

June 1, 2010

## Stimulus Projects, Demand From China Drive an Uptick in Timber Market

**Kitsap Sun**--Demand has been surprisingly strong for timber since the first of the year — not only for poles but also other wood products — and exports to China are part of the picture, experts say.

The demand for trees that can be turned into power poles has remained strong through the economic recession, said Kevin Comerford, national sales manager for McFarland-Cascade in Tacoma.

Some utilities allowed their inventories to decline during the recession, he said, and the construction season has increased the demand for poles. The steady need for power poles relates to the construction of wind farms and other alternative energy systems, which are going in farther and farther from the primary transmission lines, he said. Such activity is going strong all over the United States, thanks to federal power subsidies and stimulus grants.

“We are selling to utilities across North America,” Comerford said. “We have many, many customers who have received stimulus money... but some of the projects coming into play now have been in the pipeline for a long time.”

A lesser factor in the pole market is a new federal requirement to make transformers on the power lines more energy-efficient, he said. Replacement transformers are generally larger, which means that older poles may need to be replaced before their time.

Meanwhile, the market for saw logs also has been going surprisingly strong since the first of the year, said John Shea, business development manager for Olympic Resource Management in Poulsbo.

A weak housing market caused lumber-supply companies to cut back on their inventories last year, and suppliers believed the market would remain weak through 2010, he said. But construction this spring was stronger than expected.

“There was a little bit of a scramble to get the inventories rebuilt,” Shea said, “and with a very wet spring in the South, people were scrambling to get wood back into the system.”

The latest report from the U.S. Department of Commerce shows starts of single-family homes up 10 percent in April — the greatest number of starts since August 2008. Timber owners may have reason to be cautious, however, because the number of new building permits fell by 11.5 percent.

Meanwhile, the demand for logs going to Japan, Korea and China caught a lot of people by surprise, Shea said, and that factor helped push prices upward.

**The price for domestic saw logs fell to about \$350 per thousand board feet delivered to the mill. Now, it's back up to about \$500, which is closer to the long-term average.**

A board foot is the amount of wood in a board that is 1 foot long, 1 foot wide and 1 inch thick.

Jon Tweedale of the Washington Department of Natural Resources said his agency is approving more timber sales, but watching the market carefully.

**Private timberland owners are meeting the demand, but they are not jumping back into logging in a major way,** said Tweedale, DNR's assistant division manager for

timber sales and marketing. Everyone is being cautious, because new-home construction is still depressed.

The price for standing timber is higher than it has been in years, he said. "This is a good market for us."

Because of changing demands throughout the world, the entire lumber market could be on a new path if housing construction recovers.

For example, the earthquake in China has convinced many people in that country that wooden structures are better than concrete, Tweedale said. The Chinese government recently approved two-story wooden homes, as opposed to the one-story variety allowed before, he said.

A weaker dollar also makes U.S. exports more attractive to other countries, and the earthquake in Chile reduced exports from that country.

**In 2008 and 2009, U.S. imports of softwoods fell dramatically as exports picked up slightly. In the first quarter of this year, exports exceeded imports for the first time in decades.**

"Market dynamics have really broadened in the last 12 months all over the world," Tweedale said. "The U.S. remains the largest wood-consuming market in the world... But if China grows at the level that some people speculate it might, then that market could absorb all the U.S. production."

## ***China Demand Boosting Pacific Northwest Log Exports***

**The Cunningham Report**--Heightened demand for U.S. logs is leading to a boom in exports at two seaports in the Pacific Northwest.

Nowhere is that more obvious than at the Port of Longview where log exports surged by 256 percent during the first quarter of this year. Between January and March 30, the port exported 92,649 metric tons of logs, as compared to 26,043 tons exported during the same period last year.

If the pace continues, the port will far exceed its projections for log exports for the year, said port spokesperson Ashley Helenberg, adding that the port already has achieved 93 percent of its 100,000 metric ton projection for the year.

Much of the growth in log exports is being driven by increased demand from China. Tom Leeds, president of Pacific Lumber & Shipping, explained that China started looking for an alternative to Russian logs several years ago after Russia announced it was implementing a progressive tariff on logs that would eventually reach 80 percent. Even though the Russian government has now backed down from its initial plans and has held the tariff at 20 percent, the threat of a higher tariff slashed Russian log exports to China by nearly half.

Today, log producers in the United States and New Zealand are scrambling to supply China with the volume that Russia has lost.

U.S. exporters have been aided by a reduction in charter rates for breakbulk ships. Prior to the stock market crash in November 2008, a good-sized bulk ship chartered for \$2.5 million, but after the market collapse, the rate dropped to \$700,000, Leeds said.

As a result, Pacific Lumber switched most of its log shipments from containers to bulk ships, allowing the company to sell logs at highly competitive prices. During 2009, Pacific Lumber tripled its log sales to China, and seaports such as Longview and Olympia, which provide facilities for breakbulk log ships, have enjoyed volume surges.

Although the Port of Olympia has not realized the growth that Longview has experienced, it has recorded a 14 percent increase in log exports during the first quarter of this year.

By the end of the year, Olympia expects to export about 100 million board feet of Douglas fir, said Jim Amador, marine terminal director for the port.

No one is quite sure how long the surge will continue. As the economy has recovered, breakbulk charter rates have increased to about \$2 million for an appropriately sized ship, Leeds said, impacting the company's ability to compete with suppliers from other nations. But Amador says that breakbulk rates have not risen as quickly as container rates, so if U.S. companies continue to export logs to China, it is likely that they will continue to use breakbulk ships and the seaports that handle them.

In the meantime, Leeds says that business with his mainstay customers in Japan and Korea continues to be strong. Last year, Pacific Lumber's overall sales were up 15 to 20 percent.

"We're going to do whatever we can to keep steady supply to our customers," he said.