



MADISON'S TIMBER PREVIEW

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As the business of processing timber into lumber ramps up into high gear in North America for early 2013, there have been significant changes to the model that need to be understood. The US Forest Service estimates that by 2009, 15 per cent of American sawmilling capacity was lost. Some analysts put that number at closer to 25 per cent. During the prolonged, unprecedented lull in US home building, forest products companies found a new customer for wood: China. From 2008 to 2010, Canada increased its softwood lumber shipments to China by 196 per cent, bringing Canada's total lumber exports to China to 36 per cent of that to the US. Almost all of this Canadian wood, of course, came from BC.

In the second half of 2011 that country's appetite for wood products levelled off somewhat, when measured in volume. It's a good thing that US demand started to rebound somewhat at the end of last year. However, the value of Chinese wood imports in 2011 increased by 41 per cent over 2010. For December 2011 through May 2012, Chinese imports have been relatively quiet, increasing by only 3.1 per cent over the same period last year, according to Cointafor.

China's urbanization rate increased from 45.7 per cent in 2008 to an estimated 50 per cent in 2011, according to Research and Markets. The fast development of the real estate market created huge demand for construction wood, wood for decoration, and wood furniture.

Lumber producers in North America faced some challenges early on in learning to understand this new customer. And buyers in China also had a lot to

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learn in terms of doing business across the Pacific. Being value buyers intent on acquiring materials in as raw a form as possible, it took China's customers two years to realize that buying fully processed wood directly from BC mills gave them a better, more consistent product from a guaranteed stable source at a better cost than they could manufacture themselves. Slowly the growing customer base in China switched from purely low-grade and rough lumber to a wider range of products. Remanufactured items like furring strips, truss components, joists and some studs became part of regular shipments overseas.

It is no longer correct to simply assume the bulk of buying in China rests with #3/Utility grade 2x4s.

Which is great because highly invested modern mills in Canada, the US, and Europe, need to foster a business selling value-added lumber products. Looking just at BC, it is obvious that pumping out dimension lumber as quickly as possible is absolutely not the best way to get a higher return on investment. The idea ten years ago was to build mills so high-speed that any loss in utilization would be made up for in volumes. Companies sticking to this philosophy will have a long time to wait as the US struggles back to an average 1 million new homes a year during the next five years. Over that time the easily accessible, salvage-stumpage pine beetle killed timber will be gone or almost gone.

To that end, there has been a significant push by industry and agencies to give remanufactured, value-added, and engineered wood products a higher profile in the market place.

Just last week the Conference Board of Canada released the third in a series of reports on the potential for Canada's value-added manufacturers. Titled, "*Adding Value to Trade: Moving Beyond Being Hewers of Wood*", the report concludes that, "Industries supporting the primary sector have to be competitive with world standards so that Canada can maintain its trade strength in natural-resource-related industries."

There is a massive flaw in the forestry analysis of this report, in that it categorizes pulp and paper products as "value-added" to the forestry sector. This view is so general and simplistic as to render the message irrelevant.

However the basic philosophy and assertions of the rest of the report are valid.

Elsewhere, US demand for cabinets is forecast to rise 8.2 per cent annually, to US\$15.3 billion in 2016, according to a study released June 8 by The Freedonia Group, a Cleveland-based industry market research firm. Growth will be driven by a rebound in housing completions. Through 2016, demand for cabinets in the non-residential market is anticipated to advance 6.5 per cent annually to US\$2.8 billion, driven by a rebound in construction spending. The office and commercial market will spur growth, as construction of retail sites will promote store display cabinet demand.

One example of the right idea in action is Lake States Lumber, out of Sparta, WI, which has grown and expanded significantly over the years of this downturn. Its principal products for home building and remodeling are log siding and accessories, wood paneling and flooring, decking and railings, exterior sidings, shakes and shingles, and boards, dimension lumber, and timbers.

"We found rather than just be involved in the commodity market...that we needed to branch out in other areas with value-added items," said Steve Nichols, who oversees industrial lumber sales, to *Pallet Enterprise*.

Lakes States now provides a wide range of custom lumber remanufacturing services that includes resawing, ripping, precision end trimming, custom sizing for width and thickness, and grooves for banding and strapping. The wood waste is fed into a grinder to produce material that is sold to dairy farmers for bedding for cows. The shop also uses grindings for fuel; they are fed by an auger system into a furnace.

Another example is the recent purchase of MooseWood premium hardwood flooring, out of Maine, from Kelly Lumber Sales, by Bangor-based Seven Islands Land, a forest management company. Seven Islands plans to retain MooseWood's current 16-person work force, as well as invest in operations and strengthen distribution of the product, according to a company press release.

"This brings a value-added component to our timber resources and supports jobs in the heart of Maine's northern forest," said John McNulty, president of Seven Islands Land, in the release. Seven Islands was already harvesting the lumber used for MooseWood flooring.

Meanwhile research and development into new high-stress wood components is moving forward at breakneck speed.

The opening of three wood demonstration projects in BC last week showcase the use of wood by applying traditional products in non-traditional ways, or creating innovative wood solutions. The demonstration buildings introduce and showcase new workable wood solutions that have the greatest potential for commercial viability. A common component in all three project innovations is the introduction of mass timber, which is a paradigm shift in the possibilities for wood use in construction projects. Mass timber systems are very large, complete wall, floor and roof sections made from engineered wood products, and can be used in a variety of building types and sizes. The demonstration projects also present "multiple function components" to a new degree, such as floor/ceiling panels that provide a structural floor, a finished ceiling, vibration control, acoustic dampening and the integration of services in a single, shipped-to-site, ready-to-install element.

Finally, a 280-foot timber-truss pedestrian bridge to be completed this summer will carry visitors over the Placer River in Alaska as part of a plan to provide access to the Kenai Peninsula's remote backcountry. Construction on this longest single-span, timber-truss bridge in North America began in July 2011 in Oregon prior to being disassembled, packaged, and shipped to Alaska. Two fully assembled 112-foot bridge sections now sit on each side of the river waiting to be lifted into their final positions and connected by the 56-foot middle span.

It is understandable that North America's forest products industry may have been reluctant to invest a year ago, such was the uncertainty surrounding US home building figures. By now however, companies are faced with the choice to move forward and be profitable, or stick to the same-old, same-old, and get left behind.

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