

THE WOOD WORLD MONITOR

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Convenient Truth

Many have long blamed the forest products industry for hurting the environment with practices such as clear cutting. The truth is much different:

- The U.S. grows more timber than we cut – Less than 60 percent of net new growth is harvested annually.
- Young trees sequester more carbon per acre from the atmosphere than mature trees – Increasing the acreage of healthy, young trees requires cutting old trees.
- Most U.S. wood producers operate according to sustainable forestry practices, mind clean air and water laws, and protect endangered species.

For years these companies have patiently invested in their resource base. Billions have been spent converting waste to useful products and cleaning up their effluent streams. Our industry is truly “green”.

It’s time to present the true story so that the world can use our timber without guilt.

For U.S. forest-based companies, especially those cutting hardwoods, the big environmental issue is the certification of resource

sustainability. The problem is simple. Most hardwood timber is found on small, privately-owned tracts. Enticing small forest owners to certify is a difficult sale.

For selfish reasons our industry must ensure international market access for U.S. made wood products. Europe, a critical market for U.S. hardwoods, has moved farthest toward demanding certified wood products. With nearly 60 percent of their forests now certified, the supply of complying materials there is growing. Stricter laws requiring both source certification and chain-of-custody proof will certainly follow.

Has certification reached the tipping point? No. Is it the right thing to do? Yes. Undeniably our forests are our only renewable natural resource and are sustainable only if properly managed. Now is the right time for our industry to lead the way down the path toward certification.

How can that goal be accomplished? Experts are calling for developing a broad, industry-wide proof of the sustainability of our forests and practices as a first step. Next would follow a code of conduct for producers evidencing responsible timber procurement. Finally a viable program for FSC or SFI certification for small forest owners is a must.

Waiting for European regulators and other interest groups around the world to set the ground rules for market access is not an alternative. Our collective future must not depend on osmosis to inform these groups of the “green” truth about U.S. hardwoods.

Bottom Line – If the hardwood industry does not sit at the table when the certification issue is resolved, we may find ourselves on the menu. That’s no alternative.

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“Over 250 million containers sail around the world each year.”

Bigger Ships = Lower Freight Costs

Ever since North Carolinian Malcolm McLean invented containerized ocean transport in 1956, world trade has moved steadily up and to the right. Over 250 million containers sail around the world each year.

In the face of this demand, container freight rates jumped by one-third in the four years prior to the end of 2005. The result – 1,300 new container ships with tonnage equal to half the existing world fleet of 4,000 vessels are going into service. The largest of these new vessels, the 1,300 foot



Emma Maersk, can carry 11,000 20-foot containers. A train pulling that load would stretch for 44 miles.

The new ships are post-Panamax ie, too large to transit the Panama Canal. A \$5 billion project to enlarge that important waterway is on the drawing boards. Given the economies of scale inherent in these large vessels, forecasters predict that future ships will haul 18,000 containers. The 60-foot draft of such vessels is the maximum allowable on the critical China-Europe route through the Straits of Malacca. Also these mega-ships will require substantial upgrades in cranes and channel depths in most ports around the world.

With this glut of new capacity, freight rates fell by 8 percent in 2006. From their peak in 3Q2005, the average rate for a 20-foot container has fallen over \$120 to around \$1,400.

Bottom Line – Baring a sharp increase in the cost of oil, ocean transport costs should not reverse the import make vs. buy decision for furniture, mouldings, cabinet components, and other wood products in the immediate future. Good news for importers; bad, for U.S. producers.

Source: *The Economist*, March 3, 2007

Business Quote...

“Business is a continual dealing with the future...a continual calculation, an instinctive exercise in foresight.”

Henry Luce

Not Just Furniture Manufacturing

Everyone is familiar with the plight of the U.S. furniture industry – over 275 plants closed since January 2000. Other sectors of the wood

products industry have contracted too including lumber, millwork, and plywood. In a recent *Forest Products Journal* article Henry Que-

sada and Rado Gazo presented these interesting data on primary manufacturing:

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Employment In The Primary Wood Products Industry 1999-2004					
NAICS	Sector	Employment (Thousands)			%
		1999	2004	Change	
321	Wood Products	623.9	538.5	-85.4	-13.7
321991	Manufactured & Mobile Homes	71.0	46.0	-25.0	-35.3
3211	Sawmills & Wood Preservation	134.5	113.4	-21.2	-15.7
32191	Millwork	161.7	147.3	-14.4	-8.9
32192	Wood Containers & Pallets	70.0	59.8	-10.2	-14.6
321212	Hardwood/Softwood Veneer & Plywood	53.6	43.8	-9.8	-18.3

“...every manager must identify what part of consumer spending causes his business to move up or down.”

Watch The Consumer



Golf Quote...

“Always make a total effort, even when the odds are against you.”

Arnold Palmer



Philosophy Quote...

“The further backward you look, the further forward you can see.”

Winston Churchill



Lawrence J. Peter, author of the famous Peter Principle, once said, “An economist is someone who will know tomorrow why the things he predicted yesterday didn’t happen today.” In spite of the reputation for inaccuracy attached to the dismal science, all astute managers must pay attention to economists’ prognostications. The trick is selecting the right economist to heed.

Joseph Ellis, with a lifetime of forecasting behind him, may be that man. In a recent interview for *Strategy + Business*, Ellis shares his logic:

What is the key to navigating the economic future?

To build a sound forecast Ellis believes you must understand the sequences of events that recur cycle after cycle in the economy. That understanding enables you to separate the important leading indicators from the less critical lagging metrics.

Which leading indicator provides the best signal of economic direction?

With 40 years of tracking data, Ellis found that *real personal consumption expenditures* ie, consumer spending, always preceded most other indicators by one or two quarters. In every cycle momentum starts in consumer spending and then moves to manufacturing and capital spending. These three elements are the drivers of corporate profits. Once companies feel confident about the economy, they invest and finally add workers. The employment rate then is a lagging indicator. Thus Ellis believes that consumer spending drives employment, that workers get hired after business gets good and are fired after business turns poor.

What then drives consumer spending?

The consumer is affected by hundreds of factors such as the stock market and terror-

ism. However Ellis claims two primary drivers - *real average hourly wages* and *interest rates*. Factors like energy prices impact inflation and thus are accounted for in wages and interest rates.

What drives your business?

According to Ellis every manager must identify what part of consumer spending causes his business to move up or down. For instance a carton manufacturer might look at the year-to-year spending on the kinds of products shipped in paper boxes. Ellis claims these connections simply take good common sense to identify. Anyone with some knowledge of economics and skill with Excel can explore the causes and effects.

Learn more about Ellis’ forecasting technique in his book, *Ahead of the Curve*, and at his web site, www.aheadofthecurve-thebook.com.

(Continued from page 2)

Many of these losses were concentrated in the Pacific Northwest where logging activities in national forests were severely reduced and in North Carolina where low cost imports have hampered the furniture value chain.

The only wood products sector, primary or secondary, to create jobs during the study period was kitchen cabinetry where nearly 22,000 production jobs were added. Cabinet-makers benefited from the housing boom and in-

creased annual output from \$10.14 billion to \$16.49 billion. Labor productivity jumped 29 percent over the six-year period.

Source: *Forest Products Journal*, October 2006; U.S. Census Bureau *Annual Survey of Manufactures*

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

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“Such an action requires a secret ballot.”

Labor Law Update

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.

In early March the House of Representatives passed the Employee Free Choice Act, a measure that rewrites the rules for union organizing by eliminating secret ballot elections. Under this law a union is automatically certified as the bargaining representative for all employees if a majority of workers sign a card expressing a desire for unionization. In the 28 states that do not have right-to-work laws, all employees would end up as dues-paying union members even if they did not sign the card. And after 90 days the bargaining process would be shortened through mandatory use of the Federal Mediation Service and the imposition of a contract through binding arbitration 30 days later.

Interestingly, the new law does not allow decertification of a union by simply signing a card. Such an action requires a secret ballot.

For many years labor law has recognized the secret ballot as the best assurance the workers are not intimidated into voting for a union they do not support. Under the proposed “card check” system, an employee’s signature becomes public knowledge to union organizers, the employer, and his co-workers.

The proposed law also calls for fines up to \$20,000 per worker if a company implements pay/benefit increases or improves working conditions ahead of a vote. A similar

penalty is assessed if the company warns workers that unionization may result in plant closure or downsizing.

Bottom Line – The U.S. economy is the greatest job creating miracle in the galaxy. An important cornerstone supporting this phenomenon is the flexibility to hire and fire depending on skill, merit, and the business cycle. Additionally U.S. companies can adjust their wages and benefits in line with the prices the market will bear. Will the new law’s concept of free choice adversely impact the tenets of free trade? You decide.

Sources: *The Wall Street Journal*, February 2 and March 8, 2007