

# Bright Spots In The Hardwood Market

Q & A WITH HARDWOOD MARKET REPORT'S JUDD JOHNSON

Judd Johnson, editor of the *Hardwood Market Report*, the publisher of North American hardwood pricing and market information, offered insight recently into the state of the hardwood industry at the mid-year point.

David Caldwell of *Hardwood Market Report* will provide an update on and outlook for the future of the hardwood industry in the upcoming 98<sup>th</sup> Annual Railway Tie Association Symposium & Technical Conference in Bonita Springs, Fla. For more information about the conference, log onto [www.RTA.org/2016-conference](http://www.RTA.org/2016-conference) or see page 22 to register.

## Q Where does the hardwood industry stand with housing construction permits and housing starts for 2016 so far, and how do these statistics relate to overall demand for hardwood products?

**A** Housing has always been a key driver for hardwood lumber demand. Permits and starts are leading indicators for installations of interior fittings, such as cabinets and flooring, as well as furnishings.

However, the market share of interior fittings and furnishings allocated to hardwoods is something determined by the type and costs of structures built. Expensive owner-occupied homes can afford high-cost amenities. Therefore, they are likely to have more hardwood products than mid-range and low-cost housing, and certainly more than rental properties. To the hardwood industry's benefit, the high end has been the engine pushing the housing market forward since 2011.

Quantifying housing's influence on hardwoods is difficult, if at all possible, particularly its influence on domestic hardwoods. As styles and fashion change, new, modern materials are developed, and imports become increasingly prevalent. Domestic hardwoods are facing unprecedented competition.

A great example of this is the percentage growth of U.S. housing starts is far exceeding growth in U.S. cabinet manufacturers'

sales. Unless fewer cabinets are being installed in new homes—which is contrary to trends in construction reported by industry and government—imports account for the difference.

## Q Where does the hardwood industry stand with demand for pallets? What factors are at play in the pallet industry's change in hardwood consumption?

**A** Hardwood consumption by the U.S. pallet industry has declined, whereas, the marketplace itself has continue to expand at a rate similar to that of the economy. Most of the lost market share has gone to softwoods.

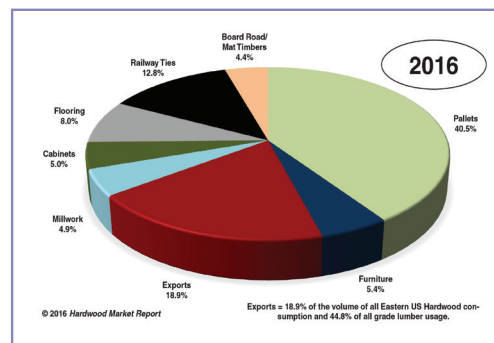
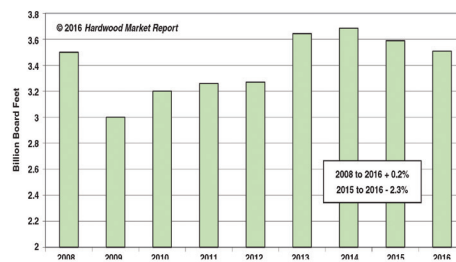
The reason for the shift from hardwoods stems from supply shortages and rapidly escalating prices for low-grade lumber and industrial timbers in and around 2012. The railway tie industry is all too familiar with this period. Crane mat and board road demand increased to new heights and drained supplies available to the tie market, pallet industry, upholstered furniture frame manufacturers and flooring industry.

Not having enough supplies and not being able to pass the high costs of these materials through to customers made the switch from hardwoods necessary. Now that softwoods have gained acceptance in the marketplace, a complete shift back to hardwoods by the pallet industry will not come quickly and, most likely, will be incomplete. That is, unless something unforeseen creates another burning platform that forces pallet manufacturers to revert to hardwoods.

## Q What is the status of the market for board road and mat timbers? What does this mean for the industry?

**A** The supply grid for crane mats and board road material has matured a great deal within the past few years. Production is more consolidated and consistent, which seems to support greater stability in pricing for both the products and raw materials.

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Pallets	3.5	3.0	3.2	3.26	3.27	3.643	3.685	3.589	3.505



That said, the petroleum industry has an incredible influence on crane mat and board road demand. If someone is betting long term against oil field and pipeline development in the United States, they should feel very confident about raw material availability for competing markets—ties, for example.

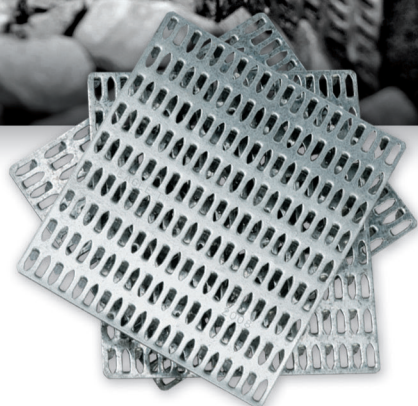
But, if one thinks infrastructure development for extracting and transmitting petroleum products is inevitable, they should expect hardwood demand from the crane mat and board road market to respond accordingly.

## Q How much did exports by U.S. hardwood producers account for total consumption of hardwoods? Is this a rise or a drop from 2015?

**A** Estimates of the most current data for 2016 have U.S. exports of hardwood lumber at 1.642 billion board feet. This represents 19 percent of total consumption by all major market sectors.

More important than just the total, exports involve higher valued grade lumber rather than lower valued industrial products. When

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compared to all other “grade lumber” markets, exports represent nearly 45 percent.

**Q Where does the hardwood industry go from here? What are your expectations for demand for the remainder of 2016? For 2017?**

**A** Trouble spots in the hardwood lumber marketplace are the pallet industry, chips, sawdust, bark, and other residual wood byproducts from primary and secondary manufacturing processes. The ability to move these products without adversely affecting overall profits is key to how much lumber volume will be produced and consumed.

Include with that group of limiting factors the declining use of hardwood pulpwood. Decreased domestic production of fine paper has diminished the need for this raw material. Among its effects are reduced timber values and increased harvesting costs, either of which can lower the volume of hardwood sawlogs available to sawmills for production.

The advantage of these market restrictions is the reduced potential for out-producing market demand for other, higher valued products. Even if mills wanted to increase output, it may not be feasible or beneficial to do so. In theory, this would prevent another round of extreme price volatility that could financially damage suppliers and the hardwood supply grid.

All other sectors of the hardwood marketplace are trending favorably. Most are experiencing a steady, sustainable rate of growth.

For example:

- The U.S. economy is puttering along but is in positive territory.
- New and remodeling residential construction has posted strong growth, and there is a substantial amount of work in process.
- Exports are trekking at a near record rate and are expected to remain strong throughout this year into 2017.
- The tie industry could back off purchases at some point to maintain, rather than expand, inventories. But, even when purchasing for replacement purposes, the volume of ties needed to support maintenance and new construction would be high based on historical consumption. ■