

HAMPTON SETS PACE FOR THIRD YEAR

SAWMILL IN WILLAMINA FIGHTS OFF CHALLENGERS FOR HIGHEST PRODUCER.

By Henry Spelter

Over the last 50 years many changes have roiled lumber markets. On the positive side, treated lumber has created major opportunities for lumber use in outdoor applications. But some negative developments underscore the mature status of lumber as a commodity. Sheathing had been lost long ago to panels. Likewise, roof rafters and joists have been supplanted by less wood-intensive trusses. More recently, lumber use in floor joists has been shrinking due to replacement by wood I-Joists, while in the girder, beam and header segment, LVL has been taking large shares. Similarly, in outdoor decking, there is increasing competition from woodfiber-plastic composites. And that's not even to mention the increasing inroads made by imports. Yet, despite these challenges, the U.S. lumber industry grew (capacity-wise) by a respectable average of 2% per year over the past decade. This was 50% faster than population growth and about two-thirds the growth rate of GDP.

Spearheading this advance have been the industry's top producers. Last year, for example, the top 100 mills increased production by 6% while running at 95% of capacity. Production growth in the next tier of 100 mills was skimpier, but still a decent 4%. Employment in the industry as a whole, which has been trending down, stabilized in 2004 as the addition of shifts and the opening of new plants offset attrition in closed or streamlined mills.

In 2004, for the third consecutive year, the top softwood lumber mill producer in the U.S. was the Willamina, Ore. mill of the Hampton Affiliates organization. Just six years ago, *Timber Processing's* report on this two-line sawmill indicated a yearly output of just 286MMBF. In 2004, that nearly doubled to 473MMBF.

Another stellar producer was Simpson's newly built dimension mill at Commencement Bay (Tacoma, Wash.). It replaced a stud mill at the same site in 2003 and, in its first full year of operation, sawed 400MMBF, still shy of its ultimate expected capacity of 470MMBF.

Though not yet in the top five, the

retrofitted Roseburg stud mill at Riddle, Ore., which went from a large to a small log operation, is headed for overachievement status. Its output in 2004 was 281MMBF, but, with the completion of the last of its hardware installations in August, it is now on target to produce near its capacity of 400MMBF.

Another entrant is the new Sierra Pacific mill in Aberdeen, Wash., which in 2004 produced 304MMBF. This is one of several large new mills in the area, where relatively low timber costs have enticed new investment.

This feature has rightly celebrated the abilities and successes of mill designers, managers and staff to squeeze the most productivity out of their equipment. Yet, it's also sensible to remember that too much of a good thing can be, well, too much. An example of that was in April of this year when, notwithstanding booming housing and robust demand, prices for many Western items broke sharply as an increase in aggregate supply of about 7% in the first quarter overwhelmed even the most exuberant demand environment of the last decade.

As the lead paragraph indicated, lumber is a mature commodity and its fate is largely tied to that of housing. Presently, the long-term cyclical outlook for that is bolstered by positive demographics, while exceptional credit market conditions are adding further wind to its sails. So, for most of this year, the greater production has been by and large absorbed. But interest rates are still moving higher and growth plans should factor in the possibility of a stumble in the hot pace of construction down the road. At that point the metering of supply into the market will become more critical.

Another aspect of industry productivity is amount of product recovered from the roundwood input. To get a sense of that, we asked mills in this year's survey to indicate their absolute recovery yields. This harkens back to the early 1970s when industry concern about supply was mounting and ways were sought to conserve the available raw material. With the technologies then at hand the industry average recovery factor was around 6.5 board feet per cubic foot of log.

Based on mills using the best practices, it was believed that a realistic expectation for that factor was for it to rise to a range of 8.5 to 9.1 from logs between 8 and 13 inches in diameter.

Since that time, the technologies envisioned to accomplish those goals have become available and been widely adopted by a broad majority of the industry. In the event, the weighted average recovery factor obtained from the 25% of those who responded to the query came close to expectations at 8.25, with numbers ranging from 6.55 to as high as 11.25.

One likely reason, perhaps, for the slightly lower than expected result is the decline in log diameters that has occurred with the change to second growth and plantation timber. The success of the industry to rebound from the supply shocks in the 1990s and its ability to grow is tied directly to the ability to make do with smaller trees. This is reflected in our sample where the average log sizes ranged from 5.75 to 20 inches, with a weighted sample average of 9.5 inches. A more in-depth analysis of this and other data from a wider sample of the industry at large is forthcoming in the "Profile 2005" report, due to be made available in September.

In summary, 2004 was a banner year for production, employment and profits in softwood lumber. In 2005 demand has continued to hold up but pricing has lagged slightly due to a tendency towards oversupply. At the same time, log costs have begun to rise reflecting the general improvement in product pricing. This means profits are not likely to be as strong as in 2004, but, on the whole, reasonable. TP

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Timber Processing mailed surveys to the top 260 producing mills. Ninety-seven responded with some information. When contacted, a further 61 provided information on their 2004 production or capacity data. The outputs of the remaining 102 were estimated from previous production or capacity information. Corrections or contacts for future surveys can be sent to: rich@hattonbrown.com.

Spelter, Henry. 2005. Hampton sets pace for third year. *Timber Processing* (July/August): 79.