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Log, Lumber Prices Put Squeeze on Western Sawmills

Portland, OR – April 18th, 2012 - Results of a multi-client benchmarking study show that in spite of operational improvements, dimension lumber mills in the U.S. West have struggled to overcome the narrowing gap between log prices and lumber selling values. The study included 10 dimension lumber mills, the majority of which are located in the coastal region of Oregon and Washington where log exports to China and other parts of Asia have driven up timber prices and led at times to mill log shortages, says The Beck Group, the company that completed the study.

The benchmarking study spanned the year July 2010 through June 2011 and examined a variety of operating metrics including manufacturing cost, lumber recovery, sales values, log costs, productivity, staffing levels, and adoption of technology. Mills have made a variety of improvements in recent years. When compared with results of a similar study conducted in 2005 (near the peak of the U.S. lumber market), the average sawmill has improved lumber recovery and productivity per man-hour by more than five percent each. In addition, the average mill has more than doubled the prices it receives for byproducts (such as chips and sawdust).

Unfortunately, those improvements have not been enough to overcome the diminishing spread between log and lumber prices. In 2005, the difference between log cost (after accounting for lumber recovery) and lumber sales value for the average mill was more than \$100 per thousand board feet. For the 2010-11 period, that margin had dropped to less than \$50 per thousand, leaving sawmillers less than they needed to turn a profit. Making matters worse, most mills in the latter study have had to operate their sawmills well below capacity, leading to an increase in manufacturing costs of nearly \$15 per thousand board feet. Overall profitability fell by more than \$50 per thousand board feet between the two periods, with most mills operating in the red for mid-2010-2011.

Since the end of the study period in mid-2011, log export pressure has diminished and lumber values have improved modestly, but many sawmills continue to struggle as they wait on the dragging U.S. housing market to restore lumber demand and prices closer to historical norms.

About The Beck Group

The Beck Group is the forest products industry leader in benchmarking, and offers a wide variety of planning and consulting services in North America and around the world. For more than 30 years, The Beck Group has assisted forest products companies with project planning, feasibility studies, mill modernizations, competitive assessments, due diligence, fiber supply, and timber procurement planning. www.beckgroupconsulting.com