

### Outlook For Engineered Lumber Products in 2002 by Bill Walters

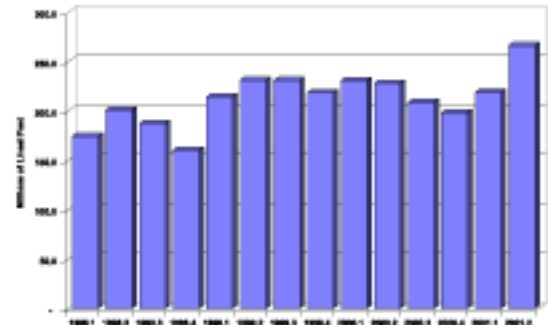
Prior to September 11, Engineered Lumber Products (ELPs) were on track for a record year of production; now the outlook is less sanguine. Most producers have reported a slowdown in order intake and production during the third quarter. ELP demand is primarily driven by residential construction in North America. The uncertainty about the U.S. economy and new home building leaves the outlook for ELPs unclear. Most forecasts before September 11 predicted housing to be down in 2002 from this year. Without an unanticipated surge in housing, ELP's capacity will not be fully utilized. However, since their introduction, ELPs have continuously gained market share, even in the face of the low lumber prices of the past year. The drivers of this trend will continue to operate and those companies with a complete package of products and services can expect to gain share from traditional solid sawn lumber. The challenge for 2002 will be to maintain volume and profitability in an environment of reduced demand, low cost traditional building materials and increased competition among ELP producers.

I-joists used in residential floor construction have been the leading application of ELPs. About one half of engineered lumber production is used as I-joist flanges. I-joist production out paced engineered lumber production in 2000 due to the increased use of Black Spruce 2x3 solid sawn lumber as flanges. During the first two quarters of 2001, both I-joists and engineered lumber were on pace for a record production year. It remains to be seen if the recent decline in orders will prevent production from exceeding the record 1999 volume.

Since I-joists have led the use of ELP as beams and headers, the market share of I-joists in residential floors serves as a proxy for the industry as a whole. From their introduction in 1980, I-joist market growth has followed closely the life cycle described by the Fisher-Pry model.

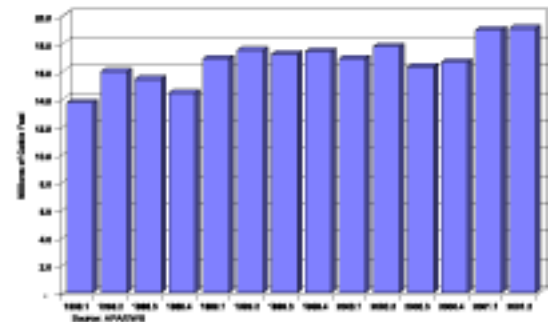
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I-Joist Production Volume  
1998-2001 by Quarter



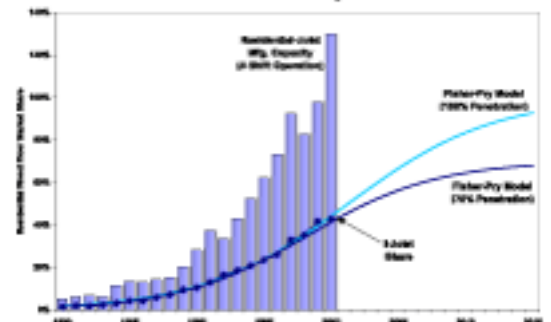
I-JOIST PRODUCTION VOLUME  
1998-2001 BY QUARTER

ELP Production Volume  
(Including I-Joist Flanges)  
1998-2001 by Quarter



ELP PRODUCTION VOLUME

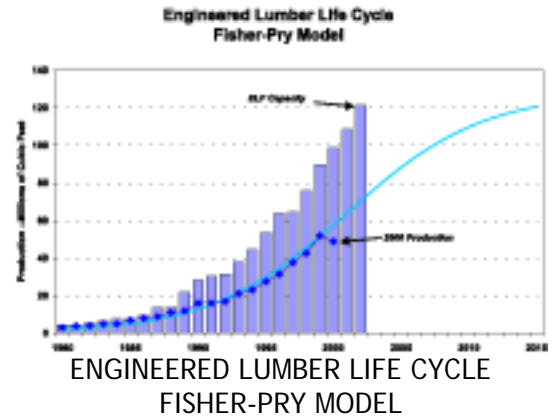
I-Joist Life Cycle



I-JOIST LIFE CYCLE

Expansion of I-joint capacity in recent years has created an over capacity situation, which exceeds even the most optimistic estimates of the potential market.

Engineered lumber has followed the same life cycle curve. The decline in production in 2000 was most likely due to the combination of fewer housing starts and a significant increase in the use of Black Spruce lumber for I-joint flanges. In-place capacity of engineered lumber, including announced expansions for 2002, appears adequate to meet demand through the middle of the next decade.



This excess capacity among ELP producers and the outlook for continued low prices of competitive traditional lumber will heighten price competition in 2002. Those producers who are not efficient manufacturers and aggressive marketers will have difficulty maintaining their position.

Engineered Lumber Products have continued to gain market share through economic downturns in the past, however in some years, total production declined due to overall contraction of the market. The drivers of ELP's market share growth in the past—service, installed costs, stable pricing and the perceived declining quality of dimension lumber—will provide the momentum to continue to capture market share in 2002. Those companies, which aggressively sell a complete line of products, accompanied with a full set of services and stable prices, will continue to take market share from traditional materials.

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Mr. Walters is the Director of Business Development for Truss Joist, A Weyerhaeuser Business. If you would like more information about the Wood I-Joist Manufacturers Association (WIJMA), please visit their web site at [www.i-joint.org](http://www.i-joint.org).

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