



MINOR

SHAKE UP

By Henry Spelter

Markets were soft, but the big mills still packed some production punch.

For softwood lumber producers 2006 was an “interesting” year, but mostly in the Chinese proverbial sense of the word. This is illustrated by the top U.S. producer, the Hampton Affiliates sawmill in Willamina, Ore. It receives double kudos for remaining the top producer, but also for being the one among the top 30 that cut back the most, thus

doing its share to keep a badly oversupplied market balanced. Its 2006 total of 426MMBF was down 12% from its previous year’s total.

As in 2005, the Roseburg stud mill in Dillard, Ore. was the second highest producer with 385 million, down a tad from the previous year’s total of 393.

In third spot was the Simpson complex in Tacoma, Wash. Its 355 million feet lagged its prior year total by 6%.

In its fourth year of full operation, the Sierra Pacific dimension mill in Aberdeen, Wash. went against the tide and climbed to fourth by sawing 337MMBF, 30 million above its 2005 tally.

The Weyerhaeuser complex in Cottage Grove, Ore. leapfrogged its sister mill in Longview, Wash. to round out the top five.

As hinted, 2006 was tough economically and a number of longtime members of

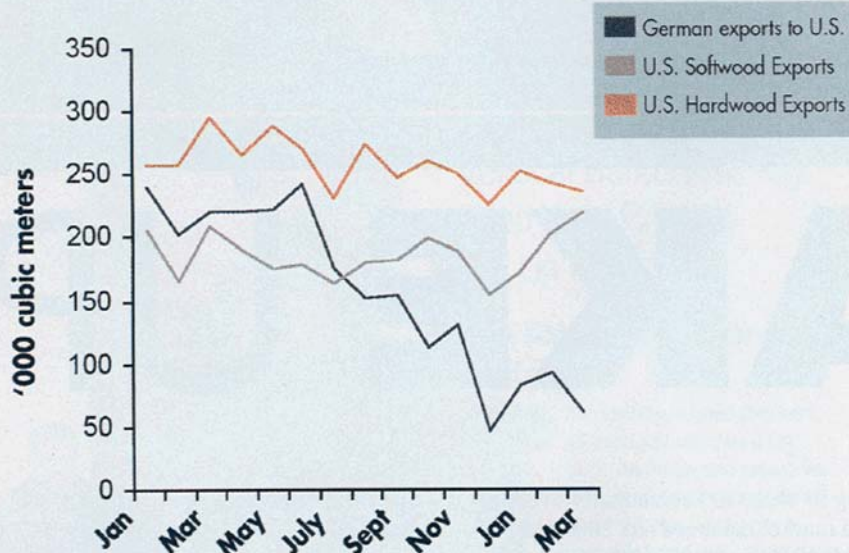
this list dropped out permanently. First among these was the ex-Louisiana-Pacific turned independent stud mill, Pony Lumber in Tacoma, Wash. Sad as its demise was, its management gets credit for foresight in recognizing early on the futility of trying to operate as a smaller independent in a deep and prolonged slump. Rather than waste resources on a hope and a prayer, the mill took several downtimes before closing for good in September.

Almost as prescient was the management of the Stimson company, who similarly idled a 120MMBF stud mill in St. Helens, Ore. in October, then made the closure permanent in 2007. The startup of a new stud mill in nearby Centralia, Wash. in the fall together with the startup of a second major new dimension mill farther up the coast in Mt. Vernon tightened the long-term outlook for timber supply and contributed to the decision.

Table 1 – Capacity utilization and change in activity by corporate and non-corporate lumber companies, 2006-2007.

Region (firms)	'06 I	II	III	IV	'07 I	Average
Cap util						
E. Can. (5)	93%	98%	87%	74%	74%	90%
BC (5)	102%	96%	95%	87%	92%	94%
U.S. (7)	99%	101%	96%	91%	90%	95%
All (17)	99%	98%	94%	86%	87%	94%
Tot N Am	94%	92%	88%	80%	74%	86%
Non corp.	92%	88%	84%	77%	66%	81%
Output						
E. Can. (5)	-3%	-1%	-8%	-17%	-24%	
BC (5)	6%	4%	7%	0%	-5%	
U.S. (7)	-2%	-5%	-6%	-10%	-10%	
All (17)	1%	-1%	-1%	-7%	-11%	
Tot N Am	1%	-3%	-4%	-10%	-22%	
Non corp.	1%	-4%	-7%	-12%	-30%	

Figure 1. – U.S. Exports of softwood lumber from Germany vs. exports of American lumber, 2006-2007



Other departures included two Weyerhaeuser sawmills in Lebanon, Ore., where the company plans to rebuild a state-of-the-art facility on one of the sites sometime in 2008, and the Weyerhaeuser large log line in Aberdeen, Wash., which closed at the end of 2005.

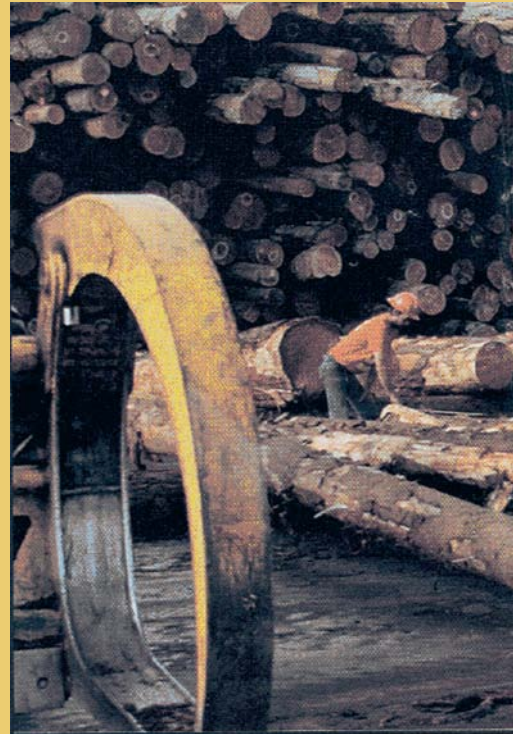
Despite unfavorable economic conditions, several new mills got up to speed in 2006. The Bennett Lumber facility in Grangeville, Id. made the list at 102. A second new Sierra Pacific mill along coastal Washington at Mt. Vernon started in the fourth quarter of 2006 and reportedly added a third shift by the first quarter of 2007. Its likely capacity of around 300MMBF and rapid ramp up suggest a place near the top on next

year's list. As noted, a major new stud mill with planned capacity of 180MMBF, the Centralia Sawmill Co., began with one shift in mid 2006, but had the bad luck to start one of the worst economic periods in recent times. It hit financial turbulence and was sold to Sierra Pacific.

Overall, the 200 mills for which we had both 2005 and 2006 data showed a drop in production of almost 6%. Capacity utilization was just 90%.

ANALYSIS

As suggested by the above, suppliers had a hard time adjusting output to the weaker demand that characterized 2006.



Consequently prices, as recorded by the Random Lengths Framing Lumber Composite Index (RLFLCI), after hitting \$385 on January 13, spiralled down to a low of \$269 by November 10. Things haven't improved much since with the high so far in 2007 (as of June) again coming in the second week of January (\$302) and the low of \$274 on March 30.

A look at the quarterly reports of 17 U.S. and Canadian publicly listed companies pinpoints the problem (Table 1). Between them these producers operated at near full capacity in the first half of 2006, began to downshift slightly only in the third quarter before taking somewhat more aggressive cuts in the fourth and first quarters. Similarly, quarterly year-over-year output comparisons show significant drops only in the fourth quarter of 2006 and the first of 2007. Since official statistics showed overall output of the combined U.S. and Canadian industry was down more, this means that everybody else had to shoulder the lion's share of the cutbacks. The non-corporate capacity utilization dropped throughout the period, reaching a low for this cycle of 66% in the first quarter of 2007. Their reductions in output mirrored this trend, falling continuously to a negative 30% by the first quarter of 2007.

The tendency to run mills on a more or less continuous basis is ill suited to a business whose demand is cyclical and whose elasticity of demand with respect to its price is low. No recent study I am aware of has found lumber demand to be very price responsive. When the industry produces more than its customers are



able to use, mills have to cut price to off load the excess. But since price cuts do not significantly spur demand, the most mills can accomplish is to poach business from one another. The result is an extended cycle of price cuts until enough of the industry wilts to bring supply back into balance with demand. This all or nothing model of production creates losses for almost every body that a more nuanced approach to supply management could ameliorate.

With increasing globalization and interconnectedness of world trade, one obvious solution would be to shift sales to other parts of the globe. Yet in this regard the American industry seems unable to capitalize on its opportunities. While demand and prices have been dropping in the U.S., conditions in Asia, the Middle East and Europe have been more auspicious. Together with a weak dollar against European currencies, an opportunity for increased exports seems to beckon. But export volumes have remained essentially flat over the past 15 months.

A comparison with the response of German producers to these circumstances is instructive (Figure 1). In recent years a handful of world class sawmills geared to export markets have been built in Germany. When the U.S. market began to weaken and the Euro strengthened, over the course of nine months German exporters shifted three quarters of their volume away from the American market. U.S. exports by contrast, whether softwood or hardwood, hardly budged from a flat trend line.

A few years ago we urged the National Weights and Measures organization to adopt a cubic rule for timber in lieu

of the variety of board foot rules used across the country as a first step toward harmonizing U.S. measurement practices with international standards. Industry opposition killed the idea. One speaker listed a series of industries that suffered decline as a result of international competition and asserted the lumber industry would be next if such a rule were adopted. In this view the separate sizes and measurements were apparently seen as a form of a non-tariff barrier to foreign trade. It may well be that, but more in the name of locking Americans out of opportunities abroad than blocking foreigners from opportunities here; for it manifestly hasn't kept foreign wood out but seems to inhibit American exports abroad. Because the American market is so large, it pays foreign mills to modify their cutting patterns and drying schedules to make lumber according to American lumber sizes and standards. The opposite switch appears to be uneconomic for U.S. mills, leaving the U.S. industry lagging behind more nimble foreign competition and reliant on uncertain trade remedies to stave off imports. The sudden surge in the value of the Canadian dollar, from 85 to 94 cents, combined with acutely depressed prices, subsequently checked imports and gave the market a breather.

Returning to the top 200 list, it is worthwhile to recall that over a century ago the Lake States were the epicenter of the lumber industry in North America. In a twist that should resonate today, it was the Ontario lumber people who complained about excessive production tendencies from the American side. Every spring, after the ice thawed,

schooners loaded with green lumber from the North Woods Pinery set sail from places like Muskegon and Manistee, Algoma and Menominee for Chicago where they were towed up stream the Chicago River to near where the giant Merchandise Mart building stands today. Buyers would go over the cargo and make bids. A deal would be struck following which the ship would be towed to the South branch of the river where the lumber would be unloaded and stacked to air dry at one or another lumber merchant's giant yard. From there the dried, graded lumber would be distributed far and wide across the Midwest and the Southwest. The hectic pace of cutting eventually drained the resource and the lumber industry's center of gravity moved on.

In the recent past only a couple of medium sized stud mills in Minnesota and Michigan made the list. This year, for the first time since the Titanic sailed, a mill in Wisconsin clawed its way back onto the list, a reflection of the gradually recuperating condition of the Lake States forest. So congratulations to the staff of the Biewer sawmill in Prentice. On Wisconsin! TP

Timber Processing mailed surveys to 225 top lumber mills and expresses thanks to the management and staff of the 146 plants who responded. The outputs of the remainder were estimated from previous production and capacity information. Mills were ranked according to production. Capacity was used as a backup in case of ties. Corrections or contacts for future surveys can be sent to rich@hattonbrown.com.

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NORTH AMERICA'S TOP 200 SOFTWOOD SAWMILLS

1	426	MMBF	Hampton Affiliates	Willamina, OR
2	385	MMBF	Roseburg Forest Products	Dillard, OR
3	355	MMBF	Simpson Timber	Tacoma, WA
4	337	MMBF	Sierra Pacific Industries	Aberdeen, WA
5	327	MMBF	Weyerhaeuser	Cottage Grove, OR
6	325	MMBF	Weyerhaeuser	Longview/Gr.Mtn., WA
7	308	MMBF	Weyerhaeuser	Coburg, OR
8	300	MMBF	Stimson Lumber	Forest Grove, OR
9	299	MMBF	Weyerhaeuser	Dierks, AR
10	296	MMBF	RSG Forest Products	Molalla, OR
11	291	MMBF	Seneca Sawmill.....	Eugene, OR
12	271	MMBF	Simpson Timber.....	Shelton, WA
13	261	MMBF	Westervelt.....	Moundville, AL
14	250	MMBF	Douglas Co For Prod.....	Winchester, OR
15	250	MMBF	Sierra Pacific Industries.....	Lincoln, CA
16	246	MMBF	Weyerhaeuser	Plymouth, NC
17	246	MMBF	Hampton Affiliates.....	Randle, WA
18	245	MMBF	Weyerhaeuser	Ayden/Greenville, NC
19	244	MMBF	Hampton Affiliates	Tillamook, OR
20	244	MMBF	RSG Forest Products.....	Kalama, WA
21	240	MMBF	Riley Creek Lumber	Laclede, ID
22	233	MMBF	Weyerhaeuser.....	Wright City, OK
23	230	MMBF	Simpson Timber	Korbel, CA
24	225	MMBF	Weyerhaeuser.....	Philadelphia, MS
25	224	MMBF	Rosboro Lumber.....	Springfield, OR
26	223	MMBF	Weyerhaeuser.....	Dallas, OR
27	223	MMBF	Tolleson Lumber	Preston, GA
28	217	MMBF	Weyerhaeuser.....	Bruce, MS
29	217	MMBF	Weyerhaeuser	Fernwood/McComb, MS
30	216	MMBF	Sierra Pacific Industries.....	Quincy, CA
31	212	MMBF	West Fraser Timber	Joyce, LA
32	210	MMBF	Potlatch	Lewiston, ID
33	202	MMBF	Hampton Affiliates	Darrington, WA
34	200	MMBF	Pacific Lumber	Scotia, CA
35	198	MMBF	Potlatch.....	Prescott, AR
36	195	MMBF	RSG Forest Products.....	Mist, OR
37	195	MMBF	Jordan Lumber & Supply	Mount Gilead, NC
38	194	MMBF	Interfor Pacific Inc	Molala, OR
39	192	MMBF	International Paper	Riegelwood, NC
40	192	MMBF	Riley Creek Lumber	Moyie Springs, ID
41	191	MMBF	Hampton Affiliates	Morton, OR
42	190	MMBF	Swanson Group/Superior Lumber.....	Glendale, OR
43	190	MMBF	Swanson-Superior, LLC.....	Noti, OR
44	190	MMBF	Simpson Timber	Dayton, WA
45	189	MMBF	Fraser Timber Ltd.....	Ashland, ME
46	184	MMBF	Weyerhaeuser	Warrenton, OR
47	178	MMBF	Riley Creek Lumber	Chilco (Athol), ID
48	178	MMBF	Temple-Inland.....	Pineland-Dim, TX
49	177	MMBF	Temple-Inland	Diboll, TX
50	177	MMBF	West Fraser Timber	Huttig, AR

51	175	MMBF	International Paper	McDavid, FL
52	175	MMBF	Weyerhaeuser	Dodson, LA
53	173	MMBF	Potlatch.....	Gwinn, MI
54	171	MMBF	Temple-Inland.....	Dequincy, LA
55	170	MMBF	Georgia-Pacific	Coos Bay, OR
56	168	MMBF	Weyerhaeuser.....	Raymond, WA
57	166	MMBF	Weyerhaeuser.....	Aberdeen, WA
58	166	MMBF	Sierra Pacific Industries.....	Anderson, CA
59	165	MMBF	Hood Industries	Waynesboro, MS
60	164	MMBF	Joe N. Miles & Sons.....	Silver Creek, MS
61	164	MMBF	Rayonier.....	Baxley, GA
62	162	MMBF	International Paper.....	Leola, AR
63	161	MMBF	International Paper	Camden, TX
64	160	MMBF	Sierra Pacific Industries.....	Burney, CA
65	159	MMBF	Bibler Brothers	Russellville, AR
66	158	MMBF	Potlatch.....	Warren, AR
67	157	MMBF	Temple-Inland.....	Buna, TX
68	156	MMBF	International Paper	New Boston, TX
69	155	MMBF	New South (Canfor).....	Camden, SC
70	154	MMBF	Weyerhaeuser	Pine Hill, AL
71	153	MMBF	MeadWestvaco.....	Cottonton, AL
72	150	MMBF	Weyerhaeuser.....	Holden, LA
73	150	MMBF	Lewis County For Prod	Winlock, WA
74	150	MMBF	Georgia-Pacific.....	Philomath, OR
75	150	MMBF	Joe N. Miles & Sons.....	Bogalusa, LA
76	147	MMBF	Elliott Sawmilling	Estill, SC
77	145	MMBF	New South (Canfor)	Conway, SC
78	145	MMBF	Deltic Timber.....	Waldo, AR
79	142	MMBF	Seattle-Snohomish.....	Snohomish, WA
80	142	MMBF	Tolleson Lumber	Perry, GA
81	141	MMBF	Portac.....	Beaver, WA
82	140	MMBF	Temple-Inland.....	Rome, GA
83	137	MMBF	Trinity River Lumber	Weaverville, CA
84	136	MMBF	Collums Lumber Products.....	Allendale, SC
85	136	MMBF	Yakama Forest Products.....	White Swan, WA
86	136	MMBF	Interfor.....	Gilchrist, OR
87	135	MMBF	Langdale Forest Products	Valdosta, GA
88	132	MMBF	International Paper	Newberry, SC
89	132	MMBF	International Paper	Henderson, TX
90	132	MMBF	Stimson Lumber	Tillamook, OR
91	130	MMBF	Bean lumber	Glenwood, AR
92	130	MMBF	Harwood Products.....	Branscomb, CA
93	130	MMBF	Stratton Lumber	Stratton, ME
94	128	MMBF	Scotch Lumber	Fulton, AL
95	127	MMBF	J.D. Lumber	Priest River, ID
96	126	MMBF	Stimson Lumber	Coeur d'Alene-Deardmond, ID
97	126	MMBF	Tubafor Mill.....	Morton, WA
98	125	MMBF	Stimson Lumber.....	Priest River, ID
99	124	MMBF	Georgia-Pacific.....	New Augusta, MS
100	123	MMBF	Shuqualak Lumber	Shuqualak, MS

NORTH AMERICA'S TOP 200 SOFTWOOD SAWMILLS

101	122	MMBF	International Paper	Augusta, GA	151	97	MMBF	Weyerhaeuser.....	New Bern, NC
102	121	MMBF	Bennett Forest Industries.....	Grangeville, ID	152	96	MMBF	Hankins Inc.....	Ripley, MS
103	120	MMBF	Vaagen Brothers.....	Colville, WA	153	96	MMBF	Interfor.....	Port Angeles, WA
104	120	MMBF	Bibler Bothers.....	Idabel, OK	154	96	MMBF	Packaging Corp.	Ackerman, MS
105	120	MMBF	Jordan Lumber & Supply	Barnesville, GA	155	95	MMBF	North Florida Lumber	Bristol, FL
106	118	MMBF	International Paper	Meldrim, GA	156	94	MMBF	ArborTech.....	Blackstone, VA
107	117	MMBF	International Paper	Franklin, VA	157	94	MMBF	Sierra Pacific Industries	Standard/Sonora, CA
108	117	MMBF	International Paper.....	Gurdon, AR	158	93	MMBF	Gilman Building Products	Lake Butler, FL
109	116	MMBF	Georgia-Pacific	Fayette, AL	159	92	MMBF	Sierra Pacific Industries.....	Carnino, CA
110	116	MMBF	Potlatch	Saint Maries, ID	160	92	MMBF	Travis Lumber	Mansfield, AR
111	116	MMBF	Pope & Talbot.....	Spearfish, SD	161	91	MMBF	Stimson Lumber	St Helens, OR
112	115	MMBF	Hankins Lumber	Grenada, MS	162	91	MMBF	International Paper	Sampit, SC
113	115	MMBF	Anthony Timberlands	Malvern, AR	163	91	MMBF	DR Johnson Lumber	Dillard, OR
114	113	MMBF	Anthony Timberlands/Bearden Lbr	Bearden, AR	164	90	MMBF	Plummer FP.....	Plummer, ID
115	110	MMBF	M. C. Dixon Lumber	Eufaula, AL	165	90	MMBF	Grayson Lumber	Mariana/Cypress, FL
116	110	MMBF	Swanson Group/Sun Studs.....	Roseburg, OR	166	90	MMBF	U.S. Timber.....	Cordele, GA
117	110	MMBF	South Coast Lumber	Brookings, OR	167	90	MMBF	Bennett Lumber	Princeton, ID
118	110	MMBF	Stimson Lumber.....	Bonner, MT	168	90	MMBF	J D Irving.....	Dixfield, ME
119	110	MMBF	Georgia-Pacific	Bay Springs, MS	169	88	MMBF	Plum Creek Timber	Kalispell/Evergr, MT
120	110	MMBF	Rayonier.....	Swainsboro, GA	170	88	MMBF	Gilman Building Products	Maxville, FL
121	109	MMBF	Wilkins Kaiser Olsen.....	Carson, WA	171	87	MMBF	International Paper	Opelika, AL
122	109	MMBF	Harrigan Lumber.....	Monroeville, AL	172	86	MMBF	MeadWestvaco.....	Summerville, SC
123	108	MMBF	Deltic Timber	Ola, AR	173	85	MMBF	Buse Timber Sales	Everett, WA
124	108	MMBF	T. R. Miller Milt	Brewton, AL	174	85	MMBF	Banks Lumber	Banks, OR
125	108	MMBF	Temple-Inland	Pineland, TX	175	85	MMBF	Plum Creek Timber	Fortune, MT
126	107	MMBF	International Paper	Maplesville, AL	176	85	MMBF	International Paper	Seaboard, NC
127	107	MMBF	New South (Canfor).....	Graham, NC	177	85	MMBF	Charles Ingram Lumber	Effingham, SC
128	106	MMBF	Weyerhaeuser	Millport, AL	178	85	MMBF	H W Culp Lumber	New London, NC
129	105	MMBF	Manke Lumber.....	Tacoma, WA	179	84	MMBF	Georgia-Pacific	Prosperity, SC
130	105	MMBF	Mountain Lumber	Deer Lodge, MT	180	84	MMBF	Sierra Pacific Industries.....	Oroville, CA
131	105	MMBF	Bowater Lumber	Abertville, AL	181	83	MMBF	Intermountain For Products.....	Montrose, CO
132	105	MMBF	Schmidbauer Lumber.....	Eureka, CA	182	82	MMBF	Weyerhaeuser.....	Taylor, LA
133	104	MMBF	Gilman Building Products	Blackshear, GA	183	82	MMBF	International Paper.....	Chitronelle, AL
134	104	MMBF	Rex Lumber.....	Graceville, FL	184	82	MMBF	International Paper	Folkston, GA
135	104	MMBF	DR Johnson Lumber	Prairie City, OR	185	81	MMBF	Moose River Lumber	Moose River, ME
136	104	MMBF	Gulf Lumber.....	Mobile, AL	186	81	MMBF	International Paper	Whitehouse, FL
137	104	MMBF	Chesterfield Lumber	Darlington, SC	187	81	MMBF	Southern Lumber.....	Hermanville, MS
138	103	MMBF	Sierra Pacific Industries...Shasta Lake/Redding, CA		188	80	MMBF	Troy Lumber	Troy, NC
139	102	MMBF	Cal-Tex Lumber.....	Nacogdoches, TX	189	80	MMBF	Rayonier.....	Eatonton, GA
140	102	MMBF	Potlatch	Bemidji, MN	190	80	MMBF	Pleasant River Lumber	Dover-Foxcroft, ME
141	101	MMBF	Hood Industries	Coushatta, LA	191	78	MMBF	Portac.....	Tacoma, WA
142	101	MMBF	Anthony Forest Products.....	Urbana, AR	192	77	MMBF	Columbus Lumber	Brookhaven, MS
143	101	MMBF	Weyerhaeuser.....	Lebanon/Bauman, OR	193	76	MMBF	Keadle Lumber Enterprises	Thomaston, GA
144	100	MMBF	TreeSource.....	Turnwater, WA	194	76	MMBF	Stimson Lumber	Colville, WA
145	100	MMBF	Gilman Building Products	Dudley, GA	195	76	MMBF	Sierra Pacific Industries.....	Arcata, CA
146	100	MMBF	Georgia-Pacific.....	Brunswick/Sterling, GA	196	76	MMBF	Jasper Lumber	W Jasper, AL
147	100	MMBF	Collins Pine	Chester, CA	197	76	MMBF	Frank Lumber	Mill City, OR
148	98	MMBF	Georgia-Pacific.....	Columbia, MS	198	76	MMBF	Anthony Forest Products.....	Atlanta, TX
149	98	MMBF	Gilman Building Products	Fitzgerald, GA	199	75	MMBF	Plum Creek Timber	Columbia Falls, MT
150	98	MMBF	Georgia-Pacific.....	Cross City, FL	200	73	MMBF	John A Biewer Lumber	Prentice, WI