



## LOOKING INTO OUR CRYSTAL BALL

# Woodpecker News

by Gene Wengert

### WOOD MARKETS

In 2017, U.S. construction hit an all-time high of \$1.26 trillion. Of this, the single-family home is a key driver. Single-family homes use wood, especially lumber, for framing, decks, paneling, furniture, flooring, doors and windows, millwork, and cabinets.

Although from 2008 through 2013, single-family home construction was under 1 million units, this past year we hit 1.3 million, and some forecasts predict as much as an 18% increase in 2018. The annual value is around \$300 billion. Part of the reason for growth in housing is that there are 30 million adults between the ages of 19 to 25 in the U.S.

Remodeling homes reached \$150 billion, with many remodelers reporting a lack of materials.

Every wood products manufacturer (furniture, flooring, etc.) that markets to homes—single or multiple family—is forecasting good growth for 2018.

This, indeed, is good news, especially if we have the logs required to satisfy this growth. Without logs here in the U.S., we will have to import them or the wood products. And, if there happens to be a shortage of lumber due to a log shortage, lumber prices should go up, unless the industry can find cheaper lumber from somewhere else. Did you know that 10% of the hardwoods used in the U.S. are already imported?

Did you know that over 75% of the softwood framing lumber sold in Georgia, the #1 forest state in the South, is from Canada? Did you know that 38% of the furniture and cabinets sold in the U.S. is made in China and other Asian countries and that 22% is made in Europe?

Here are two key questions: Are foreign-made furniture and cabinets better than U.S. made? Are furniture and cabinets made with U.S. woods better than foreign woods? In other words, should we, or why should we, buy "MADE IN USA" wood products?

**BOTTOM LINE:** We have some hungry industries in the U.S., but we do not always have the food it takes to feed them.

### IMPROVEMENTS IN OUR INDUSTRY

The wood industry in the U.S. is changing and changing fast. I forgot who said, "Change is OK, so long as the change is in the right direction." One of my kids' books from Dr. Seuss said, "Only YOU can control YOUR future."

Historically, we have tolerated inefficiency in our industry:

- 40% loss in logging
- 40% yield loss in sawmilling
- 12% loss in drying
- 40% loss between lumber input and the final product in the box
- 15% loss in shipping

Can we continue to pass on our inefficiency to the customer in the form of higher prices? In the past, we were all equally inefficient, but this is not true today. We need to change, because the competition is changing.

A motivating factor for change is profit. Without financial benefits, we find it hard to move. Unfortunately, improving equipment so we can do a better job, especially with small-scale operations, is difficult to justify.

Here is an example of what we face. Consider that we are a hardwood sawmill providing oak and other species of lumber to furniture and cabinet plants. We would like to raise our prices to afford a better position for our mill, so that each piece of lumber is within 0.003 inches of the target thickness, and edging is done to an optimum. Studies made at sawmills show that edging practices today often lose over 20% of the lumber's potential value. Thickness variation can easily mean a loss of 3% to 5% in the amount of lumber we get from a log. And the list goes on.

Now here is the good news (maybe). Norfolk and Southern RR has millions of ties that were apparently treated with a defective preservative, and so they will need early replacement over the next few years. Also, without a large enough pipeline to carry oil from North Dakota to Louisiana, we will have to use the RR, which means more ties will be needed. To encourage you to cut ties instead of lumber from the center of a log (good logs only; no crap allowed in a tie), the RR tie treating plants will offer you an incentive of \$40 per tie (a price expected in 2018 for quality oak ties). This is, indeed, lucrative, and encourages us to switch, which results in reducing lumber production. Plus, this move also means less low-grade lumber, which had low profit anyway. Of course, the pallet people still want lumber, so maybe they will increase their prices so that you switch back to lumber and reduce tie production, or maybe they will buy some higher-grade lumber, which, in turn, will make the flooring and cabinet people pay more, and so on. Wow! We will be rich! But, wait, then when we buy that new wood dining room table or wood desk for our office, the price will be a lot higher—and there goes our profit.

**BOTTOM LINE:** It is a delicate balance: Upset one small thing and the rest of the system can be impacted.

### SHORTAGE OF LOGGING TRUCK DRIVERS

In the West, there is a shortage of logging truck drivers, which has forced some companies to scale back to a 4-day workweek. A quick analysis shows that the low wages for logging truck driv-

ers is a factor. Plus, in British Columbia, Canada, it is estimated that 25% of the current drivers are 55+ years old. The shortage is likely to increase without a new and strong effort to recruit drivers. In

addition, a new regulation applying to logging truck drivers (and others) now restricts them to 11 hours of driving in a 14-hour period per day.



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