



The Future of the Softwood Lumber Supply

by Libby Maurer & Kirk Grundahl

What will a 2010 housing market recovery mean for softwood lumber supply?

beetle resources:

- A credible website for the latest pine beetle information in British Columbia: www.for.gov.bc.ca
- B.C.'s Mountain Pine Beetle Action Plan presents statistics and outlines plan objectives through 2010. www.for.gov.bc.ca/hfp/mountain_pine_beetle/action-plan/2005/
- Check out the U.S. action plan and infestation maps here: www.fs.fed.us/r2/bark-beetle/

New home sales are on the rise. Housing starts have begun to recover. All signs indicate that 2010 will be a year of slow growth for the housing construction industry. But talk of the ensuing recovery has many people wondering what to expect for softwood lumber supply and prices. This year, we'll examine the primary influences on the softwood lumber picture. From the Mountain Pine Beetle's damage to U.S. and Canadian forests to the industry adjusting to greater demand following a major housing slump that most of us have never experienced before; many factors contribute to what component manufacturers can expect in the next few years. Here's an overview.

Factor 1: Fallout from the Pine Beetle

The 2010 Winter Olympics aren't the only thing getting significant press in British Columbia. The Mountain Pine Beetle is a tiny insect that's made a not-so-tiny imprint on the future availability of quality softwood lumber from the region. The species, also known as the "bark beetle," is native to North America. In the past has attacked weak, older forests to make way for newer healthier trees—a good thing. Scientists believe that the outbreak of this beetle species since the 1990s is due to consistently warmer winters. In the past, below freezing temperatures would kill off the beetle in the winter. But recently, winter temperatures in Canada haven't dipped low enough to kill it. Additionally, hot and dry summers leave pine drought-stressed and more susceptible to beetle attack. As a result, the beetle continues to burrow its way into the bark of hundreds of thousands of acres of pine forests in British Columbia, Alberta and recently even further east into Saskatchewan. While burrowing through pine bark, the Mountain Pine Beetle leaves behind a blue-colored fungi stain that cuts off water and nutrient flow to the rest of the tree. If the beetle colonization isn't contained, the tree will eventually die.

What's more, the beetle has spread to the U.S. west, infecting various species in the Rocky Mountain states of Colorado, Wyoming, South Dakota and more. Although not nearly as widespread as Canada, the beetle has done enough damage—roughly 6 million acres so far—to impact more than 18 billion board feet (bbf) of American softwood lumber.

Scientists say that many of the infected logs can be salvaged, and the blue stain left behind by the beetle does not compromise its structural integrity if harvested early enough. The Canadian and U.S. governments have launched initiatives and dedicated federal resources at trying to stop the beetles' spread (e.g., a combined \$1 billion investment in the case of B.C. and the Canadian governments) using chemical treatments, burning techniques and cutting healthy trees around infested ones. One of the techniques is allowing increased harvesting of infested forests. Though some of this stock can be diverted to manufacturing bioenergy and engineered wood products, a surplus supply of logs exists which has driven prices down...for the moment. But when the supply runs out, some analysts expect prices to spike.

The cumulative area timberland affected in B.C. alone is estimated at more than 14 million hectares (or 39 million acres, about four times the size of Vancouver Island). Some experts say that the B.C. outbreaks will reduce the timber harvests by as early as this year. But the destruction to come from B.C. is expected to spike in 2014/2015,¹ and the impact of the timber losses are likely to be felt for several years. Stay tuned for a follow-up article with more details about the affect of the beetle on softwood lumber supply and prices. See inset for list of credible sources in Canada and the U.S.

Factor 2: The Recovery

After several consecutive years of sliding demand, most analysts predict an increase in demand for lumber as the housing recovery begins this year. Rising housing starts, lean distribution channel inventories and government stimulus programs should kick-start lumber demand. But can production keep up?

In its 2010 forecast, the Western Wood Products Association (WWPA) predicts a mild 2010 recovery for lumber producers. "Given the unprecedented downturn, recovery

for the lumber industry is unlikely to follow the same path as it has in the past," said David Jackson, WWPA economist. "The challenge for mills will be adjusting to a 'new normal' for the future." Though 2010's gradual recovery should prevent demand surges causing production and price spikes, the scenario is plausible for the 2011–2013 range.

Let's look at the numbers. WWPA estimates that a total of 31 bbf of lumber was consumed by the U.S. market in 2009. (About 7 bbf was used for new construction.) This is less than half of what was consumed in 2005 (roughly 65 bbf), an all-time high in lumber demand. For this year, WWPA predicts lumber demand to rise 11 percent to 34.5 bbf.² U.S. lumber producers have greatly curbed production as a result of declining demand. For instance, WWPA says Western lumber production in 2009 decreased about 21 percent to just over 10 bbf, while Southern mills cut 2009 production to 11.6 bbf. Lumber imports from Canada and other foreign lumber suppliers have decreased more dramatically. Shipments from Canada are predicted to total 7.9 bbf in 2009, a decrease of 32 percent from 2008.

But WWPA anticipates U.S. lumber production will increase according to improving demand...at least in 2010. Mills in the West and South are expected to increase production 8 percent. Canada should regain some of the market share it lost over the past few years. Imports from Canada are expected to rise 18.8 percent in 2010 to 9.4 bbf.

With mill closures and lumber production falling off to roughly 43 bbf, the occurrence of a rapid rebound within the homebuilding sector could trigger a wood product supply shortage.³ The ten million dollar question for our industry is when and how quickly we will emerge from the slump. "If it does turnaround quickly, we could be looking at a situation with [lumber] demand outpacing supply. But that's a question mark at this point," says Al Schuler, economist with the U.S. Department of Agriculture Forest Service.

We will keep a close eye on homebuilding activity and new information about lumber supply in the next eighteen months.

Factor 3: China's Affordable Housing Initiative

Another factor? Enter China. That's right. In November, the B.C. forest industry and the Chinese government signed a memorandum of understanding to use wood frame construction in new housing construction.⁴ B.C. predicts that the deal will yield an increase in softwood lumber exports to an estimated 4 bbf

¹ www.for.gov.bc.ca/hre/bc/mpb/cumulative/Summary.htm

² www2.wwpa.org/ABOUTWWPA/Newsroom/tabid/817/Default.aspx, Lumber Industry Sees Hopeful Signs of Slow Recovery in 2010, November 9, 2009

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by 2011. As part of an initiative to expand affordable housing options in the country's urban centers, the Chinese government has also launched a new wood frame construction building code in Shanghai. Watch for continuing developments as B.C. advances wood products trade opportunities in China, and how these transactions could affect available supply.

Why You Should Stay Tuned...

Throughout the year, we will cover these and other topics in SBC to lay out the facts about lumber supply as we know them. We hope these topics will provoke some thought about our industry's future issues.

- How much of the supply of beetle kill logs remains?
- How long can dead trees stand, and what happens to their structural properties as they age after dead? Harvesting beetle kill lumber and its impact on lumber properties.
- If the tree fiber is not of the quality and strength needed for solid wood uses such as in wood trusses and components, are there alternative uses?
- What will be the raw material supply impact on the SBC industry?
- Will raw material change? For instance, will we see more products made from OSB or composite fiber?

In researching this issue, it is clear that wood fiber supply is going to be one of the major business issues that will affect component manufacturers in the near future. History has proven that if our suppliers can take advantage of the economics of supply and demand, they will. The more knowledge that we can gather, the more prepared we will be to make informed decisions. **SBC**

³ www.woodmarkets.com/p_wm2006.html

⁴ www2.news.gov.bc.ca/news_releases_2009-2013/2009FOR0078-000617.htm

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6300 Enterprise Lane • Suite 200 • Madison, WI 53719
608/310-6706 phone • 608/271-7006 fax
www.sbcmag.info • admgr@sbcmag.info