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"What the Future Holds: A Forecast of Lumber & Its Impact on the Component Industry" by Nicole Schultz with Jim Watson & Tom Rogers

The *WOODWORDS* staff recently asked Jim Watson, Regional Sales Manager at International Paper Company, and Tom Rogers, Manager of Export Engineered Products with Weyerhaeuser Company, their views on the future of lumber and its impact on the component industry.

WOODWORDS: What do you see happening to lumber prices over the next 6 months?

Watson: Certainly, we will see weakness for the next few months with the seasonal slowdown in demand and a more than ample supply of production and imports. Europe and South America have made significant inroads into U.S. markets at an inopportune time for North American producers, compounding the price weakness. However, once into next year, I believe we will see steady improvement in demand as the economy continues to grow, people remain employed, and interest rates start to trend downward. Additionally, any weakening in the current strong dollar situation will impact foreign companies' desire to export to the U.S. In general, I am upbeat once we hit the second quarter of 2001.

Rogers: We've recently come through a period of sustained national economic growth, unprecedented demand for wood products, and mill production levels that were increased to meet this demand. Today, however, fears of inflation and higher interest rates have slowed new housing starts, and mill production levels are being adjusted to correct for an oversupply position that has driven prices downward. Future price levels are anyone's guess as they will respond appropriately to future economic and market forces. But current indicators show a slower housing market, signs that the repair and remodeling segment will slow for the first time in a decade, and that there will be sufficient supply to meet near term demand.

WOODWORDS: What do you see happening with the current Softwood Lumber Agreement (SLA)?

Watson: The SLA, as you know, ends in April. However, the issues which led to its inception will not go away, so it will be necessary for some kind of post SLA activity. The Canadian government, which owns the forests in Canada, transfers the raw material to producers at a subsidized price. In the U. S., most timber is privately held and is transferred at market price. Since timber is 70 percent of our mill's manufacturing cost, the pressure for equity will continue. I am for free trade, but to have free trade, there can be no artificial forces in the market. A government subsidy creates an artificial economy.

Rogers: Governments on both sides of the border are aggressively being encouraged to find a reasonable solution to this issue. We should all strongly encourage a solution that supports the

free trade of forest products, supports the belief that market-based solutions are ultimately the best, and encourages the long-term stewardship of timberland assets.

WOODWORDS: What impact do you feel the SLA has had/will have on the truss industry and do you think that people in this industry have a voice in this process?

Watson: Supply wise, I don't see any negative impact the SLA has had or will have on the truss industry. Since the SLA has been in effect, production in the U.S. has increased and volume of imports from Canada have also risen. As far as a voice in the process, the sooner the two parties begin to negotiate a resolution, the more time this allows to ask for opinions from organizations such as WTCA.

Rogers: Obviously, without knowing the outcome of the SLA issue, it's difficult to speculate on future impacts; however, given a market-based solution and the elimination of supply controls, the truss industry should experience less price volatility and levels that will continue to support wood trusses as the best economic framing system.

The truss industry's position is well represented by WTCA and your voice is being heard. Individuals are encouraged to become more active through personal contact with local government representatives and continued support of your industry's associations. It can make a difference. The truss industry's position has advocates on both sides of the border.

WOODWORDS: What impact will foreign imports have on the United States? Will there be duties?

Watson: Imports are certainly gaining share in U.S. markets. Speaking of non-Canadian imports, we see South American products in the fence picket and appearance board markets and European products such as studs, dimension and boards.

Speaking as a producer, I would rather not see the increased competition for markets and the reduced prices we are now seeing for some of our products. However, unless we can show that these imports are here through some artificial market forces which creates a competitive advantage for the import, I doubt we'll see duty on these products.

Rogers: If you're talking about "foreign imports" meaning other than Canada, growing global timber inventories and improved access to timber in many regions of the world will undoubtedly impact U.S. forest products companies and certain U.S. markets. The dynamics of exchange rates and other forces will largely determine the competitiveness of individual opportunities within our borders; however, because North America has been blessed with such abundant and growing volumes of high quality timber, our best defense remains a strong offense. Advanced and improving forest management techniques and continued access to this abundant resource, will guarantee a sustainable future supply to meet all our domestic needs, as well as the needs of others around the world.

WOODWORDS: What are the changes you see with the lumber industry over the next six months?

Watson: I see continued consolidation at all levels of the lumber industry. We've seen it at the manufacturer, treater, retail level and of course, in the truss industry. I foresee that there will be some permanent closures of inefficient operations at all levels of the industry, which will address over-capacity issues. Additionally I think there will be increased production of structural and appearance grade products as changing construction practices and consumer desires drive demand for these products.

Rogers: Just like the growing of timber, changes in the industry are felt across a much broader time period than six months. Today, we're seeing tangible benefits of improved forest management and harvesting practices, advanced manufacturing techniques and new product developments initiated more than a generation ago—and improvements are continuing. Combined, these significantly increase the efficiency and utilization of the forest resource. Contrary to what industry critics and environmentalists would have you believe, your forests are being responsibly managed with an eye toward the future, and with concern about environmental impacts. We are extremely conscientious about being good stewards of the forest resource—it is our livelihood—and we are taking action to ensure future generations can enjoy and benefit as well.

With that said, the forest products industry has admittedly not done a good job of sharing this positive message—or at the very least our message has been overshadowed by criticism of contemporary forest management and the performance of wood products. So, over the next six months you will begin to see our industry rollout the first ever broad-based campaign that aggressively promotes the superior features of wood products as building material and provides messages supporting the fact that our forests are abundant, growing and healthy. This effort is long overdue, and one that our customers in the wood truss industry have been requesting help with for some time now.

***WOODWORDS:** How will these changes affect the truss industry and what do you see as the future for people in this industry?*

Watson: We think this is very positive for the truss industry. Already, we are seeing more demand for lumber going into floor and wall as well as roof truss systems. As traditional home and commercial construction shifts to component systems, demand on the truss industry should be robust. The lumber industry is ramping up on products such as MSR and MEL to meet and support the increased design and engineering demand from truss/component manufacturers.

Rogers: Increased communication about the effectiveness of our industry's resource management and product development efforts will hopefully restore confidence that the forest products industry is acting both responsibly and responsively on its customers' behalf. The wood truss industry can be equally proud in the knowledge that you are helping to stretch the timber base by using wood more efficiently and engineering products to meet the needs of your customers. The Wood Promotion Network's "pro-wood" campaign will appreciate any and all support the wood truss industry can provide to help send this message to key end-users.

***WOODWORDS:** Do you think more wood truss manufacturers will start getting into steel trusses?*

Watson: Everyone needs to change to meet his or her market conditions. If expansion into steel trusses increases market coverage, maintains a competitive position for the manufacturer and gives an acceptable ROI, they should go for it.

Rogers: Do I think more wood truss manufacturers will start getting into steel trusses? Yes, but I don't think manufacturing and selling steel trusses will become an essential part of your business model in the near future. Economics, consumer preference and, in some cases, building codes, will ultimately drive changes to alternative products—and there will undoubtedly be segments in the market that demand or require steel trusses. But the forest products industry is convinced that wood-based buildings and systems will continue to be appreciated as the superior product choice. Wood trusses are coming from a strength position—not just tradition, but proven performance and affordability. Wood remains the most widely used natural building material on earth, and the best environmental choice.

***WOODWORDS:** How do you think the lumber industry will stay competitive with steel as a raw material for trusses?*

Watson: Several ways. First, by creating and producing products such as MSR, MEL and a variety of structural and appearance products utilized by the industry and supplying products at a competitive price. Secondly, by doing a better job of promoting lumber and wood products to end users and specifiers in much the same way we have seen the steel industry do. This is a request I have heard from WTCA members numerous times. The North American Wood Industry will begin its Wood Promotion Network campaign early next year which will tout the attributes of wood products. It will feature network TV and other promotional type ads.

Rogers: Wood products will stay competitive with alternative products as long as access to our valuable timber resource is not restricted, nor access to markets limited. Wood Promotion Network campaign efforts are aimed at helping to eliminate public guilt about how our forest resources are being managed and used, and increase consumer confidence in the performance of wood products.

Additionally, the lumber industry must find ways to engage itself more fully into better understanding the wood truss industry's business issues, so we can collectively find solutions to your problems. Wood is not a perfect product, but it is the most natural "green" product available. Wood has incomparable beauty, warmth, availability and affordability. Wood's versatility allows us to develop wood solutions to wood problems—in fact, I'd recently read a report that states nearly 70 percent of solid wood substitutes are actually wood-based or engineered products. Alternative products will have a difficult time competing with wood's combination of positive features, but that doesn't mean we should become complacent or lack the will to listen to and respond to your needs. Successfully solving problems together will minimize the risk that you (or your customers) will go looking for alternatives, and ensure that wood-based products will continue to be a superior and affordable building material.

If you are interested in sharing your thoughts on this topic or responding to an

individual idea presented here, you can do so through the *WOODWORDS* "From Our Readers" section. Simply send a letter to the editor via fax at 608/274-3329 or email at sbcmag.info. *WOODWORDS* encourages feedback and dialogue of this kind. The staff does reserve the right to edit submissions for length, grammar and clarity.

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