

HAMPTON MILL MAINTAINS TITLE

TOP TWELVE PRODUCER MILLS ARE IN NORTHWEST

By Henry Spelter

Congratulations again to Hampton Affiliates and especially its lumber operation in Willamina, Ore. for being the top lumber producer in the U.S. in 2003.

The mill's output of 433MMBF exceeded its previous year's total by almost 50MMBF. The Weyerhaeuser Co. sawmill at Cottage Grove, Ore. placed second with 340MMBF (it was third in last year's list) and the Simpson dimension sawmill in Tacoma, Wash. rounded out the top three with 330MMBF.

Regionally, the Nexfor Fraser Papers dimension/stud complex in Ashland, Me. was tops (191MMBF) in the Northeast and the Louisiana-Pacific small log stud mill in Gwinn, Mich. placed highest (158MMBF) among Midwestern producers. In the South, two Weyerhaeuser mills (Dierks, Ark. and Fernwood, Miss.) led while in the interior West three Riley Creek plants in Idaho took the top spots.

It has been noted that competition on a global scale is forcing firms to seek economies of scale. The capacity data here certainly reflect this. Among those surveyed, last year's total was exceeded by more than 1.3 billion feet (4%). Capacity utilization was 93%, with weak markets in the year's first half and weather related log supply constraints cited as reasons for not operating at higher rates.

The industry's gains are being achieved through the launching of a handful of new state-of-the-art mills (such as Simpson, Tacoma, and Sierra Pacific, Aberdeen, Wash.), through equipment retrofits and line additions (e.g. Collums in Allendale and Elliot in Estill, SC) and through expansion of hours or shifts. In the West only 7% of reporting mills still operated on a one-shift basis compared with 13% running three shifts. In this regard the South lags with over a third still reporting a one-shift mode and only 8% running three shifts. While this survey did not extend into Canada, reports indicate similar trends in capacity expansions there as well.

The rise in capacities last year is reflected in increased shipments this year. Despite reported transportation bottlenecks, U.S. railcar loadings of wood products through June 5 were up about 8%. In Canada, where more acute railcar shortages were reported, year-to-date loadings

were still up 6%.

These capacity increases forecast shadow increases in supply, which would be troublesome if demand should falter or fail to keep pace. At the Portland Clinic earlier this year I compared recent economic trends to those in 1971-73. The strong similarities between trends in that and the current cycle still hold three months later, even down to movements in lumber prices, but the major test of the 1971-73 era as a guide to the present will come later this year when we will see to what degree the current strong economic rebound translates into higher inflation.

In late 1972, following earlier easy monetary policies, a pick up in inflation compelled the Federal Reserve to sharply raise interest rates, knocking the legs under housing out and sending the wood products industry into a two-year slump. Economic cycles, however, usually don't repeat exactly. Then, the unwinding of wage-price controls and the oil embargo teamed up to ignite the flare up in prices. This time the absence thus far of a major disruption in energy and the increased ability to move capacity and production around globally should limit the risks of an inflation shock and allow a more graduated adjustment of interest rates. Under that scenario, I hold out hope for only a modest fall-off in home building activity in 2005 and at worst a mild fall-off in wood demand.

Still the record of capacity increases suggests that the current high prices will not last. While some of the recent capacity gains could be nullified through elimination of hours or shifts, experience shows that most of it will stick around. Supply adjustments then will have to come through cutbacks in high-cost, often smaller scale operations, which inevitably face challenges in competing against larger competitors in commodity markets on the basis of costs, productivity and profitability.

The one possible exception to this lies in the West. Due to extensive mill closures brought on by earlier cutbacks in public timber harvests, there exists a potential dearth of processing capacity if planned



forest thinnings accelerate. The uncertainty around public timber supplies keeps large-scale investment from returning to areas where dependency on public timber is high. Into this vacuum has evolved the concept of the "micro" or satellite mill exemplified by Ponderay Valley Fiber Co. in Usk, Wash. Originally a chipping mill only, this firm installed high-speed small log processing machinery to cut rough green studs from small wood and serves as a satellite mill to the nearby Merritt Brothers operation where the material is dried and finished. Several such small-scale arrangements, some semi portable, have cropped up. In this case only, where the relatively small size of the operation may reduce the risks of legal challenges to harvests and the modest investment limits the financial risk, smaller-scale operations may find their opportunity.

So, as the year passes the halfway mark and lumber markets continue to enjoy relatively good times, we wish continued prosperity to our lumber industry colleagues. *Laissez les bon temps roulez!* We also thank those who shared information for this roundup and hope they will be around to do so again next year.

(Timber Processing surveyed 250 large U.S. softwood sawmills about their 2003 production and capacity. Eighty replied and 90 more provided data in response to follow up inquiries. We estimated the production of the remaining 80 from previous data.) TP

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