THE
TOP200!

By
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Big production numbers in 2005, such as those posted by the Hampton Affiliates sawmill in Willamina, Ore., may be tamed in 2006.


Hampton's mill at Willamina boosted output to 486MMBF.

The Hampton Affiliates sawmill in Willamina, Ore. again tops the list for output by a single U.S. mill for 2005. Its 486MMBF not only outdid some 660 other significant US. sawmills, but also its own production of 473 million in 2004. Only a few mills in British Columbia and Germany are in this volume range. This marks the fourth consecutive year that Hampton's Willamina mill has won the "national title."

The Roseburg stud mill in Dillard, Ore. vaulted into second place from ninth place with 393MMBF. This mill expanded on the site of an old large log mill in 2003 and ramped up to full capacity in 2005.

In the third spot is the Simpson complex in Tacoma, Wash. This was a stud mill that was changed to a dimension mill about five years ago and operates in the 400MMBF range.

Perennial high producers are Weyerhaeuser facilities in Longview, Wash. and Cottage Grove, Ore., both of which fell one spot to fourth and fifth, respectively. Independent producer Seneca Sawmill placed sixth with 317MMBF (it dropped a shift a couple of years back). Rounding out the top 10 are Weyerhaeuser in Coburg. Ore.; Sierra Pacific in Aberdeen, Wash.; Stimson in Forest Grove, Ore.; and Weyerhaeuser in Aberdeen, Wash.

Noteworthy changes occurred at several sites. The Tolleson Lumber mill in Preston, Ga. added a shift and vaulted from 130 to 34 with 220MMBF of production. Together with the 150MMBF at Perry, this makes the company the biggest producer in Georgia, ahead of Georgia-Pacific. Gilman and International Paper.

Anthony Timberlands in Bearden, Ark. reported running at a 200MMBF pace in one month. but in the end checked in at 122MMBF. Pacific Lumber in California consolidated its operations at Scotia and reported a pace of 265MMBF at one point. With the addition of a new large log line, the complex should be in the top 10 next year. Washington State lost the large log line at the Weyerhaeuser Aberdeen complex in October, but is likely to be compensated by the addition of second new Sierra Pacific mill in the state near Mt. Vernon, north of Seattle.

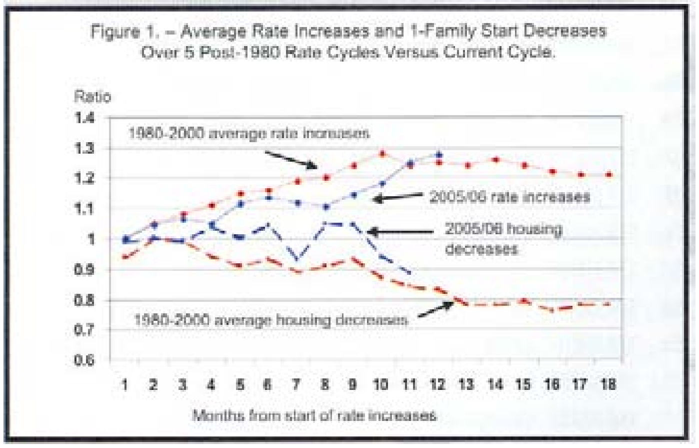
The top 60 producers between them increased output by 6% relative to 2004. This beat the overall industry increase of 4% estimated by the Western Wood Products Assn.

Among the states, Oregon continues to have the largest representation on the list with 31 mills accounting for 6.5 billion feet of output, followed by next door Washington with 25 sites and 4.6 billion of production. Georgia is tops in the South with 17 plants and 2.1 billion feet.

All this was in the past and in the past is where it shall remain. 2006 presents different circumstances where changes in strategies may be needed to meet more challenging conditions.

ECONOMICS

A review and preview of where the economy has recently been and where it is heading over the next 12 months is contained in the accompanying chart. Although the Federal Reserve has been raising interest rates for about two years now, the longer term rates that matter most for housing and lumber demand only began a sustained increase from June of last year. Since then. however, they have risen at a rate commensurate with the average experience of five previous rate raising episodes that have occurred since 1980. The average response of housing starts to those higher rates also appears in the chart and unambiguously shows the negative ef-



fects of costlier credit. One year into this current interest rate cycle, housing starts are responding in a similar vein.

We are now approaching a point where tighter credit is beginning to bite and crimp some segments of the economy. Based on history, this is about the level where rate hikes should peak. Federal Reserve officials have hinted as much in recent statements that they would like to consider a "pause."Whether they can depends on evolving inflation and other economic data, but in any event, based on past performance, it will likely take about six months or more before they are apt to reverse and begin cutting rates.

In the meantime housing is likely to continue to fade from the effects of tighter credit for about another six months and then remain at some lower plane for several months thereafter before a recovery might commence. In this environment collectively shooting for maximum output is likely to be counterproductive for prices and margins, as we are already seeing in early June. Viewing likely prospects, managers should prep themselves and their staffs for the slowdown that this outlook inevitably implies. Short of closures, steps to constrain excess output could include temporary curtailments and shift management.

Growing the market to replace the void left by fewer housing starts is a more positive step. While the domestic outlook dims, prospects overseas are brighter. Not only are European and Asian economies on the upswing, but the U.S. dollar is also fading, boosting U.S. export prospects. Alert managers who can adapt their processes to overseas size and quality standards can enhance demand for their mills even as domestic sales wane.

The Softwood Export Council actively promotes overseas lumber sales and is one logical source managers can turn to for advice and pointers to foreign markets (www.softwood.org). In recent years most of the products exported from the U.S. to Europe, for example, were only high-grade factory products, lumber that will be cut into door and window parts, molding, etc., or treated lumber (southern pine). In 2005, exports to Europe totaled just 71MMBF. In the past American exporters had much better success and current circumstances are favorable for recapturing lost volumes for those willing to seek the opportunity. Exports are a way the industry can help itself get through a soft spell as well as do its bit to help the nation balance its enormously lopsided trade deficit. TP

Timber Processing *mailed surveys to 255 fop lumber producing miffs.* **Timber Processing** *thanks management and staff who responded with information on 180 plants, our highest ever response rate. The outputs of the remainder were estimated from previous production information. Mills were ranked according to production. Corrections or contacts for future surveys can be sent to rich@hattonbrown.com.*

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