

Forest Products Market Snapshot

March 31, 2007

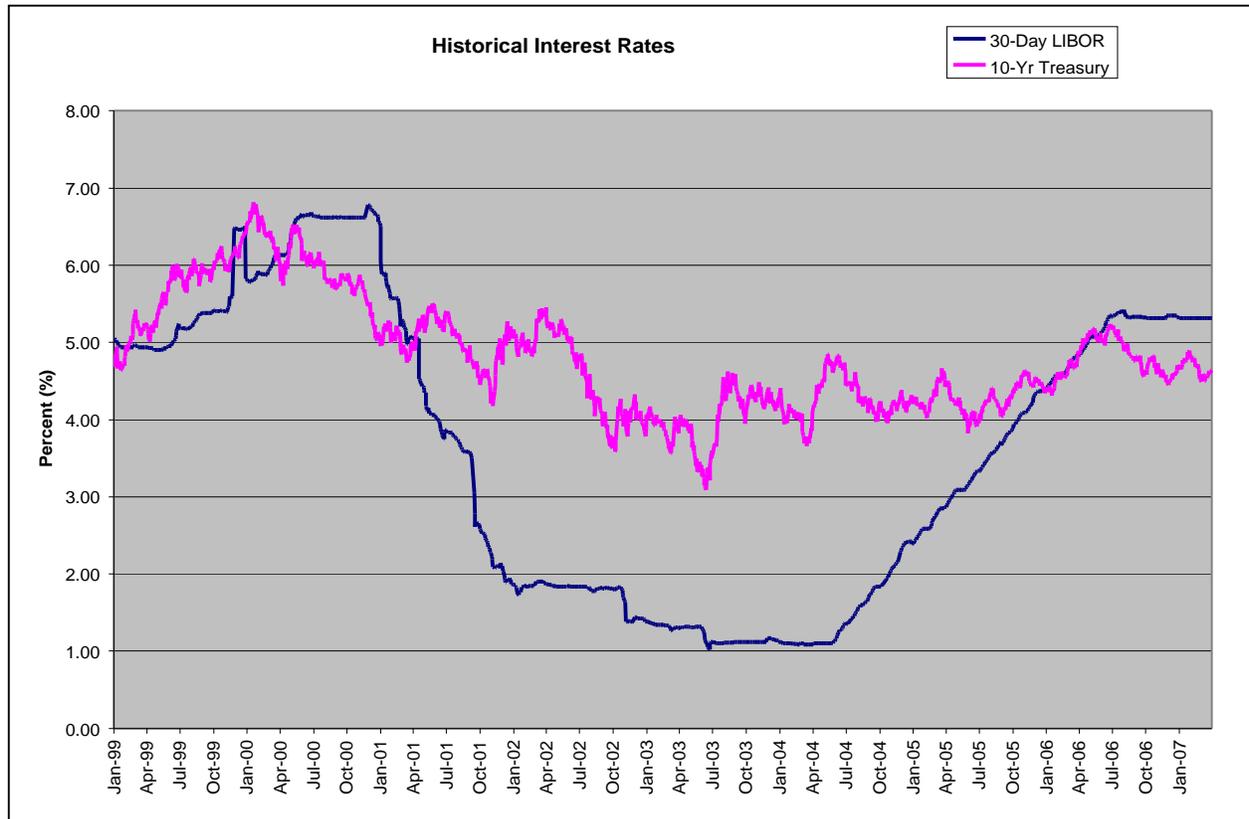
Current Situation

The disconnect between low lumber and panel prices and higher log costs have moved to a closer equilibrium during late fourth quarter 2006 and early first quarter 2007. However, the early spring season had many mills short of logs, producing an upward movement in log prices while improved lumber and panel prices were mostly absent. Most mills have worked through the higher cost log inventories from logs purchased in 2006, during periods of higher lumber prices. Most mills have completed the new mill projects and/or upgrades to existing operations to reflect demand capacity in their wood basket. Although, there are a few new mills to be completed or in early startup phases that may slightly increase fiber demand in specific wood baskets.

Overall, log and lumber producers in the Pacific Northwest and across the United States are expected to have challenging market conditions throughout 2007. With a stabilization of the lumber and panel prices, processors are expected to have lower profitability. The expectations of softening log prices will produce lower, but mostly likely adequate, earnings for the timberland operators. Markets are expected to cycle again with a rebound, supported by a stronger economy, absorption of new home inventories, and continued population-driven housing needs.

Historical Interest Rate Comparisons

Long-term interest rates remain near historical lows supporting housing affordability. General macro-economic outlooks (unlike the housing market) are such that the Federal Reserve has left the short term interest rate at stable levels.

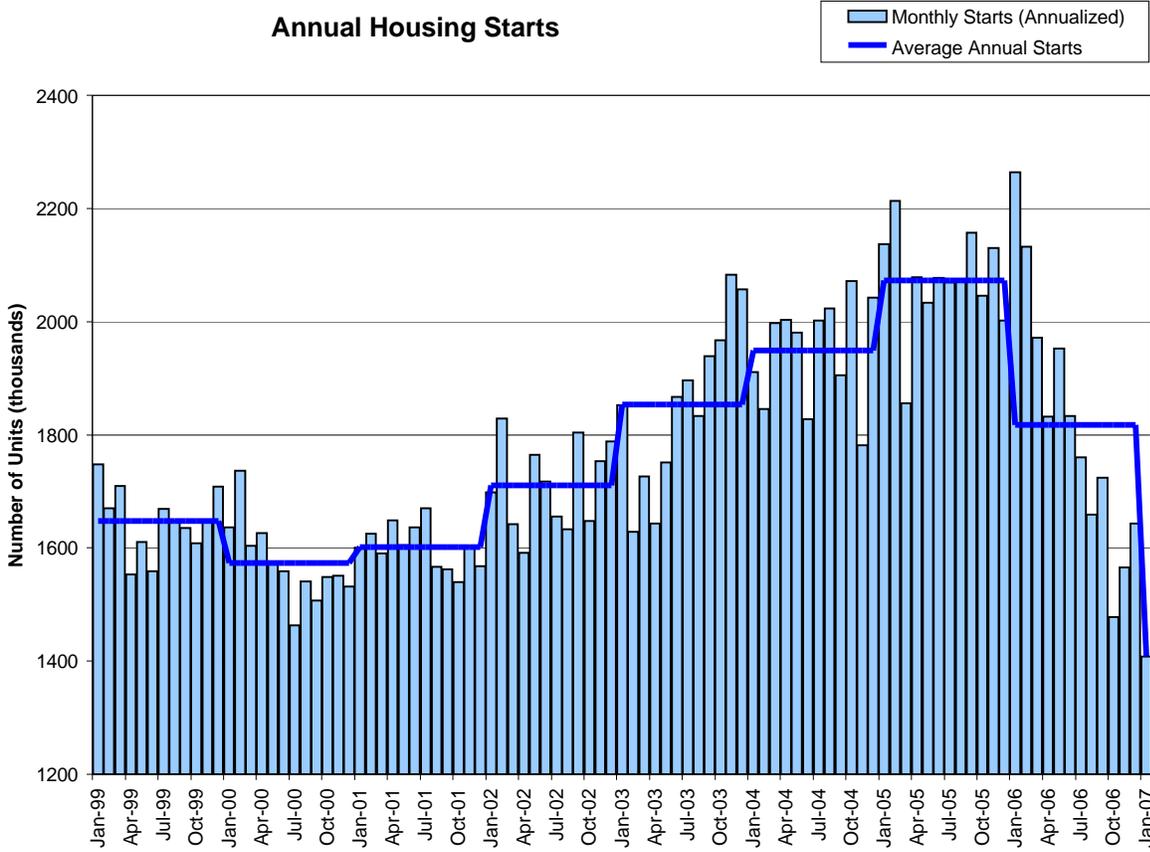


Source: Northwest FCS Pricing (March 2006)

Housing Starts

Housing starts, a key indicator of demand in the forest products industry, has dropped from an average of 2.1 million starts in 2005 to starts just above 1.8 million in 2006. However, the starts in during the fourth quarter 2006 and January 2007 are down nearly 25 percent from the peak level in 2005. Home sales and prices have also fallen in many regions of the country and are expected to continue to be soft, while inventories of homes for sale remain at the highest levels over the last 10 plus years. Although the softness in demand is expected to continue through 2007, the outlook is for housing starts to improve slightly again in 2008, driven by an overall strong economy and continued generally low interest rates.

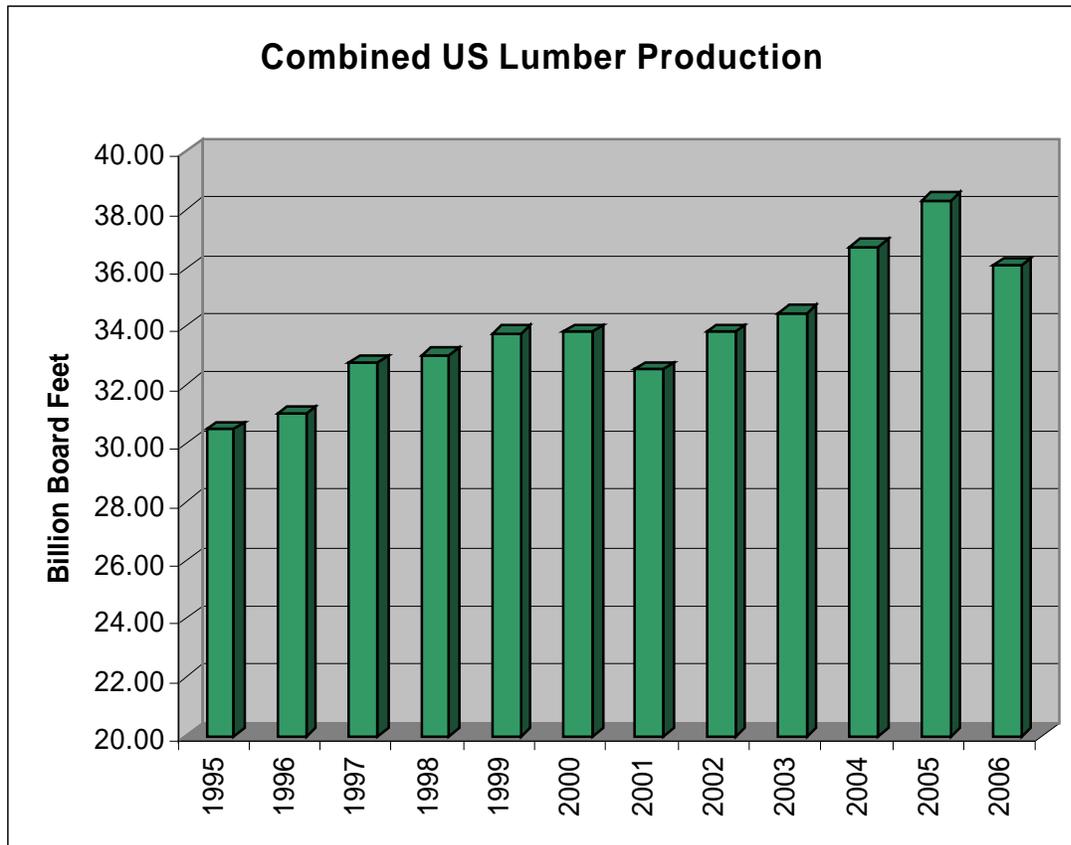
Annual Housing Starts



Source: Random Lengths, Yardstick, Volume 17, Issue 2 (February, 2007)

Lumber Production

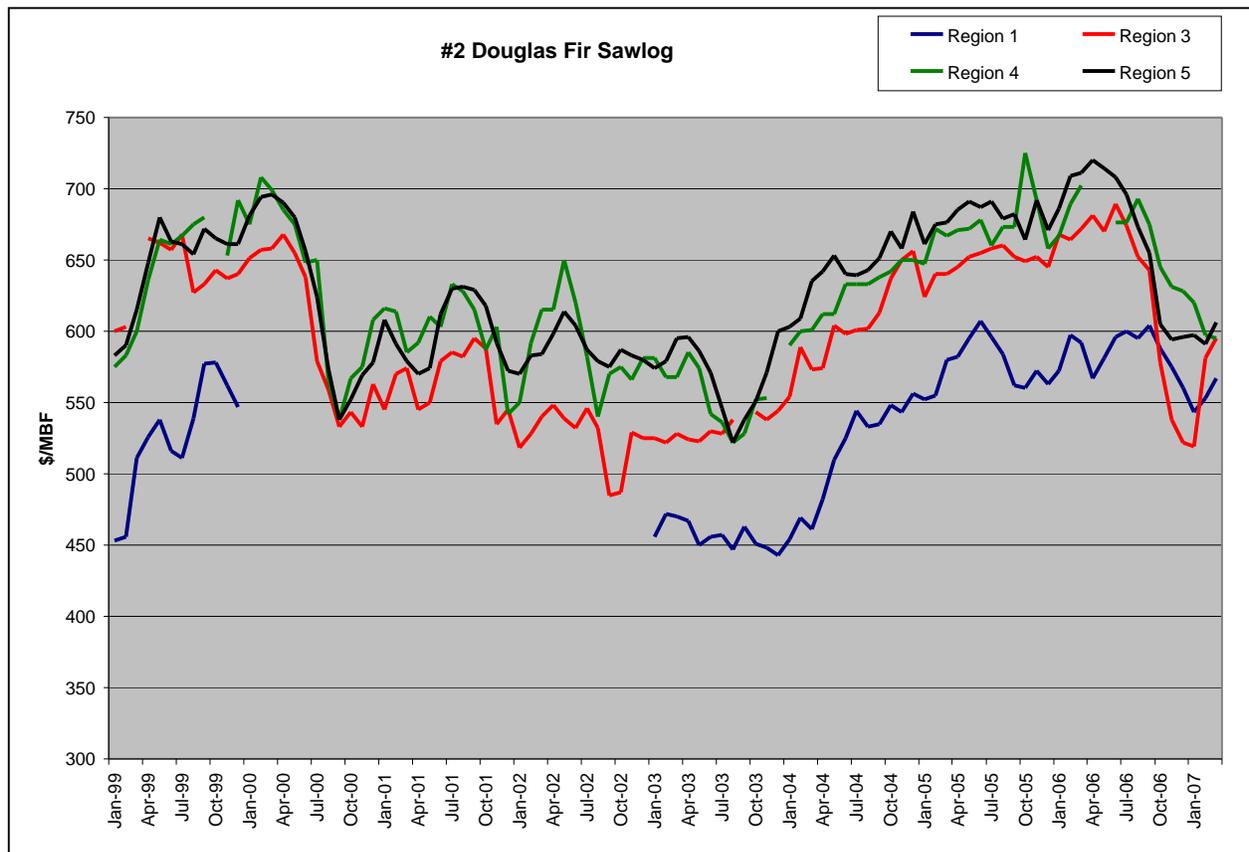
Average annual U.S. lumber production was about 36 billion board feet for 2006, down 6 percent from the peak production of 38.3 billion board feet in 2005, based on volumes reported to the Western Wood Products Association. Canadian imports continued at similar annualized levels of near 21 billion board feet for 2006 and 2005. Comparing the significant decline in demand and limited decline in production, it is expected that additional curtailments and/or mill closures will occur in 2007.



Source: Random Lengths, Yardstick, Volume 17, Issue 2 (February, 2007)

Composite Price Indices

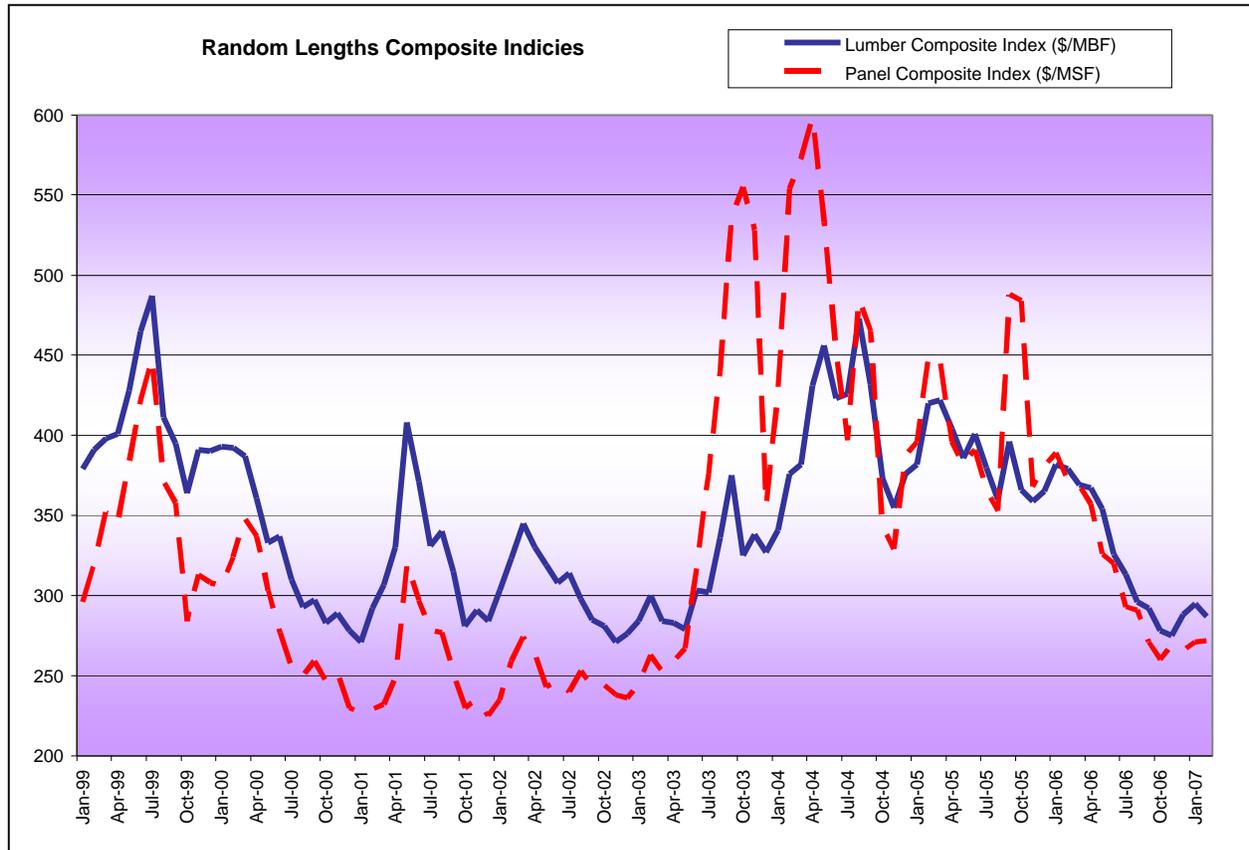
Softwood log prices in the Pacific Northwest have declined from the peak levels in early 2006. Douglas-fir log prices are down nearly 15 percent from the values in early 2006. The 1st quarter of 2007 has experienced a slight increase as a shortage of logs at the mills is being experienced. Alder log prices remain strong through 2006; although small production is maintained in the Pacific Northwest. As shown in the following graph, log prices for the various regions are shown; where region 1 is the Puget Sound, region 3 is the Columbia River, region 4 is the Oregon Coast, and region 5 is the Willamette Valley. Two sales of large parcels of timberland in the Pacific Northwest closed in the 1st quarter 2007 and indicates a market that remains strong for timber and timberland. Although not specifically disclosed, the sales prices were higher than most other comparable transactions during the past few years.



Source: Log Lines monthly prices through March, 2007

Lumber and panel prices have continue their decline throughout 2006 to levels near the eight year lows. It appears that the prices are stabilizing at current levels during the late 2006, early 2007. Current prices are near the lower breakeven levels where curtailments and closures reduce supply to promote the supply-demand price equilibrium. Spring maintenance curtailments are currently being announced, with the goal of reducing log demand and completing maintenance and processing unit upgrades during this down market. Typically, spring experiences an improvement in lumber prices; however, outlooks are reserved at this time given the slowing in new housing starts, inventories of homes available for sale, and the current level of home mortgage delinquencies. The Random Lengths Framing Lumber

Composite Price is down 28 percent for the year; with studs experience higher declines than the industrial boards. The Structural Panel Composite Price was off about 33 percent for the year.



Source: Random Lengths, Yardstick, Volume 17, Issue 2, February 2007

Additional Information

Random Lengths

<http://www.randomlengths.com/>

Log Lines

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