



The Global Economy refers to the fact that the economies of most countries are interdependent. Economic change in one country will thus impact those countries whose economies are intertwined with that country.

Economic changes in other countries and other parts of Canada have had a serious impact on the forestry industry in Newfoundland and Labrador over the past years. This case study looks at several of these economic changes.

The Sub-Prime Crisis of 2008

The U.S. sub-prime mortgage crisis has led to plunging property prices, a slowdown in the U.S. economy, and billions in losses by banks. It stems from a fundamental change in the way mortgages are funded.

Traditionally, banks have financed their mortgage lending through the deposits they receive from their customers. This has limited the amount of mortgage lending they could do.

In recent years, banks have moved to a new model where they sell on the mortgages to the **bond markets**. This has made it much easier to fund additional borrowing, but it has also led to abuses as banks no longer have the incentive to check carefully the mortgages they issue. New companies in the bond market specialize in different types of mortgages, such as **sub-prime lending** to borrowers with poor credit histories and weak documentation of income. That meant that people without

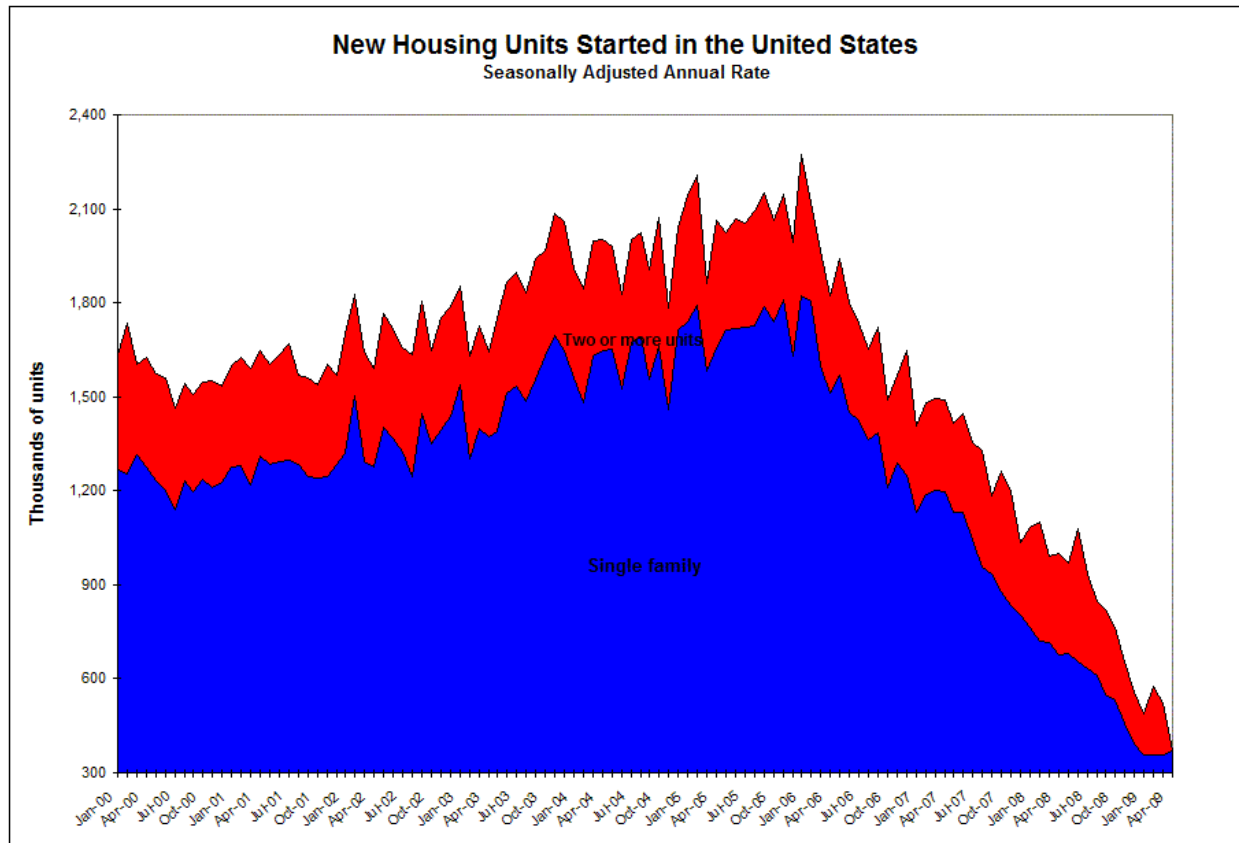
stable jobs or sufficient income were borrowing money and buying houses that they couldn't really afford. Many of these sub-prime loans came with high fees and rates that have made repayment even more difficult for borrowers.

Consequently, a wave of repossessions is sweeping America as many of these mortgages reset to higher rates in the next two years. And it is likely that as many as two million families will be evicted from their homes as their cases make their way through the courts.

The wave of repossessions is having a dramatic effect on house prices, reversing the housing boom of the last few years and causing the first national decline in house prices since the 1930s.¹



¹ Source: BBC,
<http://news.bbc.co.uk/2/hi/business/7073131.stm>



Source: <http://www.accuval.net>



Canada's lumber industry is largely dependent on its exports to foreign markets, which make up around 80% of its production. In 2006, the value of its national lumber exports totaled \$9.6 billion, 80% of which were shipped to the United States, by far its leading foreign customer. This industry is also a key player in the export market, accounting for more than 4% of total Canadian merchandise exports in 2006.

Questions:

1. Why have many homes in the U.S. been repossessed by banks in the sub-prime crisis?
2. The graph above shows the number of new houses being built in the U.S. since 2000. Describe the trend in new housing starts in the United States over the past decade.
3. Considering the fact that a large proportion of Canada's lumber has traditionally been exported to the United States, write a paragraph outlining how you think the information above affects the lumber industry in Newfoundland and Labrador.