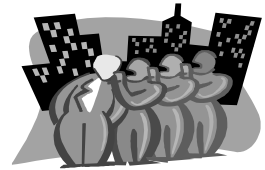


THE WOOD MONITOR

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Real People

In May, 936 furniture workers in North Carolina lost their jobs as two plants closed and a third downsized. Parent company executives attributed these layoffs to the flood of low-cost imports. In simple terms, these Tar Heels are no longer competitive with Chinese, Vietnamese, and others who are paid less than \$1.00 per hour.

These job losses are not a new trend in labor-intensive industries like furniture. Plant closings began in earnest in 1998 when furniture imports totaled \$6.6 billion at port of entry value. Last year the U.S. imported \$11.3 billion of wood, upholstered, and metal furniture, equivalent to about \$14 billion at U.S. ex-factory value.

How many jobs have been lost to the import tidal wave? The average U.S. furniture worker produces about \$90,000 a year. Let's say that half of 2002's imports was too labor intensive or too cheap to make in U.S. factories. To produce the remaining \$7 billion would have employed nearly 78,000 American workers.

That number does not include jobs lost among the myriad of suppliers like saw mills and carton fabricators. Economists say that one manufacturing job supports three others. Consider the full impact and the number of furniture related jobs lost to imports boggles the mind.

The sweat and tears of people like those now displaced built this great country. What can we, their fellow citizens, do to help those who really want to work?

Being a nation built on free trade we should not call for import barriers for furniture. But we can promote **fair** trade and a foreign exchange market that works as it should to level the playing field.

A birthright of every American who wants to work should be a job. Traditional industries like furniture and apparel must be replaced with others that benefit from proximity to their U.S. customers. To do

so, new and existing manufacturers should receive incentives to invest in job generating new ideas.

We must ensure that the unemployed can reenter the job market. First class retraining programs must be established so that the out-of-work can again become productive.

These actions are not wholly altruistic. When people are unemployed, they stop paying their share of income taxes. In the short term they are net takers from the government. The loss of these jobs burdens those still employed with the continuing cost of government services. If unemployment becomes structural, your taxes will rise. Government budgets rarely if ever go down.

Bottom Line – Contact your Congress person. Voice your concern for your fellow man. These closures are not over. Tomorrow it could be you.



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Housing: Oxygen for the Economy...

“...new housing sales and construction rose in a recession for the first time in 40 years.”

Thank the housing market for rescuing our economy from a more serious economic downturn over the last 2 1/2 years. Defying even the predictions of Federal Reserve Chairman Alan Greenspan, new housing sales and construction rose in a recession for the first time in 40 years. Plus homeowners tapped their home equity like ATMs to the tune of \$100 billion in 2002 alone. That extra cash was used to pay down other debts, go shopping, and remodel their homes.

What transpired to cause this wave of ‘cash-out’ refinancing and home buying?

- Mortgage rates began falling in 2000 and remain at lows seen by few.
- Home prices appreciated by 38% in the last five years.
- Declining stock prices took \$6 trillion out of household wealth in 2000-02.

Combine these factors with the ease of obtaining a

mortgage, and previously illiquid wealth was converted to boatloads of cash. Builders took advantage of new-found demand as housing starts hit a 16-year high in 2002.

68% of families in the U.S. now own homes, and that number is expanding as immigrants reach for the American dream. The impact of the home owning consumer on our economy is only getting bigger.

...And for the Wood Products Industry

Home construction and remodeling consume more than two-thirds of structural timber and panelboard products used in the U.S. Add the hardwood lumber, industrial grade softwood lumber, and composite panels like MDF used in furniture, cabinetry, and millwork, and housing is far and away the most critical driver of wood products demand.

Remodeling consumes nearly the same amount of lumber and panel products as new construction. While homebuilding is predicted to continue at an annual rate of 1.5 to 1.6 million, remodeling volume is getting a boost from the age of U.S. housing stock. About 120 million homes built in the 1970’s are nearing the age when major renovation,

maintenance, and additions are required.

To retain this market and participate in its forecasted growth, the wood products industry must partner with builders to industrialize home construction. As the population ages, fewer young workers will be available to fill framing and trim jobs. Wood waste generated on the job site is becoming a costly disposal problem. These factors will drive the housing industry to partner with suppliers that convert wood commodities into value-added components like factory-built, pre-wired wall panels and staircases. The goal will be to cut costs and reduce construction time. This devel-

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Wood Products in Single Family Homes

Product	Share of Consumption
Softwood Plywood	27%
OSB	57%
Softwood Lumber	36%
I-Joists	73%
Laminated Veneer Lumber	75%
Glulam	57%



Business Quote...

“It’s a funny thing about life; if you refuse to accept anything but the best, you very often get it.”
Somerset Maugham

“Why not combine direct and indirect labor into a single account?”



Defining Labor Costs

Golf

Quote...

“Golf teaches success and failure. Neither lasts long.”

Glenn Kummer



Philosophy

Quote...

“What do we live for if not to make life less difficult for each other.”

George Eliot



Most accountants argue for two classifications of labor in the typical factory:

Direct labor – Workers that add value directly to the product.

Indirect labor – Workers that assist direct labor and add value to the product indirectly.

Workers who operate machines are direct labor. Workers who move stock to/from that machine or provide maintenance services are indirect labor.

In reality few workers are 100% direct labor. Most

direct workers spend some of their workday setting up and cleaning their equipment, moving materials, or other activities that are indirect labor by the above definition. Adding to the confusion, labor is separated in most financial reports with indirect labor buried in factory burden as an overhead cost.

Why not combine direct and indirect labor into a single account? The benefits are many...

- Allows quick comparison of standard or projected labor hours with actual payroll or clock hours, data

that every factory can readily access.

- Eliminates the classification problem. Remember that many workers perform both direct and indirect tasks.

- Treats labor as a single cost. After all, you need both categories of workers to make your product.

- Enables the use of standard or projected labor hours for work force budgeting and staffing decisions.

(Continued from page 2)

opment will also keep wood as the primary building material in lieu of substitutes like concrete and steel.

The task of housing America has always contributed to our prosperity. To ensure its place in the construction value chain, the wood products industry must move closer to home builders through the application of innovative processes that convert commodities into value-added components.

Bottom Line – The construction world is changing. Change brings profit opportunities to those smart enough to recognize the circumstances.

Sources: The Wall Street Journal, 28 May 2003; USFS (Schuler) and APA (Adair)

In Memoriam



Arnold Quesenberry, our co-worker and friend, passed away unexpectedly on March 25 at his home in Lexington, NC. Bright and analytical, Arnold understood the nuances of manufacturing wood products. His advice was valued highly by those seeking solutions to tough production issues. His wit enlivened even the dullest tasks and longest trips. We miss him.

Arnold is survived by his wife, Navahlia, and two children, Scott and Mikilene.

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Address Correction Requested

This newsletter is made possible by earnings from the world's forest products - the only renewable natural resource.

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"...useful incentives to invest in equipment and other qualifying assets."

Incentives To Invest

All previous issues of The Wood World Monitor can be found at our web site:

<http://www.raymondnet.com>

Any issue may be downloaded in Adobe PDF format for easy printing.

The \$350 billion tax cut signed by President Bush on 28 May provides business some useful incentives to invest in equipment and other qualifying assets:

Small Business Expensing – Taxpayers can elect to deduct rather than depreciate up to \$100,000 of tangible personal property used in the conduct of their business. The definition of qualifying property includes computer software. The new law quadruples the allowed expensing deduction.

Bonus Depreciation – For property acquired after 5 May 2003, an extra depreciation expense of 50% is allowed in the first year. This bonus has no limit and applies on top of regular depreciation.

Small businesses will also benefit from tax rate reductions on ordinary income, dividend income, and capital gains.

Bottom Line – Add these new incentives and take another look at the ROI of your investment prospects.

Purchasing that new machine you are considering may now be justifiable.

Source: CCH Tax Briefing, 28 May 2003

