June 2015

Are You on your way to Raleigh / Rocky Mount?

HMA's South Atlantic Regional Meeting is about to get underway, and a host of HMA members and industry associates are heading to North Carolina for 36 hours of member-to-member networking and facility tours featuring a mix of tried-and-true and state-of-the-art sawmill technology.

We've prepared tour hosts - **Meherrin River Forest Products, Virginia-Carolina Forest Products, Inc., High & High, Inc., Josey Lumber Company, Inc.**, **Jerry G. Williams & Sons, Inc.** - to be on the lookout for a motor coach jam packed with hardwood information seeking colleagues. And they've assured us they are prepped and on the stand-by.

If scheduling conflicts kept you from participating this time around, please **mark your calendar** so that you might join us for 'future' HMA events:

- **Central Regional Meeting**, October 21-22, Dayton, Ohio. Schedule and other meeting details will be posted to www.HMAmembers.org at the conclusion of the South Atlantic Regional.
- **2016 National Conference and Expo** – March 9-11, Worthington Renaissance, Sundance Square, Ft. Worth, Texas. Conference details forthcoming at www.HMAmembers.org.

HMA membership involves many things, but first and foremost, it provides a significant connection to a unique forest products industry brain trust, a collective wisdom that is shared openly, freely and with great enthusiasm. **You** are an important part of that.

Recapping "Economic Outlook for the Forest Products Industry"

By Dr. Lynn O. Michaelis
President, Strategic Economic Analysis

Without question, this economic recovery has been subpar, despite aggressive actions by the Federal Reserve to promote growth. Several factors have constrained the economic recovery. Two of the main culprits, cuts in government spending and the lack of the housing recovery.

Factors of particular concern to the Hardwood Industry include:

- the sluggish recovery in single family housing starts due to the lack of household formations and the inability for younger adults to buy a house,
- how stronger growth in industrial production (key to the pallet industry) and the fall in oil rigs after the collapse in oil prices (road and mat timbers) are affecting demand for low value hardwoods,

- the recent events in China and how they are affecting demand for wood products, particularly softwood lumber and log exports.

The **good news** is that after evaluating recent developments, the basic drivers appear to be improving and suggest that overall growth should continue to improve through 2016. And over the next few years, rising wages and employment should bolster housing starts.

Bottom line: The U.S. economy looks poised to grow well over the next few years. This also means that as unemployment falls, business managers need to plan on rising interest rates and higher wages. The biggest risks remain to be international issues, including the strong dollar and weaker growth in China.

Dr. Michaelis' complete PowerPoint presentation has been posted to the Members Only section of www.HMAmembers.org. Login today.

"Addressing the Logging Dilemma"

David (DK) Knight, Co-Publisher, Executive Editor and business partner with Hatton-Brown Publishers, Inc. is an outspoken advocate of the logging sector. His presentation at the National Conference and Expo, "**Paul Bunyan is Dead and some of his Descendants are down with the Flu**," discussed the logging dilemma and much more. Here is a synopsis of his comments.

"Perhaps no one in the supply chain has more personal risk, more skin in the game, than the **logger**, who typically finds himself wedged between landowners and consuming markets, and with little room to maneuver. As a group they are juggling lots of debt; competing for less available timber, and struggling with soaring operating costs like:

- **Equipment** – a mid-sized grapple skidder sells for no less than $250,000.
- **Parts** – a popular size skidder tire costs $4,000 + mounting.
- **Labor** – the logging force is aging and few young people are attracted to the dangerous and harsh working conditions. Greater experience, higher wages.
- **Insurance** – premiums for vehicle coverage, general liability, physical damage and workers' comp continue to rise.
- **Regulations** – federal, state, local…requirements on weight limits, emissions, etc. = soaring costs.

In my 47-year association with the industry, I've found that most loggers are not greedy and not out to get rich. They simply want to work steady, avoid injury, provide for their families, take care of their employees, pay their bills, and maintain a modest contingency fund. For them to do this requires compensation in keeping with the ups and downs and trials and tribulations that accompany the task. And it helps when consumers openly demonstrate appreciation for their professionalism, consistency and quality of work."

What can stakeholders do "to help stabilize, stimulate and build a harvesting corps that is sustainable?

—Cultivate a partnership culture.
—Encourage loggers to set higher standards in terms of professionalism and performance; measure this performance; then reward those who excel.
—Provide for steady year-round production by increasing log storage capacity. Quotas may be unavoidable at times, but they inflict economic hardship, hurt morale and make it difficult for a logger to hold a crew together.
—Turn trucks around with dispatch.

—Consider accepting logs in longer lengths and cutting them on your yard. Loggers will be able to produce more logs with less effort, and you will be able to merchandise them better."

To view the entire PowerPoint presentation, visit the Members Only section of www.HMAmembers.org.

Virginia Tech's Department of Sustainable Biomaterials

More than three decades ago, Virginia Tech established its Department of Wood Science and Forest Products to train students on the importance of the forest and the wood products manufacturing industry. As the forest products industry changed, the Department evolved to broaden the program's appeal to a changing student population and to better reflect the expertise of the faculty. Today, as the **Department of Sustainable Biomaterials** - our mission remains to serve the industry with young, trained employees, applied research, and extension programs. (www.sbio.vt.edu) Here's how we do it.

The field of **Sustainable Biomaterials** is about the use of natural, renewable resources to produce innovative materials and bioenergy in a sustainable manner. It is a blend of science, engineering, and business enterprises. Our **Department of Sustainable Biomaterials** has 16 faculty members, over 140 undergraduate and graduate students, and two separate degree programs.

The Sustainable Biomaterials degree – which reflects the former Wood Science program – teaches the fundamentals of the processing, manufacturing, drying and marketing of wood and other biomaterials and includes lumber manufacturing, secondary processing, wood based composites and natural resource based chemical industries, wood engineering, domestic and international marketing of forest products and business management, as it applies to the forest products industry.

Packaging and pallets remain the largest use of wood fiber in the country. And so, our Packaging Systems and Design degree – one of only six offered in the U.S. – emphasizes the importance of the sustainable use of packaging materials, how packaging can enhance product performance and markets, and how new uses of wood fiber can be developed to replace petroleum based plastics.

Do not forget that our Department continues to have one of the largest wood products extension programs in the country. And our extension specialists cover all aspects of wood manufacturing, drying, secondary processing, business management and marketing. They regularly conduct mill studies or offer workshops to help our lumber industry increase its competitiveness. Please contact me, **Bob Smith**, with questions on how our Department can assist you.

Bob Smith is the head of the Department of Sustainable Biomaterials and can be reached at 540.231.7679 or rsmith4@vt.edu.

"Creating Characterful Interiors with Hardwood Moulding"

Timing is everything, and the most recent news release issued by the **American Hardwood Information Center**, www.HardwoodInfo.com, capitalized on both the time of year when Americans get busy with 'curb appeal' home improvement projects, and the 'wants' of the modern home buyer. Entitled "**Creating Characterful Interiors with Hardwood Moulding**," here's how it began.

"Just as tasteful, well-chosen jewelry can turn an unexciting outfit into a stylish, eye-catching ensemble, so carefully applied hardwood mouldings and trimwork can transform a plain-Jane interior into an interesting—even beautiful—space. Since today's new-built houses often lack any sort of carved-wood ornamentation, and many older homes have lost their traditional decorative details through successive modernizing renovations, the demand for decorative millwork, which adds character and charm to the stripped-down rooms we live in, has never been higher."

The release was distributed by content-based marketing expert, Brandpoint, and our timing was right on. Our message has been picked up by so many publications, we've stopped counting. But at last report it had realized a 57 million available audience in 1, 278 placements. That translates into a **139-to-1** return on investment!

The entire release is available at www.HardwoodInfo.com. We hope you'll check it out.

More than just Talk

By Linda Jovanovich
HMA Executive Vice President

Every day my Inbox is bombarded with hundreds of emails, and you've said that you are experiencing the same 'electronic onslaught.' So I've been working on how to communicate with you more efficiently and effectively, to safeguard HMA email communiques from falling victim to your "delete" button.

I'm in tune with the "effective communication" insights provided in the work of Amanda Kaiser, Kaiser Insights, LLC, at SmoothThePath.net. Her suggestions are echoing what many of you have told me. You don't need **more** information. You need information that **matters**! I hear you!

As you can imagine, the needs and wants of HMA member companies are diverse - a hot issue to Carolina members may indeed be mute to those in Maine or Texas. So how do I determine **what matters**? Well I certainly work to keep my finger on the pulse of the industry, but it is **member input** that really keeps me current and will always be my most valued information source. (I cache each and every conversation and information exchange.) And so, to communicate more effectively, HMA has adopted the "less is more" motto.

What happens is that, as we garner and prepare information for ***The Link*** and **HMA's Mid-Month Update** – our two 'regular' monthly distributions - and long before we hit the "send" button, we continually ask Amanda Kaiser's three questions: "**Does this matter? Why does this matter? Who does this matter to?**"

I've received positive feedback from many of you regarding our "less is more" approach. And we plan to continue to keep it "short and sweet," especially because the English major across the hall from me is an absolute nag about two very important things. "Words have meaning," she says. And "we're here to tell our members what time it is, not how to build the watch."

I hope that the next time your "New Mail Alert" signals an HMA email you'll click to open, knowing that it contains information relevant to our industry and to the successful management of your business.

It's June! Let's get this summer started!

Domestic Cabinetmaking Coming Back Strong

By Art Raymond

According to the Kitchen Cabinet Manufacturers Association, the 2014 sales of their participating members totaled $6 billion, up 7.1 percent from the prior year. **Growth** covered the full spectrum of cabinet price points.

- Stock cabinet sales up 10.5 percent
- Semi-custom up 7.1 percent
- Custom cabinetry up 14.3 percent

Cabinet sales peaked at $8.85 billion in 2006, following the 2005 pre-recession high point in new home construction, when housing starts hit 2.068 million. At its low point in 2011, cabinet sales were only $4.47 million. **Through 2014, the cabinet market has rebounded by 34 percent.**

Much of the health of cabinetmaking depends on residential remodeling activity. Experts remind us that 70 percent of all cabinet sales come from kitchen **remodeling**. The U.S. housing stock of 130 million homes, many of which were constructed in the 1970's, requires constant repair and refreshing. Like new home construction, remodeling by homeowners fell sharply during the Great Recession from its peak of $226 billion. Through 2013, homeowner remodeling has only grown to $192 billion. Of that total, kitchen remodeling accounts for about 9.5 percent.

One of the largest drivers of remodeling is **existing home sales**. That housing sector jumped by 6.1 percent in March to 5.19 million units. That rate is the highest since September 2013. Combined with low mortgage and home equity interest rates, experts are predicting a healthy rebound in remodeling in the second half of 2015.

Bottom Line: While well below 2006 peak cabinet sales, domestic cabinetmaking should see **solid demand** into the near future.

The Myth of a U.S. Furniture Manufacturing Renaissance

By Art Raymond

The news has been full of stories about the return of manufacturing to the U.S. Yes, high profile companies like Apple and General Electric have invested in new plants here. But extrapolating a tidal wave of reshoring from these moves is simply misguided. The fact remains that where you locate a production facility depends on a number of factors, each of which hold a different priority in each circumstance.

- For some, production needs to be near the end market.
- For others, it's the availability of highly skilled labor.
- And most obvious, many choose to locate based on the net labor cost that can be achieved.

For most furniture companies, that latter factor – ***net labor cost*** – drives the decision. Economists tell us that wages are growing faster in China than in the U.S. But labor supply and productivity must also be considered. Retaining sufficient U.S. workers to tail moulders or wipe filler on a finishing line is a challenge. More importantly, achieving a higher output per wage dollar drives the choice of location. Products like mass market, highly styled wood furniture simply require an ample, cheap and productive work force. For those reasons, the **Far East** remains the current '**location of choice**' for manufacture of such furniture.

For proof, just look at the data:

- The percentage of furniture products sold in the U.S. but produced offshore continues to grow.

Product Category	2004	2013
Wood	57.7%	74.4%
Upholstery	24.6%	42.1%

Source: Mann, Armistead & Epperson

- Imports continue to grow – In 2014 furniture imports totaled $21.36 billion, up 8.3 percent versus 7.8 percent the year before.

China remains the number one source country with shipments totaling $12.22 billion, a 57 percent share of U.S. imports. **Vietnam**, the primary beneficiary of U.S. anti-dumping duties on Chinese wood bedroom furniture, ranked second with $2.62 billion in shipments, a 12 percent share of U.S. imports. Other Far Eastern countries in the top ten ranking include Malaysia, Indonesia, and Taiwan.

Smart, Far Eastern producers recognize that improving their operations is the key to maintaining their share of the U.S. market. Manufacturing labor productivity in China increased by 11 percent annually, in the five years ending in 2012. Other countries in the region also experienced high single-digit productivity improvement. Combine that with wages that are less than a quarter those paid in the U.S., and you have a strong economic advantage.

Chinese producers are now tapping the labor resource located in the country's interior, where wages are lower. But others are investing heavily in state-of-the-industry **equipment** to lower production costs and reduce order fulfillment times. Lacquer Craft Furniture recently announced a three-year, $30 million program aimed at transforming their Chinese factories. By following that lead, expect other Far Eastern furniture makers to maintain their labor advantage.

As *The Economist* recently noted, "With its bounty of labor and capital, Asia has already built up a huge lead in manufacturing. It only stands to grow."

Bottom Line: Don't expect a massive revival of the U.S. wood furniture manufacturing sector any time soon.

Hardwood Federation on Federal Forest Management

By Dana Lee Cole
Hardwood Federation Executive Director

The management of U.S. federal forest lands has been a concern of the Hardwood Federation since its inception. Over the years, the issues have certainly been raised and debated, but unfortunately, our concerns have not been shared by those in Congress that have been in a position to make significant change. That is, until now.

As she assumed the Chair of the Senate Energy and Natural Resources Committee, **Senator Lisa Murkowski** (R-AK) commented that "… forest management reform was left on the table in the last Congress and we must get back to work on it. There is bipartisan agreement that we must improve the management of our forests. That includes getting the timber harvest up to get a handle on the wildfire problem, protect our water supplies, and sustain our rural economies. Although there may be a need for some place-based solutions, it is my view that we need nation-wide forestry reform legislation."

Ranking Member **Senator Maria Cantwell** (D-WA) has also signaled her intention of floating federal forestry reform legislation. Cantwell's bill will tackle four areas she sees as particularly problematic: hazardous fuels, wildfire borrowing, budget accountability and emergency response coordination.

"Extreme weather, the amount of hazardous fuel in our forests resulting from decades of suboptimal management, and increasing development in the wildland-urban interface are combining to produce more lethal fires," Cantwell recently said. "If we are ever going to get ahead of the problem, the Forest Service needs to respond to wildfires in a fundamentally different way."

Chairman of the House Committee on Natural Resources, **Rob Bishop** (R-UT), has voiced similarly strong interest in approaching management of our federal lands in a practical, bi-partisan manner that serves both conservation and economic needs. He recently wrote in an op-ed for Roll Call … "Both parties treasure our lands and want to see them healthy and pristine. Both parties want folks to be able to support their families. When it comes to the current policies that order how we conserve and utilize our nation's resources however, there is a major disconnect between our respective goals and solutions. This debate is mired in the premises and prejudices of the past, as we rely upon policies that were written for a different time, when our country had different needs. It's an approach that no longer protects the land, yet leaves powerless the people who use that land."

Starting to take action …

- Both Chairman Murkowski and Chairman Bishop have remained active on issues related to forest management, calling for multiple hearings on various issues, including wildfire management funding and timber harvest levels.
- Members of Congress in both houses and on both sides of the aisle continue to ask pointed questions of USFS leadership about harvest levels, spread of disease, increasing numbers of forest fires and local economic impacts of under-managed forest lands.
- Legislation that would structure funds to fight forest fires in such a way that would not negatively impact funds for other essential USFS programs, including timber harvests, has been introduced in both the House and Senate, and is moving through the process.

Yes, forest fire funding legislation seems to have a decent chance of passing through Congress and being signed by the President. However, other modifications may not be so easy to realize. Change may be incremental as Congress, the Administration and the nation move towards the next presidential election. Nonetheless, **the table is being set for future debate and hopefully, meaningful reform in the near future.**

The Hardwood Federation fully intends to be part of the debate, as it moves forward. I know we can count on your support!

Possible treatment for WNS

A news release issued by the U.S. Forest Service's Northern Research Station recently announced a break-through in its efforts to combat White-nose Syndrome (WNS), the fungal disease responsible for killing million and millions of Northern Long-eared Bats.

Since 2012, Forest Service researchers, in collaboration with universities, state and federal wildlife agencies, and others, "have been studying the use of native soil bacteria that produce natural volatiles that inhibit the growth of Pseudogymnoascus destructans (Pd), the cold-loving fungus which causes White-nose Syndrome. In a laboratory field trial that began last fall, diseased bats “were treated with compounds produced by the bacteria.” Over the winter, many “experienced increased health and survival.” And on May 20, at a gathering at Mark Twain Cave Complex, Hannibal, Missouri, the healthy bats were released.

Disease management research efforts will continue, along with research regarding the overall environmental impact of the bacterium.

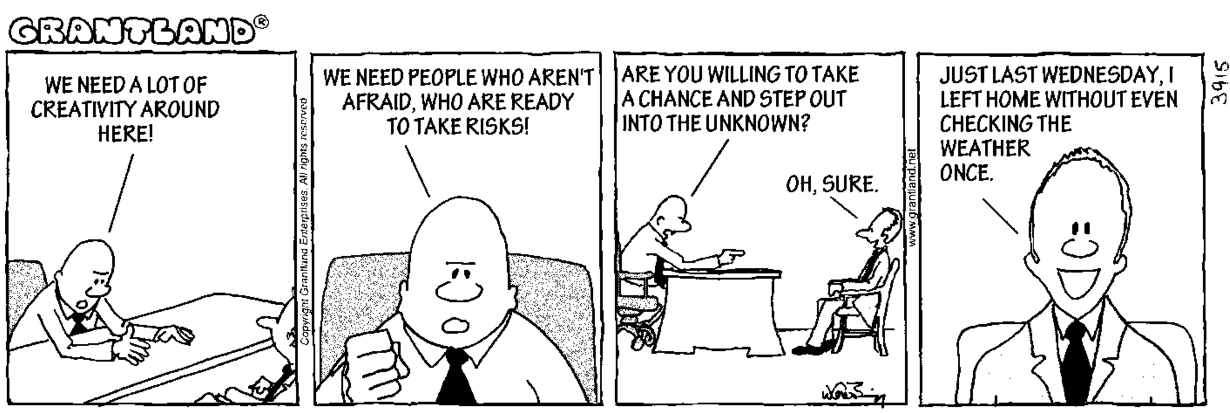
Impending EU regulations

By Geoff Webb
Troy Corporation Director, Wood Protection

"The European Union has been limiting the preservatives that can be used within the EU for, among other things, wood preservation. The list of approved preservatives is public (Article 95). The product type for wood preservatives is PT08. Anyone treating wood in the EU must use an approved preservative from this list.

The EU authorities are also limiting what treatments can be used for "treated articles" shipped into the EU. Effective September 2016, no "article" can be treated and shipped to the EU with preservatives not on the Article 95 list. Treated articles do include antisapstain treated wood. **(HMA members will only need to look at Product Type 8: Wood Preservation. Visit echa.europa.eu/ and enter “8” under Type and “Approved” under Status.)**

The means of enforcement for these regulations is still unclear. Currently the EU authorities are considering labels. How, what, where, to label - the size of the label - is all unclear. Labeling will be very difficult to implement for many treated articles, so another means of enforcement is expected."



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