

THE 1981 LUMBER OUTLOOK

H. A. 'Bob' Roberts
Western Wood Products Association
Portland, Oregon

Presented by R. C. Connell
Western Wood Products Association

Thank you for inviting me here to address your annual meeting of the Western Dry Kiln Clubs. I appreciate the opportunity to discuss with you demand for lumber, both for 1981, and on further into the future.

As most of you are quite painfully aware, 1980 was a record breaker for the lumber industry. Unfortunately, the records we broke were not enviable ones. We experienced the lowest home-building months since World War II, the lowest demand week, the lowest demand month, and the lowest demand period since the great Depression. More sawmills were closed and more employees were out of work than at any time in most of our memories.

For instance, during one period last year, 477 out of 792 Western sawmills were either curtailed or totally closed. Here in the West, as many as 61,000 out of 130,000 mill employees were out of work. In Oregon alone, one week last year found 15,000 out of 27,000 employees wondering whether they would be back to work the following week. Too many were oftentimes disappointed.

In total, lumber usage in this country was down 17 percent in 1980. In terms of Western sawmill capacity, demand was off 25 percent. In short--not the volume of demand that keeps dry kilns operating.

Our industry did not suffer in 1980 because our primary market--housing--was overbuilt, as was the case in the 1974-75 recession. In fact, demand measured by the millions of families who need housing was, and remains today, quite strong. The trouble is that too few of those who need housing can find money to borrow or can afford today's expensive mortgage rates.

Where then does that leave us in 1981? Unfortunately, mortgage money costs are still high and demand for lumber still suffers.

However, the savings and loan and other lending institutions have showed their innovative colors by introducing some new lending instruments like variable rate mortgages and equity sharing. By late 1980, the largest lending institution for home mortgages in the world--the Home in California--would not write a fixed rate mortgage. All theirs were on a basis where the rate would be adjusted periodically.

Suddenly, equity sharing is no longer just a concept. Some mortgages are being written today 3 to 4 points off what they might otherwise be. These kinds of innovations will bring home buyers into the market. These innovations, plus the expected modest drop in interest rates this year, should bring U.S.

home-building back to 1,550,000 units. That, incidentally, is up from 1,300,000 units in 1980.

One and a half million units is certainly not close to the two million units a year the experts tell us our country will need during the decade of the 80's. Yet, it certainly is an improvement from a very difficult 1980.

Looking into some of the details for 1981, Western lumber production should be up 10 percent from last year, as will total U.S. production. Total production in our Western region should reach 16.3 billion board feet in 1981. Total production for the United States should reach 27 billion feet.

Canadian imports should top 10 billion feet in 1981, up 8.7 percent from the 9.5 billion feet we received last year.

Getting back to total Western production, virtually all of it will go into the market during the year. While inventories may increase somewhat during the traditionally heavier producing months, there should not be a significant change in year-end inventories from 1980 to 1981. Inventories are currently sitting around 2.2 billion feet--a low level.

Zeroing in on specific markets, some 13.7 billion feet is expected to be consumed in residential construction in 1981. That is some 2 billion feet more than last year but over 6 billion below our highest year, which was 1972. Lumber for repair and remodeling rates No. 2.

Before going any further, we in the lumber industry should say thanks to those weekend warriors who consumed some 7.8 billion feet of lumber in home repair and remodeling projects last year. Without that demand, the difficulties we experienced in 1980 would surely have been compounded.

Looking at 1981, it is almost mind boggling to think that almost 60 percent as much lumber will be used for repair and remodeling as will be used for new home construction. 1981 total usage for repair and remodeling projects will be above 8 billion board feet.

While softwood lumber exports were up almost 13 percent in 1980, and reached 2 billion, they are expected to decline some 10 percent to 1.8 billion feet in 1981. The drop is because other countries are also experiencing low demand times. In a nutshell, we expect 1981 to be a transition year--one in which producers will see only a modest improvement.

Let's recall again, the economists tell us that to meet the demand for housing in the 1980's, this country should build at least two million new homes each year during the decade. A shortfall during any year will need to be made up in subsequent years. So, the near future, as opposed to the present, looks good for housing and, in turn, for our industry.

Let's remember, though, our Western lumber industry is still directly tied to interest rates and housing costs. Demand, measured in terms of those who can afford to buy, diminishes as those rates climb.

But our industry is not depending entirely on continued high homebuilding numbers. Partially because of the volatility of that market, we have been looking to expand our export markets. Lumber exports help keep mills running despite the peaks and valleys of U.S. housing demand.

There are some other reasons we will become more aggressive in competing in the export markets.

Over the past 15 years, traditional Eastern markets for Western lumber have diminished due to escalating freight rates and competition from lumber producers located closer to the Eastern, Midwestern and Southern markets. Today, nearly two-thirds of the lumber manufactured in the West stays in the West. Only ten years ago, nearly two-thirds of the lumber produced in the West went to Eastern U.S. markets.

There are other good reasons for developing export markets--declining population trends. The fertility rate--the number of children borne to a woman during her child-bearing years--rose dramatically in the post World War II era. By 1957, it was a 3.7. That so-called baby boom will bring about housing demand in this decade.

But, some of you may also recall that 1957 was the year American women discovered "the pill." The result of that discovery was dramatic. What happened? Fertility rates crashed to below zero population growth.

The 1980's baby-boom demand for housing, then, will be finite. It was inconceivable then, if you will pardon the expression, that the pill might also prevent housing starts!

So housing will not forever exert the pressure for our products that we have come to depend upon. We expect the first evidence of this slow-down will show up during the 1990's. This expectation, together with the expected further erosion of our Eastern markets simply forces us to become aggressive, committed Pacific Rim marketers and, for that matter, world marketers.

Let's take a closer look at the export market for a minute. In the Far East, Japan is a major consumer of wood products. In a good year, that country will build as many as 1.5 million homes, albeit the houses use less lumber than ours.

Currently, the Japanese are satisfying a good share of their wood products needs by buying logs and cants and manufacturing them in their own sawmills. That will change.

Time and pressures most likely will force the Japanese to purchase more finished products. First, Japanese labor costs, material costs, and energy costs have all escalated. They approach, equal or exceed comparable costs in the United States.

Secondly, from a number of quarters, there has been growing pressure to upgrade our U.S. exports. About a year ago, the U.S. Special Trade Representative added to this pressure when he made noises in Japan about limiting log exports if Japan didn't show more product imports.

From these pressures, there has been some fall-out and a reaction, especially to threats about logs. Japanese trade leaders in 1980 proposed the formation of a group of industry principals from both countries to meet and explore practical ways to move more U.S. lumber products into the Japanese market.

Because Western Wood Products Association had a history of marketing in Japan, government and private interests encouraged WWPA to provide U.S. organization plus committee selection and leadership. The Association willingly accepted the role, and

the wheels were set in motion to pull together a representative group of U.S. interests.

Like the U.S. committee, the Japanese group was chosen to be broadly based in order to represent product import proponents and members of their sawmilling and log import trade. The Japanese members represent decision-makers in their industry. The makeup of the Japanese side also provides an indication that Japanese interests, particularly those previously opposed to any efforts to improve the lumber-to-log ratio, are evidently looking long-term to the Japanese market needs we felt had long existed.

Thus, the U.S./Japan Lumber Trade Promotion Committee was formed. It is my pleasure to chair its meetings, and I expect its activities will be helpful in bringing about more trade with Japan in products.

Finally, let me address the potential for exports to other markets.

Europeans traditionally have not built houses of wood. But, recent energy constraints have resulted in a noticeable increase in what the English call timber-frame construction. We hope to see a continuation of this trend. Traditionally, European countries have purchased much of their lumber from Russia, Poland, Austria, Finland, Sweden, Canada, and a relatively small amount from the United States.

Currently, Europe is a 9 billion-board-foot market. Keep in mind, that's 9 billion feet for a group of countries that presently do not engage in very much wood construction. If the trend to increase wood construction continues, Europe may become a very good customer.

We have also seen of late great interest and, in fact, usage of American lumber products in the Middle East. On the other side of the world, China in the long-term may be back as a good customer. Even now she shows signs of interest in American lumber products. And, Australia has been a good customer for timbers.

The potential for increased lumber sales is out there--domestically and in the export market. The need to assure the long-term health of our western lumber industry provides the stimulus. The industry is poised to meet the near-term demand. And, it is posturing itself for the longer term. I am confident that our sawmills and dry kilns are going to be busy meeting domestic and foreign lumber needs.