# OUTLOOK FOR THE TREATED LUMBER MARKET

1986

D.G. Bell & Associates Inc.[1]

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## DISCLAIMER

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This outlook provides an overview of the consumer market demand and treating supply for pressure treated lumber in Canada as of the Fall of 1986. General market conditions and trends in the north and central portion of the United States have also bee provided. The information is based on historical data, present market estimates and projections of future demand.

The data have been developed through D.G. Bell files and updated materials supplied through dealers, distributors, and treaters across the country and in the United States.

**SUMMARY**

The producer sales of treated dimension stock in Canada in 1986 are estimated to be 395 million board feet (see exhibit 1).

Market growth has been averaging 10% annually in the past 6 to 8 years with the rate of growth being dependent on a number of factors including the economic conditions, the price of cedar, consumer demand for decks and fences and housing starts.

The market growth is likely to continue during the next 3-4 years, with a projected increase of 8-10% in 1987, if current economic conditions do not change substantially and the solution to the current trade talks on softwood lumber tariffs does not radically alter the major market relationships within Canada.

The market for the product is growing in all areas of North America, with major opportunities in Ontario and Quebec and in north central, north eastern and western United States.

At the present time plant capacity in Canada exceeds consumer demand for the product and some plants are running at substantially less than capacity. However many of the larger treaters are running at or near capacity; a reflection of the marketing capabilities of these firms.

Sales in the present marketplace are based on competitive pricing, as opposed to product differentiation and will continue to be so unless some form of new improved product can be found.

The two major CCA treaters in Alberta account for roughly 2% of the total market and are presently running at less than 50% of their capacity. Additionally, there are an estimated six other small pressure treaters (excluding Domtar) who specialize in poles and posts.

The Canadian Department of the Environment is currently undertaking a study to investigate the feasibility of regulating Canadian treated lumber manufacturers. The regulations that are expected will probably be acceptable to the industry.

Further research continues on fire retardant chemicals and coloured product (other than green) and a greater variety of colours will be offered in the marketplace beginning in 1987.

The market for treated lumber dimension stock, poles and posts in the United

States is estimated to be over 12 times the size of the Canadian market with a growth rate that has been averaging over 10% during the past 5 years (see exhibit 2). The outlook for this product in the United States continues to be positive with producers and associations projecting sales increases between 80-90% for the 1986-1990 period.

Based on current discussions between the U.S. and Canadian governments, it is likely that the price for treated lumber will increase in the American marketplace as a result of current intergovernment negotiations. It is possible that this price increase could have a positive effect on Canada's ability to market product in the U.S. as well as the potential increase in white wood supply in Canada.

American costs for treating southern yellow pine (one of the major species used) is significantly less than costs incurred in Canada due to the amount of chemical and time required to treat the softer U.S. wood.

**GROWTH & TRENDS IN THE TREATED WOOD MARKETPLACE**

The overall outlook for treated lumber sales in North America continues to be positive. Market sources are expecting at least a 10% increase in 1986 sales over their '85 levels and a number of the large treaters in Canada have indicated that their increases will be even higher.

Exhibit 1 demonstrates the steady growth that has taken place across the country for dimension stock products. Although these figures do not include

## EXHIBIT 1

### TREATED LUMBER PRODUCER SALES PROJECTIONS*

### CANADA (000,000-FBM)

| | 1978 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|
| Canada | 127 | 272 | 328 | 360 | 395 |
| West | 49 | 70 | 87 | 92 | 96 |
| Ontario | 60 | 145 | 172 | 190 | 213 |
| Quebec | 13 | 41 | 49 | 55 | 62 |
| Maritimes | 5 | 16 | 20 | 22 | 24 |

Source: D.G. Bell Estimates

### TREATED LUMBER SEGMENTATION VOLUME ESTIMATES*

### CANADA (MM-FBM)

| | 1984 | 1986 |
|---|---|---|
| Dimension Sales | 283 | 338 |
| P.W.F. | 28 | 35 |
| O.E.M. (Playground, Decks, etc.) | 2 | 2 |
| Landscape Ties | 15 | 20 |
| TOTAL | 328 | 395 |

*Note: These estimates are based on surveys and analysis conducted over the past 6 years. The 1986 figures are projections calculated on general trends in the industry and do not reflect an accurate measurement of the sales achieved during the calender year. Poles and posts are not included in these estimates.

## EXHIBIT 2

## TREATED LUMBER DIMENSION STOCK, POLES & FENCING
## PRODUCER SALES PROJECTIONS

### UNITED STATES
### (000,000-FBM)

| | 1981* | | | **1985 | | |
|---|---|---|---|---|---|---|
| | North East | North Central | Rocky Mountain | North East | North Central | Rocky Mountain |
| Dimension | 88 | 155 | 6 | 175 | 325 | 12 |
| Poles | 10 | 61 | 32 | 14 | 90 | 47 |
| Posts | .5 | 33 | 6 | 1 | 50 | 9 |
| Plywood | 7 | 3 | N/A | 12 | 5 | N/A |

*Source: American Wood Preserves Association

**No accurate survey figurs are available. Projections are based on average annual growth rate by category as estimated by a survey of U.S. treaters.

### U.S. MARKET SEGMENTATION
### PRODUCTION & SALES BY AREA

| | Production | Sales |
|---|---|---|
| South | 64% | 34% |
| West | 13% | 23% |
| North Central | 16% | 26% |
| North Eastern | 7% | 17% |

*Source: U.S. Treater Estimates

## EXHIBIT 3

### THE CANADIAN TREATED LUMBER MARKET STUDY & CAPACITIY ESTIMATES

| Area | 1984 | | (MM-FBM) 1985 | |
|---|---|---|---|---|
| | Supply | Capacity | Supply | Capacity |
| B.C. | 64 | 111 | 80 | 126 |
| Prairies | 23 | 75 | 31 | 75 |
| Ontario | 172 | 292 | 215 | 364 |
| Quebec | 49 | 71 | 63 | 90 |
| Maritimes | 20 | 25 | 26 | 31 |
| All Canada | 328 | 574 | 415 | 686 |
| | 57% of Capacity | | 61% of Capacity | |

Source: D.G. Bell Estimates based on Interviews and Industry Data.

Note: The figures do not include facilities used for poles and posts, nor do they reflect creosote operations. An indepth analysis of 1986 production capabilities would yield further increases in capacity and an expected increase in the percent of capacity being utilized.

poles and fence posts, growth in both these categories has been similar. The segmentation portion of the exhibit indicates the significant volume that dimension stock represents.

Exhibit 3 compares the capacity for the various dimension stock CCA plants in each of the area in Canada to the supply of product being offered in 1984 and 1985. Although the 1986 figures are not yet available, estimates are that the percentage of capacity utilized continued to increase during the year.

The confidence level for future growth is high because of the apparent continued demand for decks, fences and general construction. The fact that colours other than green have not been marketed to any degree, enhances the opportunity for greater market development to compete against other woods such as cedar. Additionally, fire retardant products have not found a significant place in the market as yet but as awareness levels of the advantages to this type of product increase and building codes are altered, there is no doubt that these products will enjoy significant growth in the marketplace. The Canadian Wood Council will be promoting use of fire retardant materials in 1987. It has also been determined that spruce can be treated with fire retardant chemicals and is therefore being specified in roofing systems. It is expected that further research and promotion will be undertaken in this area.

The consumer attitude toward treated lumber has been positive due to merchandising and promotional efforts placed behind the major brands and although there has been some negative publicity regarding the potential health hazards of the product, no negative sales impact has been apparent.

The proposed EPA regulations in the United States for manufacturers of treated lumber has made the Canadian Department of the Environment initiate a study whose ultimate aim is to impose regulations on manufacturers here in Canada. It is predicted by industry representatives that the regulations will not be so strict as to upset present plant operations, although new plants coming on stream will have to employ all the designated safety factors.

## Consumer Demand for Decks, Fences, Landscape Ties

Consumer demand for these products has the most effect on treated lumber sales in North America. Treated product used in the construction of patio decks and fences appears to be the dominant force that is driving this market. No reasonable statistics are available to indicate just how many people have installed these products or plan to do so in the near future. Volumes of decks and consumer construction in other area depend to a certain extent on housing starts. However, decks are being installed by home owners for both relatively new houses and structures that have been in existence for some time.

At the present time, wooden decks are attractive to many consumers and are being constructed as do-it-yourself projects. In addition there is a replacement market for decks where old decks are either not large enough or were constructed of spruce which is in need of replacement. The secon market that is a growth area is fences for consumer use. In urban areas particularly because of small and narrow lots, many new home owners in row housing or semi detached units construct these fences for privacy purposes.

The third product that is sold to the consumer market is landscape ties purchased by the do-it-yourselfer or contractors who do the landscaping as well. Although this market is quite "visible" in many cities, the percentage of treated lumber that is used is relatively small.

The outlook for the demand of all of these products is positive and expected to continue in the short term (3-4 years) right across Canada.

Growth of course is dependent to a certain extent on the economy and as a result, market development in western Canada, particularly Alberta, has been less than the national average.

## Housing Starts in Western Canada

In 1984 we estimated that housing with preserved wood foundations accounted for about 10% of the total dimension stock that was treated in this country. With the resurgence in housing starts in the west during the past two years, the market for the preserved wood foundations has continued to grow. We estimate approximately 15-16 thousand preserved wood foundations constructed in western Canada in 1986. This is up from an estimated 12,000 to 13,000 in 1984 and is reflective of the current market conditions.

## The Price & Availability of Cedar

In the past it appears that cedar producers helped to create the treated wood

**EXHIBIT 5**

**SHIPMENTS OF LUMBER BY SPECIES**
**(MM - F.B.M.)**

| | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|
| Canada | | | | |
| White Pine | 242 | 242 | 227 | 267 |
| Spruce | 9,076 | 9,052 | 8,246 | 11,072 |
| L.P. Pine | 1,287 | 1,363 | 1,048 | 1,162 |
| Cedar | 1,099 | 1,154 | 1,048 | 1,261 |
| Jack Pine | 713 | 653 | 612 | 687 |
| British Columbia | | | | |
| Spruce | 4,702 | 4,451 | 4,355 | 6,031 |
| L.P. Pine | 1,255 | 1,327 | 1,004 | 1,000 |
| Cedar | 1,095 | 1,150 | 1,039 | 1,256 |
| Ontario | | | | |
| Spruce | 596 | 719 | 569 | 706 |
| Jack Pine | 458 | 409 | 361 | 425 |
| Cedar | 1 | 1 | - | - |
| White Pine | 105 | 119 | 111 | 144 |
| P.Q. | | | | |
| Spruce | 2,625 | 2,596 | 2,191 | 2,845 |
| Jack Pine | 132 | 114 | 111 | 133 |
| Cedar | 2 | 1 | - | - |
| White Pine | 71 | 63 | 57 | 58 |

Source: STATCAN 35-204 Annual

market in this country because of their pricing policies and the quality and availability of the product in the eastern part of the country. Exhibit 4 provides a price comparison between cedar during the past six years and western SPF within the same period. Clearly the pricing differential is significant even considering that the increase in value of SPF after treating would be roughly $50 U.S. Whether or not this relationship might change significantly with a reduction in Canadian cedar sales due to U.S. tariffs remains to be determined.

## New Uses for Treated Wood or Lumber

Possible uses for treated dimension stock in other construction areas appear to be significant. Door sills, roof decking, siding and window frames all have potential for treated wood application. Prestained cottage siding could offer new product possibilities and provide a significant marketing tool for producers.

## White Wood Supply

An adequate and consistent supply of white wood at favourable prices is a factor of major benefit for custom treaters. Generally speaking a shortage of suitable white wood is not anticipated although there are some companies who are complaining presently of limited availability, consistency of supply at the proper time and a price that is favourable in order to meet competitive pressures.

The ultimate result of the U.S./Canada trade talks may resolve this issue if U.S. volume sales of Canadian product decrease and increased amounts of white wood become available on this market. On the other hand, if white wood supplies were to be restricted for whatever reasons, those treaters with adequate wood supplies would be the obvious winners.

## Summary of Outlook

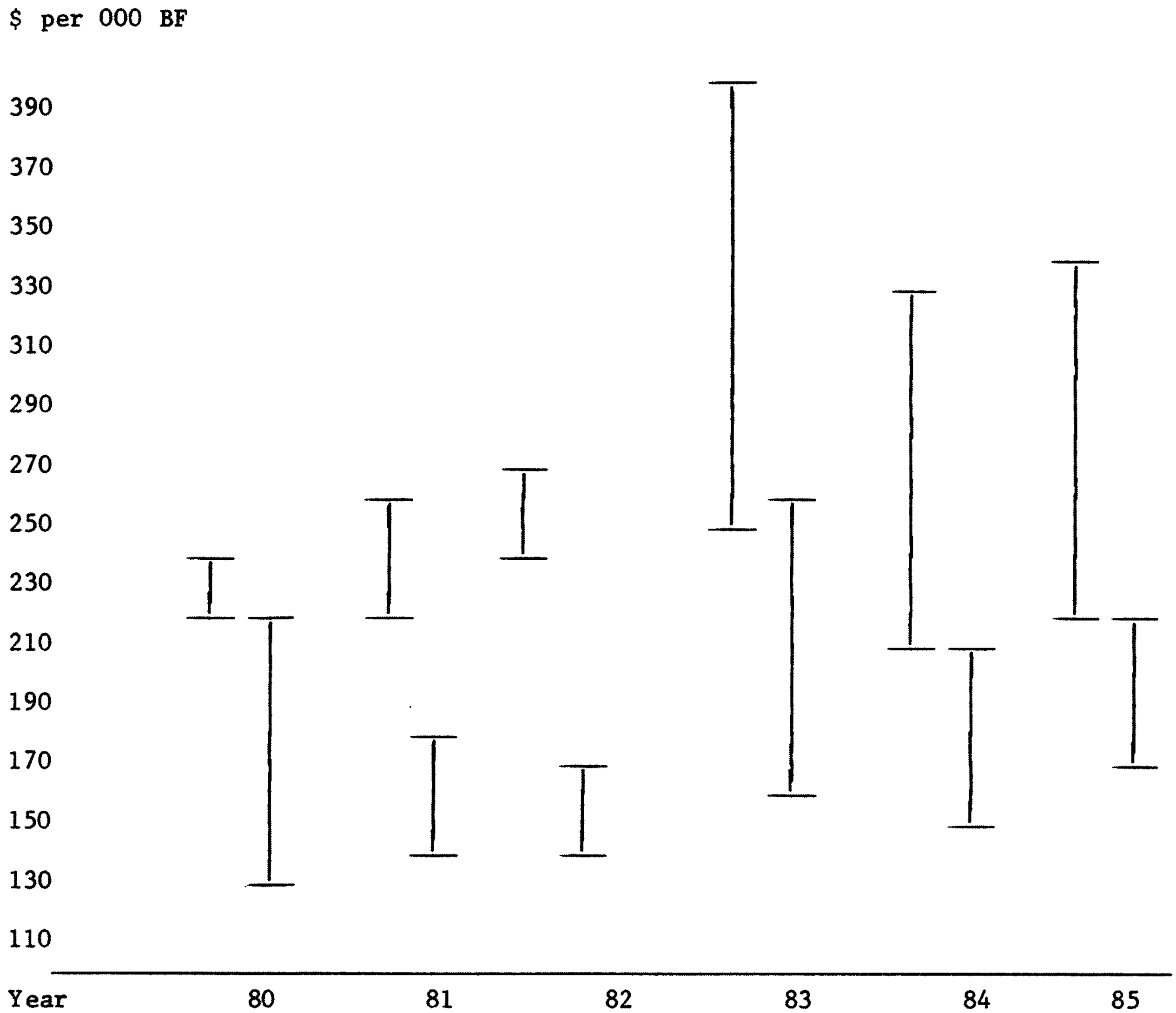
The market for treated lumber continues to grow at approximately 10% in volume annualy. The number of treating operations is also increasing but at a lesser rate so that the overall utilization of capacity, at least in Canada, is expected to increase. Alberta's participation in this industry is significantly less then the national average and the province appears to be a net importer of treated product. No treaters of preserved wood foundation materials were noted within the province. While Alberta treaters are producing at levels below capacity, this is likely to be (at least in part) a reflection of the distribution patterns of their products as opposed to the market demand. Similarly in eastern Canada a number of smaller operations are producing at levels below capacity. However the larger producers with good distribution are at or near capacity. In all cases, indications were that treating lumber is considered to be a profitable business.

The province of Alberta has the wood supply to meet market demand for this product now and in the future, and could certainly supply sales demands within the province and possibly export sales as well.

## EXHIBIT 4

## LUMBER AVERAGE PRICING RANGES

## (US $)




| | 80 | 81 | 82 | 83 | 84 | 85 |
|---|---|---|---|---|---|---|
| Cedar $ 2 x 4 S4S | 194/244 | 220/260 | 230/271 | 251/397 | 193/315 | 210/325 |
| S.P.F. $ K.D. West 2 x 4 | 128-200 | 132-182 | 131-166 | 158-255 | 136-197 | 154-211 |

Source: Madisons, D.G. Bell Interviews