

# PROLINES

May 2008

The Newsletter for the Professional Builder

## 60 YEARS OF QUALITY

This year will mark our Sixtieth Anniversary and while many things have changed over the last six decades the constant of adhering to a simple business philosophy of supplying quality products and service have enabled our longevity and success. In fact, the DE logo used to have the word QUALITY printed underneath it, an assurance of our ongoing commitment. However, recent developments in the lumber markets have resulted in some changes and adaptations to overcome the challenges of today's marketplace.

The current low prices for lumber products have had some interesting consequences for today's builder. The positive change is the low cost structures faced by builders for lumber and panels, floors and roofs, that have helped absorb price increases in other commodities like steel and concrete and especially in this market, sub trade labour. However, the negative consequences today and for the future are critical.



Currently, the low volume demands primarily from the United States have driven prices down to record lows. In addition, the six year cycle of Canadian house building expansion appears to be at an end. Can any builder tell us what other products are cheaper now than they were 30 years ago? The high value of the Canadian Dollar has made it difficult for Canadian lumber producers to compete internationally and this is where over two thirds of their production is geared towards. The manufacturing and logistical responses in the marketplace have had other interesting effects on lumber production. Specifically, the "stretching out" of raw product recovery in manufacturing, as mills attempt to maximize every inch of the tree. The use of advanced technologies such as laser beam opti-

mizers and imaging devices have changed the milling of trees and end product composition. In addition, smaller trees, pine beetle recovery harvesting and varying logging practices have altered the initial raw material characteristics. Also evident is the amount of product that gets diverted to higher line products from conventional construction grade lumber (#2 & Btr.). In an attempt to find new markets or increase market share, more products are being developed for M.S.R. (Machine Stress Lumber) for the truss industry and other structural applications like Glulam Beams. "J Grade" a grade of lumber specifically geared for the Japanese market which uses post and beam construction that has different requirements, along with conventional North American framing practices is another example of product differentiation. The advent of the Big Boxes and their dominance in the retail market have allowed these purchasers to demand a grade that is more aesthetically pleasing often referred to as an "appearance grade", with little or no wane on the product. Although the term is widely used there is no such grade for framing lumber in the National Lumber Grades Authority (NLGA) Standard Grading Rules for Canadian Lumber. Mills that contract to supply this customer class have developed "high line" or "four square"



product; descriptive terms for essentially what is a construction grade, culled for certain visual, and not structural standards of acceptability. Many smaller mill operations have been consolidated by larger corporate interest and these corporations have the technology and the motivation to maximize their resource allocation. Previously, many smaller mills did less prior selection and could be relied upon for a better make up of product within the designated grade. Those smaller mills that have not been swallowed up by the larger competitors have closed the doors, unable to operate profitably in this environment. Indeed even the large producers have recently cut back production quotas significantly, reduced shifts, announced layoffs or shut down the less profitable or in some cases, the most loss producing mills.

We recently pulled apart a lift of 2x6 from a large multinational producer that we know selects out a lot of product for their various customers, both domestic and export. The lift was marketed as "2&Btr." but not a single piece of #1 Stamped lumber could be found. We have a good idea what happened to the "Better". The material still falls within the grading guidelines; however it is at the lower or lesser end of the grading rules. It has become increasingly difficult to ensure a consistency of product quality and the construction grade lumber we have been buying and selling for years, particularly in the thinner dimensions, like 2x4 and 2x6, has seen a marked deterioration. This has also been observed by you, our customers and so a response to your concerns was necessary.

We have decided that for our structural light framing materials specifically dimensional 2x4 and 2x6 in random lengths, we will commit to buying only a higher quality product, or from a few selected, specific mills whose reputation is present in the quality of product they produce. These products, while usually available, command a higher price in the market, consequently our cost base for these products will be marginally higher. However this really should be of little difference to the builder as the percentage of returns, waste, and cuttings ending up in the dumpster, will be much lower. The time use of the framers and carpenters will be also be more efficient if they are working with wood, instead of selecting and culling it. You can pay for it now, or pay for it later in lost production time, claims and replacements or repairs and in the overall look of the product you build in the framing stage and beyond, as there is a definite connection.

In the future, the cost structures of lumber, panels and other wood manufactured products will return with a vengeance. We have seen this occur in previous business cycles and the next recuperating cycle will be no exception; except perhaps in its severity. The competitor consolidation and concentration of large producers in the industry will undoubtedly recoup past and current losses with substantial commodity price increases as we have seen time after time in the marketplace. The ability to increase not only the lost production capacity, but additional capacity to meet new demand levels and will lag far behind the expected increase in demand. Additional production capacity will take years, not months to develop. Adding to this market reality is the heavy reliance in petroleum based energy sources that will contribute to price instability. There are the basics of supply/demand that cannot be averted and increasing unreliable cost inputs that cannot be ignored. The need for the larger publicly traded corporations to satisfy shareholder return demands in the short term will also contribute to the volatility that is certain to occur. We do not believe that this will be for some time however; volatile price swings, product shortages and record pricing levels are certainly inevitable when the major international building players return to increased activity.



## **HOLIDAY**

We will be closed the following days in celebration of the May long weekend, Victoria Day.

Saturday May 17, Sunday May 18, & Monday May 19.

**And just a reminder, we are no longer open on Saturdays.**



A periodical publication by Davidson Enman Lumber Ltd.  
Editor: Richard Stewart e-mail: [rstewart@delumber.com](mailto:rstewart@delumber.com)