

THE WESTERN LUMBER REPORT

Tom Hanneman
Western Wood Products Association
Portland, OR

Let me be the first to extend greetings to you from Bill Hill. He would be here if he could. But as sometimes happens, he's had to respond to some very important priorities set by a higher authority.

I have worked for Bill for over 14 years, most of the time calling on mills. I've met some of you during that period when I was handling mill inspection duties. But for the past two years I have been in Portland, holding responsibilities direct to the Chief Lumber Inspector.

The Western Lumber Report we've promised you this morning is exactly the one Bill was to have presented. We're going to talk about three basic situations which we think will affect your future: the outlook for Western lumber markets, resources and timber supply, and the position of the seasoned lumber product in the foreseeable future. Then we'll provide time for answers to questions.

First, let me explain the Western Wood Products Association. WWPA is a trade association representing lumber manufacturers from throughout the 12 Western United States. Our roles include marketing, business information, and quality standards. Nowhere do you see requirements for kiln drying expertise. And to be honest, that's not one of our functions. But the results of the seasoning process do fall to our responsibility.

Now, I will report on where our lumber markets are going, and then tie that to your roles as lumber seasoning specialists in the total manufacturing process.

NEW HOUSING MARKET

It wasn't very long ago that the rate of housing starts was the primary measure for gauging the vigor of lumber markets in any given year. Give us two million starts, and we'll give you plenty of lumber production.

But housing numbers don't carry the weight today they did a decade ago. Last year the Western Lumber industry produced 22 billion board feet with less than 1.4 million housing starts. We're predicting even fewer starts this year, but we still think we can hit the fifth highest lumber production of all time. There are new fundamentals that have entered the picture.

For one thing, houses are using more lumber. In the 1970's they required an average of about 10,000 board feet. In 1990, they are running closer to 13,000 board feet per house. Houses are averaging more square feet these days than at any time in recent history.

In addition, there are more amenities built with lumber than there used to be, which ups the board feet per square foot in many structures. An example of this and one of the most prominent such amenities is the outdoor wood deck. Its emergence as a "must" item in new homes, as well as the repair/remodel market, is at least partly a direct result of market development activities by WWPA and other wood product groups.

REPAIR/REMODEL MARKET

The repair/remodel market is the other most evident change in market fundamentals over the past 10 years. Do-it-yourselfers across America, combined with professional contractors, now require almost as much lumber as does the homebuilding industry. Our marketing people consider this one of the most dramatic and important developments in lumber's domestic markets in the last 25 years.

It is our conviction these trends put additional responsibilities upon the seasoned lumber product. And upon you. The reasons are visible in both the homebuilding and remodelling markets.

New homes tend to be larger because more of them than usual are custom built rather than project houses. Custom means quality, when it comes to quality materials, that includes seasoned lumber.

Similarly, the repair remodel market is quality-oriented. For one thing, contractors work in homes with homeowners fretting about quality in every way. Seasoned lumber is an absolute must under those conditions.

Do-it-yourselfers are even worse--they are selective in their buying, and they work with the product personally. Quality to them translates to seasoned lumber.

EXPORT MARKET

You professionals in dry kiln operation and lumber seasoning, especially those of you in mills that export, have a vested interest in what's going on in overseas markets, as well.

Sometime before the end of 1991, and maybe as soon as this coming Fall, the new European Community intends to ban the import of all lumber which is not kiln dried. Annually, that's about 350 million board feet of lumber or enough to build nearly 27,000 houses a year. Right now there are efforts afoot to hold off that ban until we can muster enough kiln capacity to serve the European Community as well as the needs of our domestic markets.

Export markets are expanding rapidly for lumber from many of your mills. In international ports such as Algiers, Rome, Baghdad, Brisbane, Tokyo and Southampton, buyers are very particular about the brightness of the lumber product they are offered... one thing they do not like, almost universally, is stain. And one thing that seems to develop most readily on green lumber en route to such distant destinations is stain. Lots of stain.

Anti-stain treatments were developed that did the job well enough and at low cost. That is, until most were banned, by our own environmental agencies or by the customer countries. The best anti-stain treatment left, for the most part, is the dry kiln. Dry lumber stays brighter. So look for more of it to be expected by the expanding export markets in Europe, around the Pacific Rim and elsewhere in the world.

Dry lumber demand seems to be growing in our domestic U.S. markets, too. Areas where green lumber had held sway for years have begun to show more interest in dry material because it is more stable, stores better, is best for the most common wood-preservation treatments, and for numerous other reasons.

As lumber technology and engineered uses become more sophisticated, lumber drying should see its role expand accordingly. For instance, some of you may be aware that there are special machines at a few mills which are used to sort lumber by bending stiffness. This is machine stress-rated lumber.

Stock going through this process can be either green or dry. Tests at one mill have indicated that stock dried to about 14 or 15 percent moisture content may yield a higher MSR recovery than stock either of greater or lesser moisture content. So among drying skills needed out there could be those which will bring lumber moisture content to some very narrow parameters and add value to the product in doing so.

So, if you didn't know it before, there is a great future ahead for the lumber seasoning business.

TIMBER SUPPLY

However, there is one very important cloud hanging over this picture: The battle for access to raw materials on federally owned forests in the United States.

We find ourselves in a fierce battle with a wily competitor. You might say we're competing with the "protest" industry. And it is having its effect. Besides the spotted owl, we have the pine marten, the pileated woodpecker, the elk, and the grizzly. A zoo full of surrogates have been recruited to halt timber sales and close down major sections of future timber supplies.

The problem right now is that no one knows exactly what this will mean in industry production except that there will be less lumber. How much less no one can say at this time. New and different information is emerging every day.

At WWPA, responsibility is to the standard grading rules published by the Association. These rules are definitive and comprehensive. Normally they are referenced in lumber sales agreements and become a binding part of sales contracts covering billions of board feet of lumber each year.

When our inspectors check mill grades, we also sample seasoned stock that is ready to ship. We must confirm that material meets the moisture levels specified on its grade stamps. We use our own metering equipment and, along with all other inspection data, document the results for the records at the Portland headquarters.

On rare occasions, but it does happen, an inspector calling on a mill will find gradestamped stock that exceeds the moisture level specified. I'm sure all of you here know that in dimension lumber, an S-Dry indication means the material was 19 percent or less in moisture content at the time of surfacing. On selects, factory lumber and shop grades, and decking, the MC 15 stamp warrants a moisture content of 15% or less at time of surfacing.

For those of you who work in the mills, if you understand that your mill's use of the grade stamp is intended to certify the moisture content of the shipment, and if you understand that use of that stamp is a privilege extended to your mill by WWPA, and if you understand that WWPA has a mandate to protect the integrity of that gradestamp, then you will understand what happens when a moisture content checks turns up wet lumber. The inspector has no alternative but to put that particular shipment "on hold". And that can make for some unhappy people around the plant.

Usually stock stamped dry but found to be wet must be restamped as "green" lumber before shipment. Or it must be shipped with no stamp. The resulting in-plant costs and inconveniences make it wise to follow the correct process, from beginning to end, according to "the book".

Likewise, sometimes moisture content is challenged in the marketplace. That can trigger what is known as an official reinspection, a formal procedure whereby an inspector's examination, usually at the customer's location, determines

the moisture status. Again, if the mill is at fault (and records show usually it is), a reinspection can prove costly.

In 1989, WWPA inspectors conducted only 71 reinspections of all kinds worldwide. Mills won only 10 of them. By the way, of these reinspections, seven were called either wholly or partly due to moisture content. The shippers lost all seven.

Getting lumber dried to the right level is one thing. Going through the process properly is another. You know better than I the seasoning pitfalls that can lead to degrade during drying procedures. But in my work, I see enough to draw conclusions.

Periodically, our Department conducts "Mill Studies", a complete analysis of a mill's procedures, capabilities and performance. Over the course of many of these, we have found the primary cause of kink and warp in lumber to come from careless alignment practices in the drying process: misaligned stickers, misaligned cars, or misaligned spacers.

You have probably noticed that a single missing sticker results not only in putting a kink into the whole course of boards it was meant to support, but sometimes damages three or four courses above it. That kink can drop each of those boards at least one grade.

The average price of 2 & Better, Common 8-inch, Ponderosa Pine, 4/4 boards last year was about \$332 per thousand at the mill. But if everything that gets that kink put into it gets dropped only one grade, it would be worth but \$209 per thousand. Obviously, it doesn't take many kinked courses to cost the mill a lot of money.

You seasoning professionals tell us that excessively high temperatures can be a major cause of seasoning checks, honeycombing, case hardening, and end splits all resulting in lumber degrade.

Overdrying can mean knot fall-out, bow, twist, cup, warp, discoloration. It can overshrink stock and result in skips in surfacing. Any one of these can affect the quality of a piece of lumber enough to warrant dropping it at least to the next lower grade. Let me again put this into dollar-and-cents language for you.

If you're running Douglas-fir, Standard & Better 2x4, its average 1989 price was \$268 per thousand. Drop it a grade and the price goes to \$182 per thousand. That's a loss of \$86 per thousand.

What if you were running Hem-Fir, 2x10, 2 & Better, which averaged about \$287 per thousand last year. If your drying process knocked a significant portion down to No. 3 grade, its value drops accordingly by \$141. That is a loss of almost 50 percent.

Let's say your mill is getting an average \$551 per thousand for bright Sugar Pine, 5/4, No. 2 Shop. Unfortunately, brown stain develops during your drying schedules and the mill must ship it as Stained Shop with a price tag of only \$393 per thousand. That's a \$158 per thousand right out the window. At that rate, it doesn't take long to convince yourself that lumber drying management is a form of money management. And it is.

In 1988, just about half of all lumber manufactured in the Western United States was shipped from mills surfaced dry. By far the greatest share of it was kiln dried. Of all the lumber manufactured in the coastal region of the Pacific Northwest where green structural lumber is dominant, about one-quarter was seasoned in kilns. In the Inland region heavy to the pine species, about three-fourth of the production is kiln-dried. All told throughout the West, about 10 billion board feet of lumber went through dry kilns this past year.

So, it is my hope that I have left you with one simple message: you have an immense responsibility that's probably going to get even bigger. But it's a marvelous opportunity to make meaningful contributions to your company's economic health, to participate in the manufacture of products you can be proud of, and to firm up your personal claims on the future.