

Secondary Product Exports Impacted by Asian Economic Crisis: Revenues Decline Four Percent in 1997

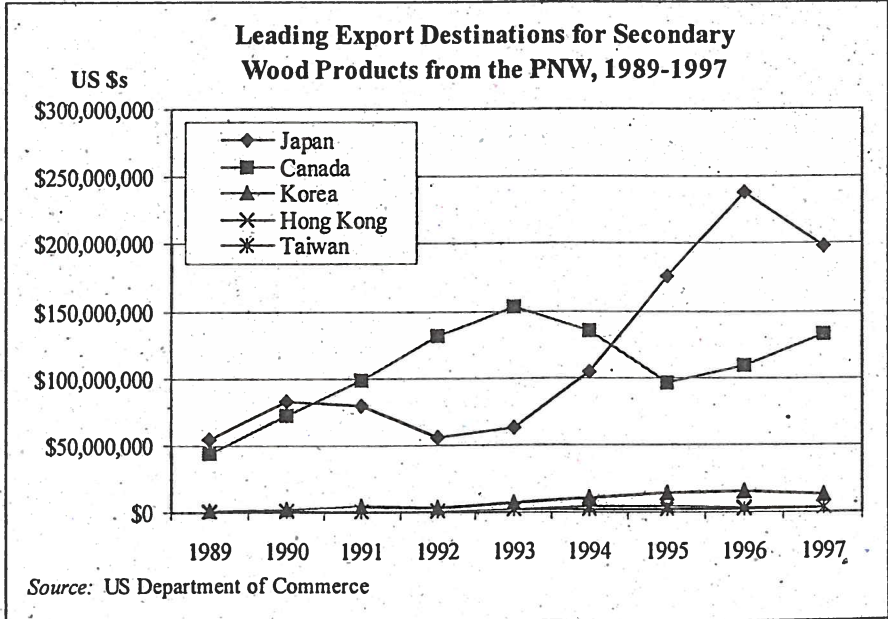
Secondary wood products have emerged as a major source of income for the Pacific Northwest (PNW), comprising almost 16 percent of solid wood products exported in 1997. However, export revenues are declining with the Asian economic crisis. Export statistics for 1997 indicate that total revenue from PNW secondary product exports declined 4 percent during the past year and export revenues from sales to Japan declined 17 percent. Since the Asian economic crisis occurred during the last quarter of 1997, export statistics do not demonstrate the full impact that the economic decline has had on the US timber industry. Export data for 1998 will show a more dramatic decline. The result of the shrinking Asian market has been a shift in destinations for US wood products.

Over the past several years, Asia, and Japan in particular, has become an increasingly important market for PNW secondary wood product producers. As consumer incomes in Asia have increased, the demand for wood homes and building materials has followed. As the closest US port with numerous wood products processing facilities, the PNW is a leading supplier. Japan is now the leading export destination for wood products from the PNW, representing 52 percent of PNW secondary wood product export revenues. However, the impact of the Asian economic crisis on PNW secondary wood product exports is becoming increasingly apparent.

US Department of Commerce statistics indicate that revenue from secondary wood products either originating in or passing through the Seattle and Columbia-Snake River customs districts (all ports in Washington and Oregon) has declined 4 percent since 1996. The decline is largely the result of the Asian economic crisis. Export revenues from sales to Japan and South Korea have declined 17 percent each since 1996. This statistic is alarming since the Asian economic decline occurred during the last quarter of 1997. Therefore, data for 1997 do not clearly show the impact of Asia's economic troubles on PNW exports due to strong Asian economies during the first three-quarters of the year.

Sales to Canada Partially Offset Asian Decline

Despite the decline in sales to Japan and Korea, exports to other countries are increasing. Exports from the PNW to Canada have almost completely recovered from a market slump beginning in 1993-1994 when a weak exchange rate limited consumption of US products. While the exchange rate is still poor, low interest and mortgage rates in Canada have stimulated the housing market, and in turn increased the demand for US wood-based building materials. By 1997, Canada imported \$133 million in secondary products from the PNW, a 209 percent increase since 1989 and a 22 percent increase since 1996. By 1997, Canada represented 35 percent of revenues from wood product exported from the PNW. The increase in sales to Canada does not completely offset the loss in the Japanese market, yet the Canadian domestic economy shows signs of continued growth and consumption.



Hong Kong and Taiwan, the fourth and fifth leading markets for PNW products, each represent only 1 percent of the PNW secondary export market, however both countries have demonstrated dramatic growth. Since 1989, exports to Hong Kong have increased 900 percent, and exports to Taiwan have more than doubled. In 1997, Hong Kong imported \$3.7 million in secondary products from the PNW and Taiwan imported \$3.6 million.

Leading Secondary Wood Product Exports from the Pacific Northwest

Product	\$ thousands			% share of US (1997)
	1989	1996	1997	
Wooden buildings	\$14,156	\$65,726	\$72,210	74%
Wood doors	\$6,209	\$53,947	\$54,100	46%
Builders joinery	\$25,771	\$66,476	\$50,138	27%
Softwood moulding	\$8,616	\$30,579	\$35,931	40%
Wood household furniture	\$14,335	\$38,558	\$32,024	5%
Structural wood members	\$4,323	\$30,916	\$26,574	42%
Total exports	\$109,536	\$391,854	\$377,619	18%

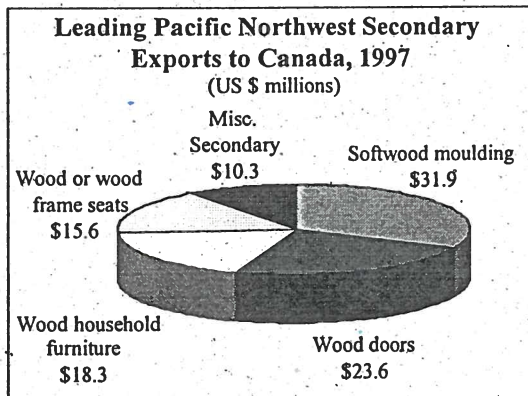
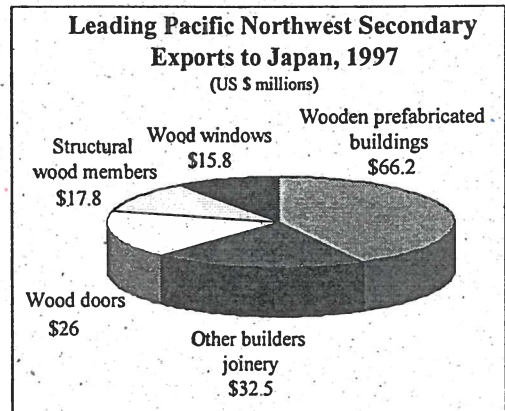
Source: US Department of Commerce

Building Materials Remain Leading Export

As wood frame construction has become more popular in Pacific Rim countries; wood-based building materials constitute a larger portion of secondary exports. During 1997, the US exported \$2.1 billion in secondary wood products, 38 percent of which were building materials and prefabricated homes. Thirty-nine percent of wood-based building materials exported from the US either originated in or passed through PNW ports. Notably, the PNW maintained 74 percent of the US prefabricated building export market, 46 percent of the wooden door export market, and 42 percent of the structural wood members export market.

Wooden prefabricated buildings were the leading revenue producing product in 1997, generating \$97 million for the US.

Despite the Asian economic decline, Japan was the leading export destination for US and PNW building exports with 91 percent of the PNW prefabricated building export market. Seventy-three percent of wood-based building materials exported from the US to Japan originated or passed through PNW ports. Canada was the second leading consumer of secondary wood products, importing \$758 million in 1997. However, Canada imports a considerably different mix of products. Leading imports to Canada are wooden furniture and furniture parts, hardwood flooring, and softwood moulding. Not surprisingly, only 10 percent of US furniture exports to Canada originated in the PNW. Most furniture is made of hardwood and originates in the southern and eastern states. However, the PNW is steadily increasing its share of the softwood building materials export market. In 1997, the 42 percent of softwood mouldings exported to Canada either originated or passed through in the PNW.



Future Prospects in Asia

The dual effect of reduced consumer confidence in Asia and increased competition from other countries makes it critical for companies servicing this market to be responsive to customer needs. The long-term strategy for the Asian market is to increase consumer awareness of quality products from the US and PNW. Countering the Asian economic slump with marketing and sales to more stable and established markets like Canada can be an important strategy for some products. Diversification can provide some protection for companies from regional economic problems.