

OREGON WOODLAND COOPERATIVE

March 24, 2008

BRIEF SUMMARY OF ACTIVITY OF COORDINATORS

1. The coordinators are continuing to work with Wilco on a "Preferred Provider" agreement with their Coop.
2. The "Preferred Provider" agreement with Trout Mountain was completed. For more information please contact one of the coordinators.
3. The coordinators are continuing to update the OWC website. Please provide feedback on what you would like to see on our website at www.orwoodlandco-op.com
4. Look for the OWC newsletter in your mail or you can find it on the OWC website.
5. If you would like to volunteer to help plan the OWC annual meeting (May 17th) please contact Kent Goodyear at 503-341-6130.
6. Louis Leatherman, Kent Goodyear, Marie Madison and Tom Nygren completed an accounting training session with AKT Financial Services who has created a new system of accounting for the coop.
7. We hope you will stop by the OWC booth to meet the coordinators at Tree School Saturday March 29th. It is held in the gymnasium in Randall Hall at Clackamas Community College in Oregon City.

OREGON WOODLAND COOPERATIVE MARKET REPORT 3/24/08

Although it is hard in some places in the U.S. to notice, spring is arriving and with it the commencement of new energies to move forward with a new and refreshed vigor. The drab darkness of winter that causes us to hibernate with the rest of nature resurrects itself with the coming of the light of spring and with that light new creative expression. So it is with the lumber market. Although as with the last vestiges of winter in some parts of the country camouflaging the celebration of spring, so too are the lumber and broader economic conditions being camouflaged by some severely challenging monetary conditions here in the U.S. and globally. Here then is a list of observations from this past week concerning the consumer of forest products and the duality of observations of the production side of forest products otherwise known simply as demand and supply.

1. Chips are still moving up in price due to the continued stress of increased demand for products made from chips as well as increased demand for what is considered by-products such as saw dust and cogeneration fuel. Couple the increase in demand for these by-products with the decrease in lumber production globally and we can see that markets dynamics are shaping up in the near term for a continued increase in prices for these by-products. Log prices for chips are now equivalent to another \$10/m or \$340/m in some cases. If this trend continues, it is conceivable that in the near term we could see more logs that are normally cut into dimensional structural lumber for construction purposes compete in price for chips. This has not happened in the last 20 years in the lumber business and I mean #2 saw log not just a #3. Chip prices though are subsidizing the saw mill that would probably have shut down by now due to the recent 30 year record lows for finished lumber products versus the comparatively high cost of logs when considering a sawmills ability to make a profit. Log prices may be at lows not seen since 1985, but they are still not cheap enough for a mill to buy,

process and sell the finished lumber for a profit especially to a market that until now requires far less lumber than what is being produced.

2. Some statistics. There is, as of the end of 2007, 52 billion board feet of finished lumber available to the U.S. that is produced globally. Most comes from North American production here domestically and Canada. Of that 52 billion, 45 billion is dimensional structural finished lumber. That is what is produced and for sale for consumption here in the U.S. There is, according to the government figures for February 2008, just shy of 1 million housing starts on an annualized basis. That figure represents approximately 32% of the structural lumber demand. The do-it-yourself, remodel market accounts for approximately 35%. That leaves 33% in the "other" category. So, if a typical single family house built today consumes 13,000 bd. ft. of structural framing lumber and multifamily about 6,000 bd. ft. of structural framing lumber, that equates to approximately 11 billion bd. ft. for new construction, 14 billion bd. ft. for the do-it-yourself/remodel/repair market and 13 billion bd. ft. for the "other" market for a total demand for structural dimensional lumber of 38 billion bd. ft. The peak of demand for structural dimension lumber available in the U.S. was 57 billion bd. ft. in 2005. The total of all types of lumber available in the U.S. in 2005 was 64 billion bd. ft. . So, 57 billion bd. ft. minus 45 billion bd. ft. is a reduction to current day of 12 billion bd. ft. Thus, if today's current demand is 38 billion bd. ft. for structural dimensional lumber and production for the same category is 45 billion, then for the demand statistically to be in equilibrium with supply there needs to be a further reduction of approximately 7 billion bd. ft. of production earmarked for consumption in the U.S. Of the 45 billion of current structural dimensional lumber produced, 29 billion is produced domestically, 14 billion is produced in Canada, and 2 billion is produced elsewhere in the world. The 14 billion of structural dimensional lumber produced and available for the U.S. is 60% of the total of 24 billion bd. ft. of structural dimensional framing lumber produced in Canada. In other words, Canada exports far more structural dimensional framing lumber on a percentage basis to countries other than the US than the US does. The US exports approximately 1 billion board feet of structural dimensional framing lumber to other countries leaving the net of 29 billion bd. Ft mentioned above. This would suggest that either the U.S. exports a far greater percentage of production abroad than it currently does or that U.S. demand must increase or, the more probable scenario, of the need for greater reduction of production here in the U.S. than in Canada. That could suggest that of the 7 billion bd. ft. of overproduction available in the U.S. , most or all of the needed reduction of production comes from the U.S. manufacturing facilities.

The Southeast United States produces 17 billion bd. ft. of which 14 billion is for the U.S. structural dimensional framing lumber market while the West Coast which for the conversation includes the inland U.S. production produces a total of 16 billion bd. ft. of which 13 billion bd. ft. is structural dimensional framing lumber Canada has chosen to be more competitive toward the export market abroad meaning not coming to the U.S. or domestically in Canada. They will continue to do so. That puts the pressure to reduce production here in the U.S. under ever greater stress. The 7 billion bd. ft. of reduced production has to come from somewhere.

3. As was mentioned in the first paragraph, spring is upon us. This week we saw for the first time in several months a definite, although not necessarily overt, shift in consciousness by the purchaser at the retail and distribution level. They were quoting a noticeably greater number of construction projects that they had seen since the summer of 2007. They were buying more lumber that they had for the

last 3 months. The West Coast demand saw this first last week and the rest of the country is starting to see that this week. Production of the green Doug Fir sector has again reduced noticeably to the point where demand and supply are more in harmony with one another. That is not true for the production of Spruce, Southern Pine and Hemlock/Hemfir. However, there is an increased perception that the spring season for increased demand has commenced and there was increased purchasing to cover anticipated needs. Consequently the prices for green Doug Fir dimension rose around \$25/m for 2x4, 2x6 and 2x8. These are the volume dimensions produced in today's market. We also saw the Canadian SPF market rise around \$10/m for the same dimensions. This trend should continue in the short term or for what I would say was 6 weeks worth of a stronger market to cover those spring and summer building needs. Studs are also another item that in certain species is tougher to get and saw the price lifted. Fingerjoint lumber products also saw less supply and higher prices. The price of logs however are not increasing and we will see if the finished lumber market increase in prices can transfer in the short term to higher log prices. We doubt it because as mentioned there is less production, therefore less demand for logs for the purpose of manufacturing lumber and even though finished lumber prices will rise, those higher prices have a way to go up to allow a sawmill to break even or make money at today's low log prices. Chips though, as mentioned above, could change that equation. We'll see. The market should do better overall for at least the next six weeks or so.

Whatever does take place within the market in the next coming weeks, this much is true, it is time to look at what we can do not what we can't do. We already know that doing business the same way that it has been done for the last few years is not working. If it was we wouldn't be in this fix. So, that is what we can't do. What we can do is get out of our comfort zone, get outside conventional wisdom, and create scenarios of the possibilities of what we can do. And we must learn how to do it together if we are to be successful in the near and long term present and future. We can choose to empower ourselves and one another to take the courageous steps toward the unknown yet preserve the faith in planning, managing and administrating by using the knowledge, wisdom and experience of the past.

All for now and with warm regards, Scott Zimmerman
Coordinator of Marketing - Oregon Woodland Cooperative

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