4 percent to 80.7, 1.4 percent below its 1967-1998 average.

The U.S. economic forecast for 2000 calls for a moderate slowdown in GDP growth to 2.5 to 3.0 percent. The unemployment rate is expected to increase slightly in 2000 to about 4.5 percent. Consumer prices are expected to rise about 2.5 percent, up slightly from the 1999 level of an estimated 2.0 percent. The forecast patterns for 2000 clearly reflect convictions that the recent pattern of strong economic growth, very low unemployment, and very low inflation may not be sustainable.

With a large forest resource, high production, and high consumption, the United States is an important factor in the supply-demand balance of the world's solid wood sector as well as the world pulp and paper industry. The United States has the world's highest consumption of paper and paperboard, about 92 million metric tons in 1998, which is mostly supplied by domestic production and imports from Canada. The U.S. forest products industry harvests more than 455 million cubic meters of softwood and hardwood timber, manufacturing about 91 million cubic meters of lumber in 1998, and 26 million cubic meters of structural panel products.

New housing construction – which accounts for more than a third of the United States annual consumption of softwood sawn wood and structural panels and for substantial volumes of other softwood and hardwood products – remained high through 1998 and was 9.4 percent above the 1997 level. Starts of multi-family units led the increase as single – family housing starts declined slightly in November 1998 before climbing to their highest annual rate in February since December 1978. Housing starts for 1998 were 1,644,600 units as sales of new single family houses set a new record in 1998 of 881,000 units. The U.S. home ownership rate reached 66.3 percent, also a new high. Builder's expectations for housing starts in 1999 remain strong as mortgage rates for the first six months of this year have differed little as compared to the same time period of a year ago. Income growth remains strong, enabling a larger proportion of families to be able to afford homes. The household sector spent profusely in 1998, driving the personal savings rate to record lows; at the same time, accumulation of wealth in the stock market lifted household net worth (per capita) to record highs. The economic expansion has continued into 1999 keeping the housing sector strong over the first 6 months of the year.

Shipments of mobile homes, after several years of increase, decreased in 1997 but recovered in 1998 with 373 thousand units being produced. This was 19 thousand units more than what was shipped a year ago. 1999 mobile home shipments are slightly ahead of 1998 shipments for the first 4 months of the year.

Along with the strong new residential construction market in 1998, investment in residential repair and remodeling kept pace as expenditures rose slightly to $120.2 billion (1992 dollars), increasing from $118.4 billion dollars in 1997. Actual expenditures for improvements and repairs to all properties amounted to an estimated $29.1 billion during the fourth quarter 1998 compared to $28.4 billion dollars in 1997.

Investment for new residential construction has been stronger than for nonresidential structures. Spending on new residential housing units was $174 billion (1992 dollars) in 1998 as compared to $148 billion dollars for nonresidential building construction.

Three other indicators of demand for wood products increased in 1998 relative to 1997.

Industrial production – an important demand determinant for pallet lumber, container board, and some grades of paper - was up 3.6 percent. During 1999 industrial production was up 1.3 percent for the first quarter increasing to 3.8 percent for the second quarter compared to the same period of 1998.
Furniture and Fixtures output – a determinant of high-grade lumber production – was up 3.5 percent. During 1999 furniture and fixtures increased 2.4 percent during the first quarter before increasing by 0.1 percent in the second quarter as compared to a year earlier.
Paper products output – an influence on pulpwood use – declined in 1998 by 1.2 percent. Paper products output increased during the first quarter of 1999 by 7.2 percent before declining by 5.9 percent in the second quarter.

In summary, housing starts should remain strong in 1999 after a strong showing in 1998; activity in the principal markets for U.S. timber was higher in 1998 than in 1997. After rapid growth during the first 2 quarters of 1999, growth is expected to slow in the later months of 1999. Even though the rate of growth is slowing, most analysts see continuing conditions that are favorable for growth.

Timber Products Production, Trade, and Consumption

Sawn Softwood

Housing and other construction markets are off to a strong start in 1999 and are likely to set another record in softwood lumber consumption. According to the Western Wood Products Association, during the first 6 months of 1999, softwood lumber consumption is ahead of last years pace being shipped from Western mills by 7.8 percent above year-ago levels. Production is up in all regions with the southern pine region showing production only slightly ahead of a year ago. Apparent consumption for all of 1998 was 103.3 million cubic meters, slightly above the 101.2 million cubic meters of consumption for 1997.

Sawn softwood imports are up 6.1 percent for the first 5 months of 1999 relative to the same time period in 1998. Import volume from Canada increased by 1.9 percent over this same time period. Canadian imports were 97 percent of all sawn softwood imports during this period. Total sawn softwood imports for 1998 were 44.1 million cubic meters, an increase of 3.1 percent from 1997.

U.S. exports increased by 9.8 percent during the first 5 months of 1999 as compared to the same time period in 1997. Continuing this rate for all of 1999 would indicate total exports of 3 million cubic meters. Exports to Canada increased by 3.1 percent during the first 4 months of 1999, exports to the European Union were up 12.2 percent, and exports to the Pacific Rim were up also by 3.9 percent for the first 4 months of 1999.

Production of sawn softwood was up 7.8 percent for the first 6 months of 1999 as compared to the same time period in 1998. Production of sawn softwood during 1998 was 59 million cubic meters and is forecast to increase slightly during 1999.

Sawn Hardwood

Because of growth in major markets for sawn hardwood, production increased by 3.7 percent in 1998 to 32 million cubic meters. Imports increased 28.9 percent during the first 4 months of 1999 over the same period in 1998. The growth in imports exceeded the growth in exports during the first four months of 1999. Exports increased 7.1 percent. Exports decreased 7.6 percent to the European union countries for the first 4 months of 1999. United States exports to the Pacific Rim nations increased by 23.7 percent for the first 4 months of 1999.

Given the estimated growth rates for production, imports, and exports, along with a strong housing market, apparent consumption for 1999 is forecast to increase slightly from the volume in 1998.

Softwood Log Trade

An estimated 64 million cubic feet of Douglas-fir logs were imported from Canada during the first 6 months of 1999 compared with a total of 99 million cubic meters for all of 1998. Softwood log exports to the Pacific Rim were up 35 percent for the first 4 months of 1999 over the same time period in 1998 while softwood log exports to the European Union was down from year ago levels.

Hardwood Log Trade

Hardwood log exports increased for the first 4 months of 1999, but imports declined substantially. Exports were up 22.7 percent while imports declined by 18.1 percent as compared to the first 4 months of 1998. Exports for the first 4 months of 1999 are up 35.0 percent to Canada. The value of exports to the Pacific Rim increased by 5.1 percent over the first 4 months of 1999 while the value of exports to the European Union fell by 11.3 percent. During 1998 hardwood log imports from Canada declined by 11 percent from the previous year. Exports to the Pacific Rim during 1998 were down 32 percent while exports to the European Union increased by 5 percent.

Imports of hardwood logs for the first 4 months of 1999 are down 25 percent from Canada. Canada traditionally provides about 95 percent of imports over this period.

Pulpwood

Combined roundwood and forest chip production for pulp and OSB mills was 185 million cubic meters in 1998, an increase of 2.6 percent from 1997. This does not include mill residue used for pulp. Little decline is expected in roundwood pulpwood for 1999. Pulpwood supplied from residues is declining relative to roundwood. The roundwood portion of pulpwood which goes to pulping processes was 165 million cubic meters in 1998, up slightly over 1997 (based on 1996 pulpwood receipts data from American Pulpwood Association extrapolated to 1998 and based on woodpulp production data from AF&PA).

Trade patterns continue to significantly impact paper and paperboard production. Exports of paper, paperboard, and converted products lagged their year ago volumes by 9.6 percent over the first 5 months of 1999. Imports of paper and paperboard exceeded their year ago volumes by 5.2 percent during the first 5 months of 1999.

Softwood Plywood

Softwood plywood production for 1998 was 15.7 million cubic meters according to APA – the Engineered Wood Association. This is down 1.3 percent from 1997. Softwood plywood production for the first two quarters of 1999 increased by 3.2 percent compared to a year ago. The APA projects plywood production to increase to 16 million cubic meters in 1999, up slightly from 1998.

Softwood plywood imports and exports showed varying results during 1998 as compared to 1997. Plywood imports were up 76 percent and plywood exports were down 44 percent. Softwood plywood exports decreased and softwood plywood imports increased during the first 4 months of 1999. Plywood exports to Canada declined by 2.8 percent for the first 2 quarters of 1999 and plywood imports from Canada increased by 69 percent through the 2nd quarter of 1999. Based on these trends, 1999 exports are estimated to be 21 percent below 1998 levels, and 1999 imports are estimated to double 1998 import levels.

With these estimates, apparent consumption is estimated to decrease in 1999 but more market share will be taken by oriented strand board (OSB).

Oriented Strand Board

APA – the Engineered Wood Association reports OSB production for the first two quarters of 1999 exceeded production over this same time period in 1998 by 7.6 percent. There were 10 million cubic meters of OSB production in 1998 compared to 9.3 million cubic meters in 1997. The growth rate from 1997 to 1998 was 7.5 percent, which is lower than the 15.1 percent growth rate experienced between 1995 and 1996. OSB capacity has been growing rapidly in the United States and Canada--39 percent in 1996, 10 percent in 1997, and 7 percent in 1998. Despite this growth in capacity, there was some increase in price during the first half of 1999. In the third quarter of 1999, there was a sharp drop in price. This volatility in price will likely continue.

Exports of OSB declined by 67 percent in 1998 when 0.885 million cubic meters was exported. Imports of OSB increased by 5.8 million cubic meters in 1998, up 19 percent from 1997.

With these estimates, apparent consumption for 1999 is forecast to be 16.5 million cubic meters,

up 5.5 percent from 1998. OSB is now 51 percent of structural panel consumption, up from 49 percent in 1997. Therefore OSB consumption has for the first time exceeded plywood consumption.

Hardwood Plywood

Hardwood plywood production in 1998 was 1.7 million cubic meters. This includes core material such as softwood veneer or OSB. An increase of about 2 percent is estimated for 1999, with total production remaining at about 1.9 million cubic meters.

Imports of hardwood plywood increased about 9 percent in 1998 over year earlier totals. Imports for hardwood plywood over the first 4 months of 1999 also increased about 9 percent. If this trend hold hardwood plywood imports would total 1.8 million cubic meters.

The United States exported little to no hardwood plywood in 1998.

Particleboard and Medium Density Fiberboard

Information from the Composite Panel Association indicates particleboard and medium density fiberboard shipments were up 6.1 percent and 2.7 percent respectively for 1998. The combined level of particleboard and MDF production was 11 percent for 1998. The combined total for particleboard and Medium Density Fiberboard production for 1997 was 10.4 million cubic meters.

Imports of particleboard declined by 10 percent and MDF imports increased by 39 percent over the first 4 months of 1999. For 1998, the value of MDF imports increased by 87 percent and the volume of particleboard imports declined by 3.3 percent.

Hardboard

Based on data from the American Hardboard Association, hardboard production for 1998 was 1.1 million cubic meters, down 18 percent from 1997. Imports of hardboard declined by 5.3 percent in 1998 before rebounding by 75 percent during the first 4 months of 1999. Exports for hardboard declined 14.4 percent during the first four months of 1999. Exports for 1998 declined from year earlier levels by 32 percent.

Insulating Board

Available information from the American Forest and paper Association show 1998 insulation board production of 2.8 million cubic meters – down from 1997. Production of insulation board has been flat for several years and the trade patterns constant resulting in a stable level of apparent consumption of 2.9 million cubic meters.

Timber Product Prices

The composite price for framing lumber increased steadily during 1996 before becoming more stable in 1997, and then declining during the last half of 1998. The composite price for framing lumber peaked the first week of July 1999 at $424 per cubic meter before falling to $406 per cubic meter in late July. The structural panel composite price index has had the same recent trend as the composite price for framing lumber over the last 2 years. The structural panel composite price peaked the first week of July at $389 per cubic meter before falling to $375 per cubic meter the last week of July. These higher levels are in part because of continuing high levels of demand. The framing lumber composite price during July was 34 percent above its year ago level. More recent information for the third quarter of 1999 indicates a sharp decline in price followed by a period of instability in price.

The structural panel composite price during 1997 had about the same percentage variability as the lumber price – ranging between $248 per cubic meter and $389 per cubic meter over the first half of 1999. However, during the first half of 1999, softwood plywood price was higher than the OSB price. Some producers in July sold plywood in the $500-$505 range while OSB was being sold for $330 and higher during July 1999. On July 25th, 1999, the structural panel composite price was 39 percent ahead of its year ago level. As with lumber, recent information suggests a decline in price as well as instability in price for structural panels.

Fuelwood

Based on the most recent Department of Energy Survey, assumed average weather, and a declining trend in fuelwood use per household, fuelwood consumption is estimated to be 65 million cubic meters for 1999, while being consumed at 70 million cubic meters during 1998. Most fuelwood is used by households for heating, cooking, and esthetic enjoyment. Industry uses mill residue rather than roundwood for fuel. There is a small portion of roundwood fuelwood which is

used for electric power production. Use for electric power is limited by low cost for coal and natural gas alternatives. Fuelwood consumption for 1999 is estimated to be below the level for 1998.

Table 1. Selected United States economic indicators, 1996 - 2000

Indicator	**Actual**			**Estimated**	
	1996	**1997**	**1998**	**1999**	**2000**
Gross domestic product (billion 1992 dollars)	6907.2	7269.8	7589.2	7610.1[1]	7771.6[2]
New housing starts (Thousand units)	1.477	1.404	1.645	1.740 [3]	1.874[4]
Mobile home shipments (Thousand units)	363	354	373	375 [5]	379[6]
Nonresidential investment in structures (Billion 1992 dollars)	115.0	118.4	120.2	122.3 [7]	123.0[8]
Total industrial production (Index: 1992=100)	119.5	126.8	131.3	132.3 [9]	134.1[10]
Expenditures for furniture & household equipment (Billion 1992 dollars)	248.4	269.5	290.2	289.2 [11]	295.6[12]
Paper products production (1992=100)	108.0	112.9	115.0	120.7[13]	123.4[14]