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"Why the Lumber Industry Can Cause Truss Industry Ulcers" by Richard Bennett

The single biggest problem facing lumber manufacturers, distribution yards, retail yards, truss manufacturers and homebuilders in the United States today is the continual price volatility of basic lumber commodity items. Because the market is volatile, no one wants to carry inventory. The result has been that "just in time buying" is the most popular game in town, which of course perpetuates more volatility, and round and round we go in a vicious cycle. How did we get into this mess? Let's take a look.

The U.S. Forest Service owns about 50 percent of all softwood timber in the United States. During the early part of this decade, the Forest Service began to get out of the timber selling business. This led to timber shortages. The distribution and retail yards reacted by buying heavily to build up their inventories, reasoning this would allow them to have product available to sell during the shortages. The market in turn reacted to the heavy buying with increased prices. All of the mills in the U.S. and Canada saw a green light of opportunity and increased their production dramatically. The shortages that had occurred disappeared and the price of lumber dropped out of sight. This happened not only once, but twice in the following few years.

In a two-year time span, practically every distribution and retail yard lost 25 to 30 percent on their inventories. Having been burned badly, they adopted a new strategy of "just in time buying." This way the mills were forced to carry the inventory and assume the risk of sudden price changes. Under this program, it seems that price speculation was gone for the buyers, or so we thought.

Basic common sense says, if there is as much lumber being produced as there is being consumed, and there are enough rail cars and trucks available for transport, prices should remain stable. Stable prices are what we all want. Market predictability helps the mills, yards and end-users. It also helps traditional wholesalers, who are performing on behalf of mills, do their best in selling wood products to thousands of customers in many different markets.

Unfortunately, some office wholesalers have created a special niche for themselves by manipulating the market to suit their own needs, without care to the effect it has on others. In fact, these office wholesalers rely on market changes to make a profit. There are many ways to cause the lumber market to fluctuate. These wholesalers have used two—rumor mongering and shorting the market—to good advantage.

In recent years, for example, a rumor that there was a “wall of wood” waiting to be shipped into the U.S. by Canadian companies was spread quarterly, causing market fluctuations. After two and a half years of repeated no-shows by the alleged “wall of wood,” one would think the rumor would go away or not be granted credibility. Unfortunately, this has not been the case. Why Canadian companies would be foolish enough to store huge volumes of lumber from one quarter to the next to sell it for less, then run out of their quota before the end of each quarter defies simple logic. Most Canadian mills try to produce what they can sell profitably. In a high market they will produce more and pay the export fees. If the market is not good, they will reduce production.

Another means of affecting the market is the practice of shorting it. This occurs typically after a few weeks of a steady, unchanging market. A wholesaler will offer lumber for ten to twenty dollars less than the current market to be shipped a couple of weeks in the future. This puts an immediate stop to all but the most urgent buying. No one wants to buy anything that is dropping in price. They prefer to wait until it hits the bottom. This causes the lumber market to drop in reality until the end-users are out of stock and these wholesalers come in to cover their shorts. The market then starts to rise again, usually just as fast as it went down. At that point the same wholesalers, after covering their shorts, start buying all of the wood they can find, with of course, none of it pre-sold. If they buy enough, it causes a temporary shortage and the prices continue to rise. The mills then begin to put pressure on wholesalers to get the stock out of their yards, causing the market to moderate. Ironically, the end result is that some mills then find themselves competing against their own stock, which is sitting on the wholesalers’ list at a lower price. And around we go again in a new cycle.

The aftermath of all this speculation buying is the office wholesaler has made a handsome profit. Meanwhile, the mill sales managers, truss manufacturers, and distribution and retail yards’ buyers all have ulcers. Price volatility is the worst possible thing that can happen to all of them. Yet we the mills, and you the buyers, continue to support this crazy way of doing business. Why?

I do say and pledge that we, as one company, are going to do what we can to end speculation on our products. We will not sell to anyone that shorts the market nor will we sell to anyone who does not have a home for the product when he buys it.

We are just one of the many lumber producers attempting to manufacture and sell a quality product to fill the needs of the marketplace. It serves absolutely no useful purpose to have prices rise to the point of losing our market to the many substitutes available. Nor is it helpful to have prices drop below our manufacturing cost and then still have to pay some speculator’s profit.

EDITOR'S NOTE: This article represents the opinion of the author only and does not necessarily reflect the opinions of WTCA. As there are probably other opinions about this issue, we would certainly be willing to provide space for other points of view in our December issue where our editorial focus will be on the lumber industry. Please send all responses to editor@sbcmag.info.

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