

Hardwood Markets in 2020 and Beyond

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Abstract.—United States hardwood production and markets have seen a number of ups and downs over the last 20 years since peak production in the late 1990s, followed by historic lows during the “Great Recession” in 2009 and a slowly recovering industry since. During this time, we have seen the loss of domestic furniture and cabinet markets, increases in forest product export markets, trade disputes, reduced grade-lumber, and increased industrial wood demand, and most recently the COVID-19 crisis. With this backdrop, presenters from forest industry, wood market pricing services, and wood products research discuss present and future outlook for hardwood markets.

FOREST INDUSTRY MARKET PERSPECTIVES

Hardwood Market Overview and Commentary

The U.S. hardwood industry has experienced an era of change that forced contraction in lumber production and processing capabilities. Much of that change can be attributed to specific events that disrupted downstream markets, raw material flows, and labor. Yet, there are other forces less epic in nature that have continually eroded market share for hardwoods over time. From an annual peak of 12.6 billion board feet (BBF) in 1999, eastern U.S. hardwood sawmill production dropped to 10.8 BBF per year by 2006 (-14.4 percent). Notably, 2006 was still in the period of historically high residential construction in the United States. By the end of the Great Recession in 2009, eastern U.S. hardwood sawmill production fell to its then lowest level on record at 5.7 BBF per year.

Economic expansion and increased consumerism in China helped lift U.S. hardwood sawmill production and shake off poor markets of the post-Great Recession. However, overreliance on that one market made the U.S. hardwood supply grid vulnerable. The U.S./China trade war and slowing Chinese economy starting in 2018 pushed back demand for high valued grades of key U.S. hardwood species. The impact on sawmill output from the China market downturn was comparatively minimal. However, the monetary effects on U.S. hardwood sawmills from contracted Chinese business were substantial.

Importantly, the U.S. hardwood supply grid was in a weakened financial state prior to the coronavirus pandemic. Therefore, the effects on U.S. hardwood sawmill production during the peak of business closures from April through June 2020 were more severe and lasting than they might have been otherwise.

Eastern U.S. hardwood sawmill production ended 2020 at 5.6 BBF or 25.6 percent below 2019 level—a new record low. For the first time in Hardwood Market Report’s sawmill production data series, the annual rate of monthly output dropped below 5 BBF and held below that threshold

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for five consecutive months. May 2020 recorded the lowest annual rate of eastern U.S. hardwood sawmill production at 4.3 BBF.

The COVID-19 pandemic created an extraordinary set of events. Hardwood Market Report estimates total *demand* for U.S. hardwood lumber to be in the 8 BBF range, therefore, an obvious supply gap exists. However, the projected market demand has greatly diminished over time. Moreover, the market makeup that influences sales values is inverted, shifting from a 60:40 percent ratio of higher valued grade lumber to lower valued industrial lumber to what is now a 40:60 percent mix. Consequently, there is less total revenue being generated by the hardwood industry, and margins are squeezed.

Intervals of severe business disruptions have depleted wealth from the U.S. hardwood supply grid. Market recovery periods help restore some of the losses. But these rebounds inherently fuel raw material price inflation that reduce margins as the recovery period advances. Also, it is the higher costs of material accumulated during the recovery process that almost always set sawmills up for future losses when business momentum subsides.

The business downturns have become more frequent starting with the Great Recession, and the ability for sawmills to recover from lost business and revenue is weakened. Sawmill owners and managers see greater financial risk and less financial reward as they resume normal operations. At the very least, they are hesitant to commit additional resources for increasing production capacity utilization. They are far more cautious when considering expanding production capacity.

U.S. hardwood companies have been set back. But despite challenges and risks, opportunities exist for better business. It is now, after many years, that the industry is structuring an organized means to cultivate market opportunities and develop new ones. The Real American Hardwood Promotion (RAHP) was officially rolled out in June 2021. Like any new venture, its success is uncertain. On the other hand, the results from doing nothing are quite clear.

Hardwood Producer

Hardwood lumber producers report that the current high pricing in the hardwood industry is based on high demand and production (supply) that is down. The volatile conditions over the past years have impacted current production through mill closings and stagnant production in mills that survived. Specific reasons included that some mills have closed or are still recovering from previous economic downturns, unwillingness to reinvest in mill or increase production, loss of logging capacity, finding employees, and concerns about the future.

To address current demands, mills need to find ways to attract more employees, increase communication with customers, and to develop alternative solutions through species or grade substitution. Lack of timber resources is not the issue. Logs are available through programs like the Good Neighbor Authority, active forest management by private landowners, forest health, and storm damage recovery.

Several conditions are predicted to affect future hardwood lumber availability and price. These include higher interest rates, government tension, housing starts, remodeling declines, and increasing mill production. To prepare for the future, the Real American Hardwood Coalition (RAHC) was formed in 2019 and currently includes 28 trade associations and industry partners. RAHC conducted research on consumers' views of hardwood. The research showed that customers consider hardwood attractive, with high-end appeal, unique, durable, and the "gold standard." However, drawbacks to hardwood identified include cost and that it is not considered a good value. In a disposable society, the appeal of real American hardwood is undermined by "close

is good enough.” Planned steps for the RAHC hardwood promotion project are to establish a strong digital presence, partner with social media influencers, and develop promotional materials and relationships with large and small retailers. Part of the promotion will be to familiarize consumer markets in the northern hardwood region about various visual grades of lumber including first and seconds (FAS) lumber for millwork and west coast distribution; one common (1C) lumber for domestic cabinet and furniture overseas; two common (2C) lumber for cabinets and flooring; 3A lumber for flooring, pallets, and ties; and 3B lumber for pallets and ties.

Structural Hardwood Research

The USDA Forest Service has been actively involved in research and market development for structural uses of hardwood. The presentation summarizes information on the use of wood from hardwood species in engineered materials, components, and structures. It includes information on use in a wide variety of engineering products and applications including glued-laminated timbers, laminated veneer lumber, trusses, cross-laminated timber (CLT), working tool handles, laminated propellers for military drones, and sporting goods. New opportunities are available for hardwood lumber but will require innovative partnering to bring to market. A comprehensive report, “Undervalued Hardwoods for Engineered Materials and Components” (Ross and Erickson 2020) is available through the Forest Service.

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For More Information

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