

SECTION I

EXECUTIVE SUMMARY

US demand for decking is projected to advance 2.2 percent per year through 2011 to 3.6 billion lineal feet, valued at \$5.6 billion. Growth will be similar to the 2001 to 2006 period, despite a weaker new housing outlook. The decking market is relatively stable because more than 85 percent of demand is generated through improvement and repair activity, which is inherently less cyclical than the new construction market. New markets will offer more mixed prospects. Gains in new nonresidential construction activity will accelerate, while new residential and nonbuilding construction spending are expected to cool, limiting decking gains.

The US decking market has seen a shift in product mix in recent years. In 1996, wood decking materials accounted for 95 percent of volume demand, with only minimal use of alternative decking materials such as wood-plastic composites, vinyl and polyethylene. However, over the course of the past decade, alternative materials replaced natural wood materials at a rapid pace. In 2006, alternative decking materials in the aggregate accounted for 17 percent of the 3.3 billion lineal foot market.

Alternative decking materials will continue to lead the decking market in terms of yearly gains through 2011, further eroding the market share of wood materials. Wood-plastic composite decking will provide the strongest growth opportunity, fueled by its high durability and low maintenance requirements, as well as by product advances that provide a more realistic wood appearance.

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Additionally, the favorable environmental profile of composites (some wood-plastic blends use recycled materials), as well as their increasing acceptance and availability, will drive gains.

Plastic decking materials will also show strong growth through 2011. Demand for these materials, which include vinyl, polyethylene and other resin-based products, will benefit from many of the same performance characteristics as composites such as lower maintenance requirements and long life. However, plastic decking materials often provide less favorable aesthetics and a much higher price than composite or wood materials, which often limits use in the large residential market.

Through 2011, wood decking is expected to see a slight decline in demand, restrained by growing competition from alternative materials and by ongoing concern over the safety of preservatives used to treat wood. An anticipated weakness in new housing, a key market for wood decking, will also hamper growth. Nevertheless, wood will remain the dominant material used to produce decks in the US going forward and continue to benefit from its good reputation and its aesthetic appeal. Pressure-treated wood in particular will continue to benefit from its lower price compared to other woods and alternative decking materials. Tropical hardwoods will lead gains in the wood segment, particularly in the high-end residential decking market.

The US decking industry encompasses hundreds of companies ranging from small, regional producers to leading national suppliers of forest products. In the wood decking segment, leading companies include lumber suppliers such as Georgia-Pacific (Koch Industries), Universal Forest Products and Weyerhaeuser. Trex is the single largest producer in the alternative decking segment, focusing on wood-plastic composite decking materials. The company accounted for 31 percent of composite decking sales in 2006. Other major producers of alternative

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decking include Advanced Environmental Recycling Technologies (AERT), Louisiana-Pacific, Royal Group (Georgia Gulf), Thermal Industries (Atrium Companies) and TimberTech (Crane Plastics). Many leading alternative decking manufacturers are business operations of larger plastic product or building product concerns, benefitting from the parent company's technical expertise, financial position and availability of raw materials.

SUMMARY TABLE DECKING DEMAND BY MATERIAL TYPE & MARKET (million lineal feet)						
Item	2001	2006	2011	2016	% Annual Growth	
					06/01	11/06
Decking Demand	<u>2946</u>	<u>3266</u>	<u>3645</u>	<u>4120</u>	2.1	2.2
By Material Type:						
Wood	2645	2705	2660	2570	0.4	-0.3
Wood-Plastic Composite	242	456	825	1315	13.5	12.6
Plastic & Other	59	105	160	235	12.2	8.8
By Market:						
Residential Buildings	1802	2078	2305	2615	2.9	2.1
Nonresidential Buildings	282	280	350	405	-0.1	4.6
Nonbuilding Construction	862	908	990	1100	1.0	1.7
\$/lineal foot	1.23	1.40	1.53	1.83	2.6	1.8
Decking Demand (mil \$)	3611	4583	5585	7520	4.9	4.0

Source: The Freedonia Group, Inc.