

## Capital Spending by Sawmills: On the Rise or in the Tank?

In 2005, US softwood lumber production peaked at just over 40 billion board feet (bbf). From there it fell off a cliff—dropping all the way to a low of 23.4 billion board feet in 2009. In 2010, production inched its way back up to 24.8 bbf. As of this writing, the final numbers for 2011 aren't in yet, but through November they had totaled 24.7 bbf.

During these difficult times, did sawmills decide to hunker down in survival mode with little or no capital spending? Or did mills elect to retool during the downturn—a time when lost production during mill upgrades can be more of a blessing than a curse and when improvements can allow a mill to position itself to take advantage of a rising lumber market. The Beck Group, the Portland, Oregon-based consulting firm that I work for, has some data that address these questions. We conduct periodic benchmarking studies among softwood lumber producers in North America, and one of our most consistently completed studies has been the Southern Pine Sawmills Competitive Assessment. The range of data collected is comprehensive, including information about various operating costs (labor, power, logs, supplies, etc.), recovery, productivity, safety, and so on. We also collect information about actual and planned capital investments. The most recent competitive assessment in the US South was completed in 2011 and covered the 2010 calendar year.

The Beck Group's benchmarking data show that the average level of capital spending per mill during the 2005 to

2010 period was less than half of what it had been during other periods (see Table 1). Thus, during the market downturn, mills in general went into "austerity" mode. The results should not be surprising, since mills that are struggling for survival often postpone or forgo capital spending during a downturn. The investments that did occur in recent years were generally only those with a short payback period.

The Beck Group also collected information about planned capital investments. The data show that in 2012, southern pine sawmills plan to spend on average \$6.1 million in capital improvements per mill, which is significantly higher than currently reported capital investment levels. It's important to note, however, that planned capital spending doesn't always equate with actual capital spending. In our experience, many mills have identified capital improvement projects, but have shelved them until better market conditions emerge. Our expectation is that when producers are again confident that the downturn is really over, many of these planned investments will likely become active again. While the results of our benchmarking studies represent only a cross-section of the industry, the 2010 study did reflect more than one-quarter of the lumber production in the US South that year.

In 2011, The Beck Group also conducted benchmarking studies of western US dimension and stud mills. The data from those studies indicate that the average planned capital investment between

### Capital Investment Spending Among Softwood Sawmills in the US South

	Average Capital Investment (\$ MM Per Mill Per Year)
1999 to 2003	\$2.90 Million
2000 to 2004	\$2.17 Million
2005 to 2010	\$1.36 Million

Table 1. Data: The Beck Group

2012 and 2015 among the participating mills is \$6.4 million, or about \$2.13 million per mill per year. Actual investment spent during the most recent year was relatively low, at less than about \$500,000 per mill.

#### What Are Mills Spending On?

In the US South, a considerable amount of investment was made in the manufacturing process beyond the sawmill. Many mills installed automated lumber grading systems in their planer mills. Thus, instead of human lumber graders, the newly installed equipment uses sophisticated scanning and optimization technologies to examine each piece of lumber and determine the optimum grade and make trimming decisions. Automatic planer graders have reduced labor costs, improved grading accuracy, and allowed mills to fine-tune their lumber grading and sorting practices.

Another area of heavy investment in

the US South was in continuous dry kiln technology. This is a relatively new technology for drying green lumber that involves a kiln design with two side-by-side tracks. Lumber moves through the kiln in opposite directions on each track, and the heat coming off dry lumber at one end of the kiln pre-heats the green lumber in the adjacent track. At the other end of the kiln, the moisture coming off the green lumber conditions the dry lumber. The benefits of continuous kilns are reduced energy consumption and more consistent lumber moisture content.

In the US West, there is less of a clear pattern in where the capital investments are being made. The range of investment areas includes biomass power, kilns, primary breakdown saws (the first saw a log encounters in a sawmill), safety and environmental equipment, and maintenance.

#### What Does This Mean for Forest Landowners?

A concern of forest landowners and timber managers, especially those in some parts of the Inland West and Southwest, is whether there will be mills around to provide value to saw timber. The ongoing and planned capital investment in sawmilling infrastructure I've described is a signal that mills are committed to continued operation and to enhancing their competitive position.

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## INDUSTRY NEWS

### Lumber Production Up in 2011

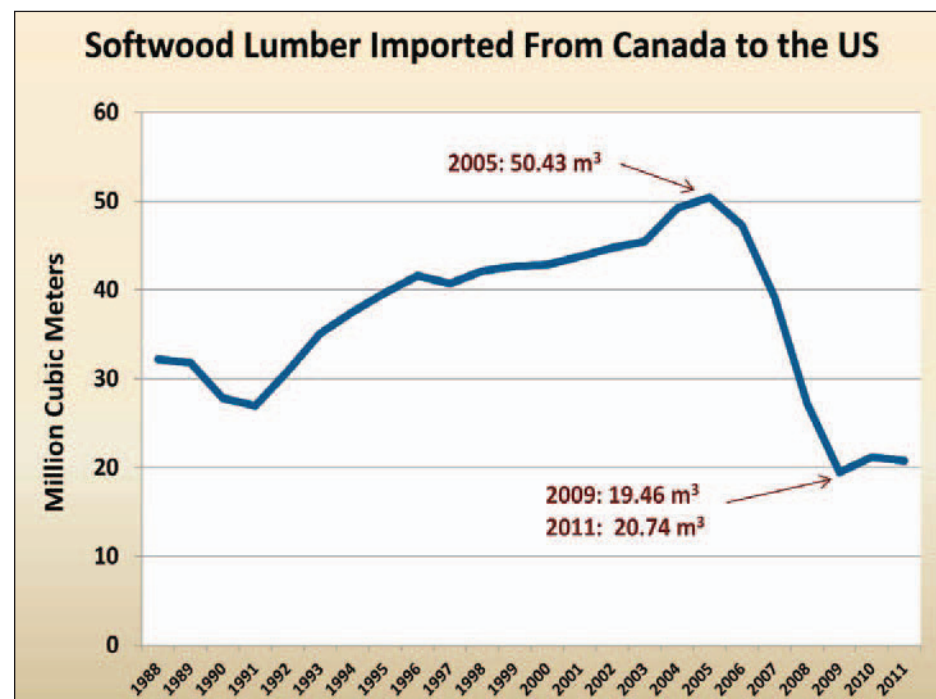
Although US lumber production fell during the last half of 2011, the total produced for the year, more than 26.7 billion board feet, was 7.7 percent higher than the total for 2010, according to the Western Wood Products Association. Production increased in all regions: in the West, by 6.6 percent; in the South, 8.7 percent; and in all other areas, 7.7 percent.

Canadian lumber production also declined in the last quarter of 2011. However, the total produced during 2011, 22.4 billion board feet, was about 1 percent higher than the 2010 total and 19 percent above the 2009 level. While production increased 7.5 percent in British Columbia, it fell 6.6 percent east of the Rockies.

### Imports from Canada Decline

As the US housing market and overall economy goes, so go imports of softwood lumber from Canada. According to Canada's national statistical agency, Statistics Canada, lumber exports to the United States peaked in 2005 at more than 50 million cubic meters, then fell to less than 20 M<sup>3</sup> in 2009 before leveling off.

Other factors at play are the Softwood Lumber Agreement between Canada and the United States and China's demand for logs and lumber. In 2004, about 81 percent of Canada's softwood lumber exports went to the US market. By 2010, the proportion shipped south had fallen to just under 59 percent.



As the US economy goes, so goes the amount of softwood lumber imported from Canada each year.

### And US Exports Rise

The US Forest Service's Pacific Northwest Research Station recently reported that exports of logs and lumber from Washington State, Oregon, northern California, and Alaska increased by 42 percent in 2011 compared to 2010, totaling 1,992 and 1,015 million board feet, respectively.

"The total value of exported logs from West Coast in 2011 increased by 54 percent, from \$844 million to \$1,297 million," said Xiaoping Zhou, a research economist with the station who com-

plied the data. "The total value of exported lumber increased by 35 percent: from \$509 million in 2010, to \$687 million in 2011."

About 46 percent of US log exports and 30 percent of total US lumber exports in 2011 went to China. However, exports of these commodities to China decreased significantly in the fourth quarter compared to the third quarter in 2011 (down 35 percent for logs and 12 percent for lumber). The report is available at [www.treesearch.fs.fed.us/pubs/38431](http://www.treesearch.fs.fed.us/pubs/38431).

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lands would be distributed as follows:

1. Some monies would be retained by the trust to:

- fund resource management and,
- where appropriate, provide grants or loans to finance construction or rehabilitation of local forest industry infrastructure.

2. The balance would be disbursed as follows:

- \_\_\_ percent transferred to local governments and schools
- \_\_\_ percent transferred to the US Treasury as payment for trust lands.

Figure 1 compares two similar, geographically close timberlands in Oregon's Coast Range. These lands are among the most productive lands in the world, with site indices of 115 feet at 50 years. Management for both forests protects old-growth stands, endangered species, and riparian lands. However, they have different management objectives and far different management results.

Which of these two systems should be the model for Forest Service resource management in the Pacific Northwest? Can the trust model be transferred to other locales and other public lands? Should it be the preferred management system for all high-producing national forest timberland? These are some of the questions that Congress must answer, and these are questions on which the SAF must consult with and advise Congress.

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