



# Hardwood Lumber Outlook

## The Changing Hardwood Lumber Industry and Its Subsequent Effect on the Pallet Industry

By Mark Barford, CAE, [National Hardwood Lumber Association](#) Executive Director, April 2013

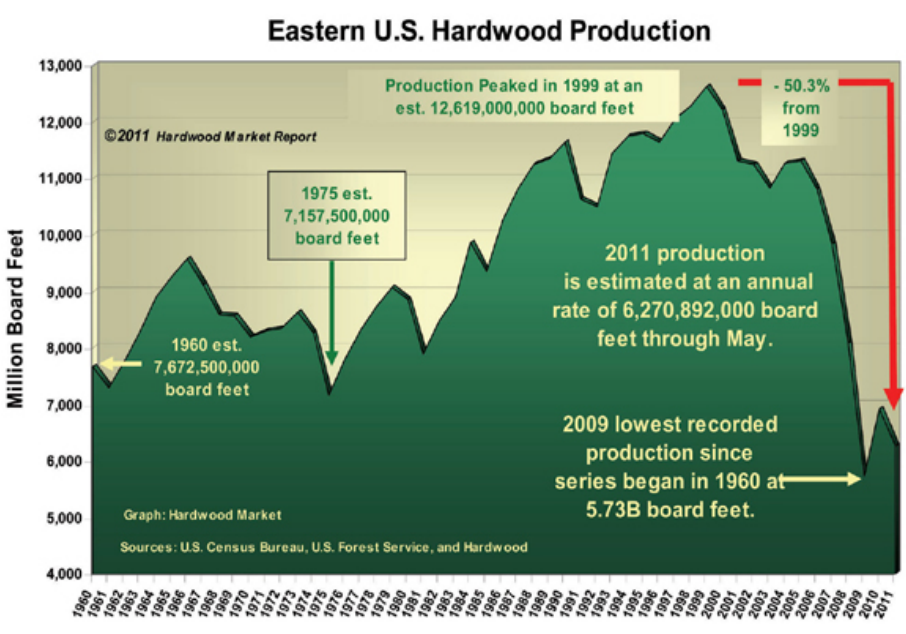
The following article is designed to inform the pallet industry about the recent dramatic changes that have taken place in the hardwood lumber business and how it may affect supplies of cants for pallet companies in the years to come. I recently had the privilege to address members of the National Wooden Pallet and Container Association (NWPCA) at the [2013 Annual Leadership Conference & Exposition](#). Here are a few points from the presentation.

### We have the trees.

While it is true that production capacity and output of hardwood lumber have been down significantly in recent years, North America is a growing resource of hardwood standing timber. In the past 50 years, the hardwood growing stock inventory has more than doubled. In 1950, there was an estimated 400 billion board feet of standing merchantable hardwood growing stock and today those estimates are in excess of 1 trillion board feet. In fact, even when the industry was running at full capacity in 1999, growth exceeded removals by more than 2-to-1. The industry will continue to change and learn how to utilize those trees, but the good news is that hardwood lumber supplies will never be limited by running out of trees.

### Lumber production reduced dramatically.

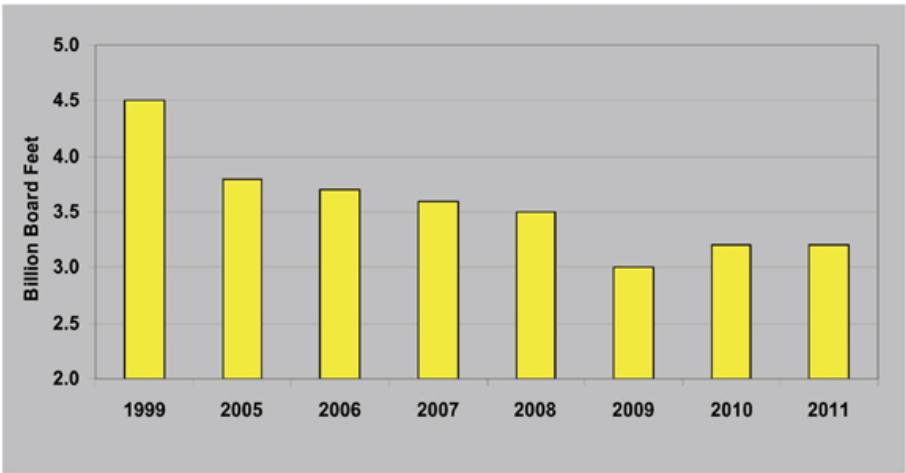
In 2012, North American hardwood lumber production was approximately 7.3 billion board feet. For comparison, in 1999, the peak year of production, the North American hardwood production level was 12.9 billion board feet, a reduction of more than 40 percent. Since so much of the higher grade hardwoods go into products which are used in the building and remodeling of homes (such as flooring, cabinets and moldings), it would seem logical that the crash of the housing markets would precipitate an equal crash of the hardwood lumber industry. It did, but the hit was made even worse by the demise of the domestic furniture industry. Over the past two decades, the amount of hardwood lumber going to the domestic furniture industry has dwindled to less than 5 percent due to offshore furniture production. Two decades ago, one-third of all hardwoods went to furniture production. As you can see, the hardwood lumber industry has gone through some dramatic changes.



**Pallets use less but a bigger shard of hardwood lumber production.**

The pallet industry has, of course, also been affected by the recession of the past few years, and demand for hardwoods in the building and repair of pallets has dropped significantly. Where the pallet industry used approximately 4.5 billion feet in 1999, last year the consumption was measured at 3.2 billion board feet. Even with this drop, pallet stock now represents 44 percent of all hardwood lumber produced compared to 35 percent just 13 years ago. When combined with the other industrial uses of hardwoods such as “road mats” and railroad ties, a full 60 percent of hardwood lumber production is now going into industrial products. That trend will likely continue and bodes well for the future supply of wood available to the pallet industry as mills will lean their output for industrial purposes.

	1999	2005	2006	2007	2008	2009	2010	2011
Pallets	4.5	3.8	3.7	3.6	3.5	3.0	3.2	3.21



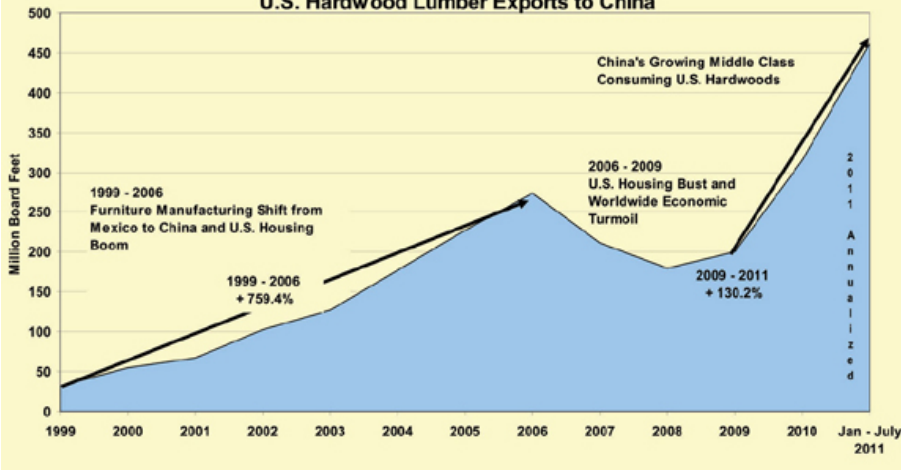
**Competition for low-grade hardwoods has and will intensify.**

While changes in production will likely take place to meet the demand for more industrial products, competition for the low-value grades and sizes will continue. Recent tax law changes have incentivized the upgrading of railroad tracks, and tie consumption has actually increased by 260 million board feet over the past decade. And with new shale gas mines being drilled, the need for construction mats has also increased. Other uses for hardwood trees are also being found, such as the increased production of hardwood pellets for heating purposes.

**A new world market for hardwoods.**

Exports of hardwoods have increased while domestic markets have shrunk. The amount of wood exported to China alone has more than tripled in just the past three years. Ten years ago very little lumber was sent to Vietnam and now the country imports 100 million board feet of North American hardwoods. When the domestic market returns, producers will have to determine how much of their production will stay here and how much will continue to be shipped overseas. While exports have historically been higher grade hardwoods, increased demand for lower grades is also developing among savvy users around the world.

U.S. Hardwood Lumber Exports to China



### Hardwood lumber production has limits to growth.

Like similar production industries in North America, there are limits to growth that will slow the industry's expansion when demand does return. The hardwood lumber industry has done a poor job of educating the public of the need for a healthy forest which can be accomplished through proactive forest management. Instead, consumers have been taught to prefer bamboo and other substitutes for naturally sustainable North American hardwoods. As an industry, we are completely aware that there is much educational and promotional work needed. In addition, the current political climate has resulted in increased regulation for the management and cutting of trees, and increased costs of running a business which makes new startup companies less likely. Experts tell us there are still people available to work in the industry, but not people who know how to run the business and make a profit.

### Like pallets, family-owned lumber businesses have many challenges.

One of the great similarities between the hardwood lumber and pallet businesses are that both are still predominately family owned and operated. We share many of the same challenges for future success such as: narrow margins and custom orders; depreciated equipment and employees due to lack of investment and training; limited or no promotion of our product to the public; substitute products that look and act like wood such as plastics or engineered products; and the world market is uncertain and changing.

### Optimism for the future.

The lumber and pallet industries share a long and deep past with some great individuals that have led our respected industries through many tough times. The present is still a challenge and we suspect the hardwood industry will be changing in even shorter periods of time than the past decade has shown us. Most of the hardwood industry realizes that we are fortunate to have an opportunity to work in an industry that can still close an agreement with a handshake. There is a belief that those that have endured the challenges of the last five years are the survivors and will find a way to succeed in the future. It is that optimism that keeps the industry searching for ways to better meet the needs of the customers, which bodes well for a strong relationship between the lumber and pallet industries for years to come.

We look forward to working as partners with the pallet industry as we move ahead. I am happy to answer any questions and encourage you to contact me directly at [m.barford@nhla.com](mailto:m.barford@nhla.com) or by phone at 901-377-1082.