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OA/ID Number: 17806
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Folder Title:
[Long and Short Term Timber Supplies and Lumber Prices] [Loose]

Stack:	Row:	Section:	Shelf:	Position:
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MEMORANDUM

TO: KATIE McGINTY

FROM: JIM LYONS
MARK GAEDE

DATE: 4/12/93

RE: LONG AND SHORT TERM TIMBER SUPPLY

Before we can make a defensible recommendation on the volume of timber that could be made available in the short term, it will be important to know the other values which will be affected (old growth, owl habitat, fish habitat, roadless areas) and the level of impact. If for no other reason, this will be important so that we can keep all of our options open in recommending options to the President.

We currently have the Forest Service developing information that will show the volume of timber falling into each of the above categories plus the amount currently enjoined and the amount falling outside the injunctions. This matrix of information (see attached format) will allow us to make recommendations on near term timber volumes fully knowing the policy ramifications in all other areas.

This should be available in four to six days. In the meantime if something needs to be said to weigh against the decision to pull back the 13 timber sales exempted by the "God Squad", we suggest establishing a process to find near term timber volume. This process will identify the universe of timber volume and determine where the timber volume may be located. Where there appears to be the least conflict between timber harvest and other old growth ecosystem values, the individual Forests will then be directed to sit down with local environmental and industry representatives to work out a mutually acceptable harvest schedule. This has been done before with some success.

While this process is intended to serve as an interim means of getting timber volumes, it also has merit if applied to a long range timber program.

PREPARED TIMBER SALE VOLUME ENJOINED BY DWYER
 Date of report: __/__/93. (Volumes in Millions of Board Feet)

	TOTAL PREPARED SALE VOLUME	LOCATED IN UNITS AT RISK DUE TO ONGOING CONSULTATION ON TE&S SPECIES *	LOCATED IN HCA'S	LOCATED IN "GANG OF 4" LSOG1	LOCATED IN "GANG OF 4" OWL ADDITIONS	LOCATED IN "GANG OF 4" LSOG2	LOCATED IN "GANG OF 4" LSOG3	LOCATED IN "GANG OF 4" WATERSHED BUFFER STRIPS	LOCATED IN ROADLESS AREAS	REMAINDER OUTSIDE ANY AREAS NAMED IN COLUMNS (2) - (9) **	PORTION OF COLUMN (10) THAT CAN BE SOLD IN FY93 IF INJUNCTION IS LIFTED BY JULY 31, 1993
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
NAT'L FOREST											
R-6 OWL											
Deschutes	25	0	0	0	0	0	0	0	0	0	0
Mt. Hood	79	0	0	0	0	0	0	0	0	0	0
Rogue River	71	0	0	0	0	0	0	0	0	0	0
Siskiyou	171	0	0	0	0	0	0	0	0	0	0
Siuslaw	223	0	0	0	0	0	0	0	0	0	0
Umpqua	343	0	0	0	0	0	0	0	0	0	0
Willamette	289	0	0	0	0	0	0	0	0	0	0
Winema	46	0	0	0	0	0	0	0	0	0	0
OREGON	1,247	0	0	0	0	0	0	0	0	0	0
Gifford Pinchot	246	0	0	0	0	0	0	0	0	0	0
Mt. Baker-Snoq.	42	0	0	0	0	0	0	0	0	0	0
Okanogan	0	0	0	0	0	0	0	0	0	0	0
Olympic	13	0	0	0	0	0	0	0	0	0	0
Wenatchee	71	0	0	0	0	0	0	0	0	0	0
WASHINGTON	372	0	0	0	0	0	0	0	0	0	0
R-6 OWL TOTAL	1,619	0	0	0	0	0	0	0	0	0	0
R-6 NON-OWL											
Fremont	0	0	0	0	0	0	0	0	0	0	0
Malheur	0	0	0	0	0	0	0	0	0	0	0
Ochoco	0	0	0	0	0	0	0	0	0	0	0
Umatilla	0	0	0	0	0	0	0	0	0	0	0
Wallowa-Whitman	0	0	0	0	0	0	0	0	0	0	0
Colville (WASH)	0	0	0	0	0	0	0	0	0	0	0
R-6 NON-OWL TOT	0	0	0	0	0	0	0	0	0	0	0
R-6 TOTAL ALL	1,619	0	0	0	0	0	0	0	0	0	0
R-5 OWL (Northern CA)											
Shasta-Trinity	0	0	0	0	0	0	0	0	0	0	0
Klamath	30	0	0	0	0	0	0	0	0	0	0
Mendocino	0	0	0	0	0	0	0	0	0	0	0
Six Rivers	27	24	0	0	0	0	0	0	0	0	0
R-5 OWL TOTAL	57	24	0	0	0	0	0	0	0	0	0
ALL OWL TOTAL (R-5 and R-6)	1,676	24	0	0	0	0	0	0	0	0	0

* Considered at risk due to delay in receiving biological opinions from FWS or possible adverse opinion.

** Note: the same sale unit may occur in more than one column, so you cannot simply sum columns (2)-(9) when figuring remaining volume.

of sales / salvage : / or thinning sales



Headwaters

To protect and restore forest ecosystems

President Bill Clinton
c/o Ms. Katie McGinty
Old Executive Office Bldg. 358
Washington D.C. 20501

April 13, 1993

Dear Katie,

Please express my appreciation to the President and Vice President for the opportunity to discuss federal forest issues with them during the Forest Conference in Portland. It is a pleasure to be working with you all.

This is a followup letter which builds upon the strategy I presented during the "Solutions" Roundtable at the Forest Conference. In particular I would like to emphasize the need for preserving our options to protect old-growth forests and watersheds in the Administration's June 1st resolution package. This could be accomplished by:

1. Designing a transitional, low-impact timber sale program in the least controversial areas (similar to that being explored by the Applegate Partnership in southwest Oregon).
2. Establishing a study period of at least one year, during which the most effective and efficient long-term reserve system could be designed.
3. Providing a combination of permanent and interim protection for the full range of habitats for threatened species, old growth forests, roadless areas, key watersheds and riparian zones that will protect all of our options during this study period.

We think it would be prudent to establish a transitional plan that provides relatively non-controversial timber sale volume while protecting future options for long-term protection strategies. We believe this is preferable to arriving at a final solution on June 1st that commits thousands of acres old-growth for cutting before the scientific community has had a chance to fully consider alternative strategies and the latest data on forest decline.

Looking back, the federal government has tried to respond to past USFS/BLM mismanagement with three very rushed scientific studies prepared primarily by government employees:

- Nov. 1989 to Apr. 1990, Interagency Scientific Committee Conservation Strategy for the Northern Spotted Owl
- June to Oct. 1991, House Agriculture Committee "Gang of Four" Report on Late Successional/Old-Growth Ecosystems
- Aug. 1992 to Mar. 1993, USFS Scientific Analysis Team Report.

Each of these studies has operated under restrictive deadlines and varying mandates. While we have confidence that the scientists in the Administration's current Interagency Team effort in Portland will do their best to integrate and consider the results of these studies, we hope that their primary recommendation will be that further study is needed. Sixty days is simply not sufficient time to give full consideration to the broad range of strategies available for both ecosystem protection and ecosystem management.

We are particularly concerned that alternative strategies be considered that allow for the integration of both protection and management across the forest landscape as a whole. Fine-scale strategies that allow for sensitive management at the level of each forest stand, such as the Interim Guidelines for the California Spotted Owl, and Headwaters' Preferred Alternative for the Medford District BLM's Resource Management Plan, are examples of conservation methods that can complement the broad-scale reserves.

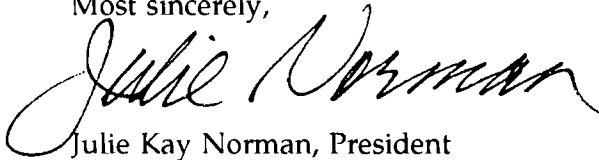
The conservation strategies being considered for the Pacific Northwest represent the leading edge of conservation biology. No other ecosystem has received this intense degree of study. Therefore, these strategies have the potential to set important precedents for the management of biodiversity and sustainable development **worldwide**. The groundwork should be set now for a longer, more open process where "peer reviews" and general oversight could be sought from the best of the world's scientists, including individuals such as E.O. Wilson, Peter Raven, George Schaller, and Michael Soule'.

In the meantime, we certainly understand the concerns of workers, local communities, and industry to get federal timber sales moving again. It is this short-term goal that we feel should be the main focus of the Interagency Team now convening in Portland. A viable strategy for this interim program has already been proposed by Professor David Perry of Oregon State University and eleven other scientists (see the letter of March 29, 1993, attached). Their proposal is to offer sales "in young to mid-aged stands that are not critical habitat for endangered or threatened species [using] thinning...rather than clearcutting (or any other kind of cutting) in old-growth."

Preliminary investigations of forest inventories by Dr. Norman Johnson of the Gang of Four show substantial acreage in these younger age classes. This strategy would shift sales into less controversial areas and protect future options! We believe this is a viable and responsible solution.

Please feel free to call on me if you have further questions. Dr. Perry's number at Oregon State University is (503)737-6588. Dr. Johnson is currently working with the Clinton Administration's Interagency Team in Portland; he can be reached (if you can get past the receptionist) at (503)326-7620.

Most sincerely,



Julie Kay Norman, President

Attached: 3/39/93 letter from Professor David Perry and others
re: interim timber sale strategy outside old-growth

SENT BY:

4-28-83 ; 1:18PM ; HON. MIKE KOPETSKI-

2/ 4

1000 CONGRESS, 1ST SESSION

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 (GENERAL ANALYSIS)

Honorable Michael J. Kopetski
 U.S. House of Representatives
 Washington, DC 20515

APR 27 1993

Dear Mr. Kopetski:

This is in response to your letter of April 27, 1993, requesting revenue estimates for a legislative proposal that would include H.R. 960 and H.R. 1542, with various modifications to Section 2 of H.R. 960.

For the purpose of preparing revenue estimates for H.R. 1542 and H.R. 960 (as introduced), we have assumed that the bills will be enacted prior to October 1, 1993. Estimated changes in Federal fiscal year budget receipts are as follows:

	Fiscal Years					
	[Millions of Dollars]					
Item	1994	1995	1996	1997	1998	1994-98
H.R. 1542.....	56	77	81	87	92	393
H.R. 960:						
Reforestation tax credit...	-1	-4	-5	-5	-6	-22
Reforestation amortization..	-1	-3	-6	-9	-15	-34
Passive loss relief.....	-12	-16	-17	-19	-20	-84
Inflation adjustment for timber gains:						
Individuals.....	-42	-64	-70	-75	-79	-330
Corporations.....	-90	-135	-144	-153	-156	-679
Total net revenue effect..	-91	-146	-161	-175	-184	-756

NOTE: Details may not add to totals due to rounding.

Section 2 of H.R. 960 would allow taxpayers to claim a deduction from gross income equal to the qualified percentage of the taxpayer's qualified timber capital gain. The qualified percentage would be equal to 3 percent times the number of years that the timber was held by the taxpayer, up to a maximum of 50 percent.

SENT BY:

4-28-93 ; 1:18PM ; HON. MIKE KOPETSKI-

3/ 4

Congress of the United States

JOINT COMMITTEE ON TAXATION

Washington, DC 20515-6453

Honorable Michael J. Kopetski
U.S. House of Representatives

Page 2

Under your proposed modification to H.R. 960, the maximum qualified percentage would be reduced from 50 percent to 30 percent. With this modification, the estimated changes in Federal fiscal year budget receipts would be as follows:

Item	Fiscal Years					1994-98
	[Millions of Dollars]					
	1994	1995	1996	1997	1998	
H.R. 960 (as modified):						
Inflation adjustment for timber gains:						
Individuals.....	-31	-48	-52	-57	-59	-248
Corporations.....	-58	-87	-93	-99	-102	-440
Total net revenue effect...	-48	-82	-92	-103	-109	-434

NOTE: Details may not add to totals due to rounding.

You have also proposed that the maximum qualified percentage in H.R. 960 be reduced from 50 percent to the percentage that would result in revenue neutrality for the overall proposal (H.R. 960 and H.R. 1542). We estimate that a maximum qualified percentage of 10 percent would produce revenue neutrality. Estimated changes in Federal fiscal year budget receipts would be as follows:

SENT BY:

4-28-93 : 1:18PM : HON. MIKE KOPETSKI-

4/ 4

Congress of the United States
JOINT COMMITTEE ON TAXATION
Washington, DC 20515-6453

Honorable Michael J. Kopetski
 U.S. House of Representatives

Page 3

	Fiscal Years					
	[Millions of Dollars]					
<u>Item</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1994-98</u>
H.R. 1542.....	56	77	81	87	92	393
H.R. 960 (as modified):						
Reforestation tax credit....	-1	-4	-5	-5	-6	-22
Reforestation amortization..	-1	-3	-6	-9	-15	-34
Passive loss relief.....	-12	-16	-17	-19	-20	-84
Inflation adjustment for timber gains:						
Individuals.....	-12	-19	-21	-22	-23	-97
Corporations.....	-21	-31	-33	-35	-36	-156
Total net revenue effect....	9	4	-1	-5	-8	(1)

NOTE: Details may not add to totals due to rounding.

(1) Loss of less than \$500,000.

I hope this information is helpful to you. If we can be of further assistance in this matter, please let me know.

Sincerely,

Hank

Harry L. Gutman

The Lumber Crunch

Michael Carliner

Since the beginning of the year, there have been sharp increases in the prices of lumber and plywood, with the mill price of framing lumber, as measured by the *Random Lengths* composite average, increasing from \$235 per 1,000 board feet on December 27, 1991 to a record \$326 on March 20, 1992. Plywood price increases were nearly as great. Prices have eased somewhat since reaching the peak, with the lumber composite price slipping back to \$302 on April 10.

The price increases are attributable to the increase in demand as home building activity has recovered, to restriction on timber harvests from U.S. government-owned forests, and to actions aimed at imposing a duty on imports of lumber from Canada. These three factors have affected the current flow of lumber production and consumption. They have also affected expectations about future supply and demand, resulting in inventory movements and changes in the rate of harvesting, as producers, consumers, and dealers attempt to anticipate and exploit future price movements.

Lumber and Plywood Use

Home building is by far the most important source of lumber demand. In a typical year, direct use of lumber in home building accounts for about 40 percent¹ of total U.S. lumber consumption. In addition, some lumber goes into doors, windows, cabinets, and other products in new homes. Much of the remaining lumber supply is used in residential remodeling or in nonresidential construction.

In a typical new single-family detached home, there are about 14,659 board feet² of framing lumber, plus

about 1,255 board feet of nonframing lumber used for trim, siding, or sheathing. With the mill price of lumber at over \$300 per 1,000 board feet, the mill value of the lumber in each home is nearly \$5,000. The cost to the builder (i.e., incorporating the cost of transportation, wholesale and retail markup, etc.) is higher. For lumber that costs \$300 per 1,000 board feet at the mill in the Northwest, eastern builders must also pay about \$75 to \$100 for transportation, \$10 to \$15 for wholesale margin, and another \$50 to \$75 for retail margin.

Plywood is the most common material used for floor or roof sheathing. It is also used for walls, but most wall sheathing consists of foam board, fiberboard, foil-faced board, and other nonstructural materials. Overall, median plywood usage in single-family homes is about 5,889 square feet on a 3/8-inch basis (i.e., with the area covered by 3/4-inch plywood multiplied by 2). That's equivalent in volume to

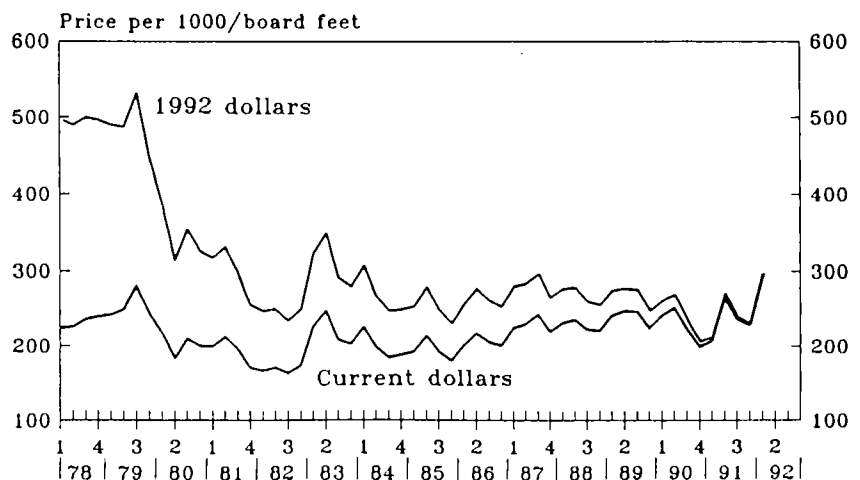
about 2,200 board feet in terms of lumber measurement.

Price Trends

The composite lumber price in 1991 averaged \$235 per 1,000 board feet, compared to \$254 back in 1979. Even with the recent jump in lumber prices, the cost of lumber is still lower in real terms than it was in the late 1970s. The 1979 average *Random Lengths* composite lumber price was equivalent to nearly \$500 in 1992 dollars. Figure 1 shows the price trend in current dollars and in 1992 dollars.

Historical experience shows that changes in home building activity alone can have a potent impact on lumber prices. Figure 2 compares the annual average price for a common variety of framing lumber with the total number of housing starts in each year. It is notable that the decline in housing starts from 1986 to 1991 did not bring down lumber prices.

Figure 1 Real and Nominal Lumber Price



Source: *Random Lengths*, Eugene, Oregon; U.S. Bureau of Labor Statistics

Note: Quarterly average of lumber composite price, based on weighted average of nine key products. Real price deflated using CPI-U-XI

Timber Supply

Although increased demand has contributed to the surge in prices, supply-side problems magnified the effects of higher demand. Restrictions on sales of timber from government-owned forests in the northwestern U.S. were a key element in the price surge.

In the mid-1980s, National Forests accounted for approximately one-fourth of the total domestic supply of softwood timber for lumber and plywood. Other federal lands, as well as land owned by state governments, accounted for another 8 to 9 percent of the supply.

A series of court injunctions, administrative actions, and policy changes have blocked sales of federal timber. It takes sometime before the cutting rights sold at auction are translated into logs, although the lag between sales and harvest has decreased as supplies have tightened. Thus, the effects of sales restrictions on timber harvests are largely still to come.

National forests are the principal type of federal government landholding providing timber to the forest products industry, but other federal agencies, including the Bureau of Land Management (which mainly administers forests in western Oregon), the Bureau of Indian Affairs, the Department of Defense, and others, are also significant participants. Large additional federal timberlands, classified as parks or wilderness areas, are off limits to loggers.

The Owl

Prior to 1989, there had already been some reductions in the supply of federal timber due to various minor environmental restrictions or backups in administration of the sales pro-

grams, but the most significant restrictions came with the designation of the northern spotted owl as a threatened species under the Endangered Species Act.

A threatened species is in less dire straits than an endangered species. Basically, an endangered species is in danger of becoming extinct, while a threatened species is in danger of becoming endangered. Under the 1973 Endangered Species Act, however, the protections offered endangered and threatened species are similar. When a species is designated as endangered or threatened, its "critical habitat" is supposed to be designated, and such habitat is subject to stringent protection. Responsibility for designation or "listing" of land-based species lies with the Fish and Wildlife Service (FWS) in the Department of the Interior.

Efforts to designate the northern spotted owl as threatened date back to 1975, but aggressive efforts, including court suits by environmental groups, didn't get underway until 1987. Initially, the FWS decided against listing the owl, but after a court

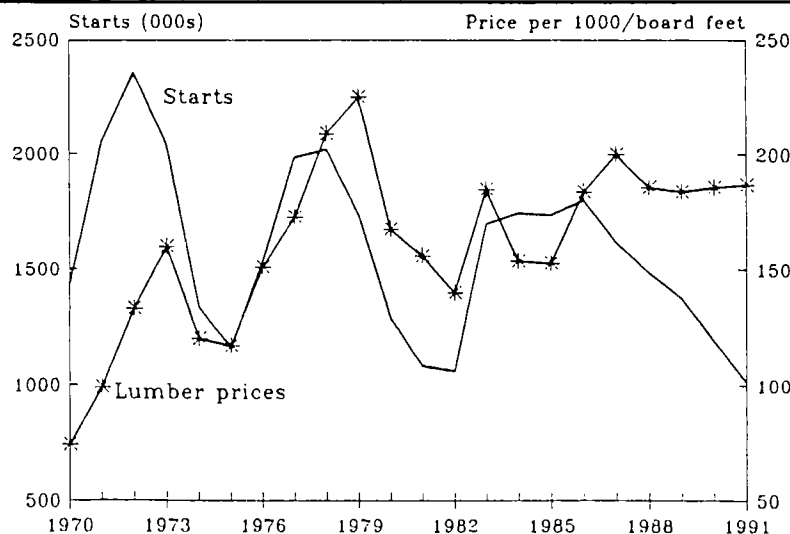
order to reconsider, the FWS proposed listing the owl in July 1989, and in June 1990, the listing occurred. There was, however, no accompanying designation of critical habitat.

More court challenges ensued, and FWS was ordered to designate critical habitat. In April 1991, FWS proposed a critical habitat area of 11.6 million acres, including state-owned and private lands, as well as federal lands. After several revisions, however, in January of this year, FWS published final recommendations for critical habitat comprising 6.9 million acres, with only federal lands covered. That area, in Washington, Oregon, and California, is somewhat larger than Massachusetts. Even outside the critical habitat area, harvests are restricted wherever owls are present.

The God Squad

While the critical habitat was being debated, a dispute between the FWS and the Bureau of Land Management, both of which are agencies in the Department of the Interior, developed over a plan to sell timber from

Figure 2 Lumber Prices and Housing Starts



Source: Random Lengths, Eugene, Oregon; U.S. Bureau of the Census
Note: Lumber price is for S-P-F, western, kiln dried 2"x4" (8'/20').

44 parcels, covering 4,600 acres, in southwestern Oregon. The dispute was appealed to the cabinet-level Endangered Species Committee.

The Endangered Species Committee was established under the Endangered Species Act to consider cases where another government agency comes into conflict with the agency administering the Endangered Species Act (e.g., FWS). Nicknamed the "God Squad" because of its power over the life or death of species, the committee had only been convened on three previous occasions. Although it is only considering a very limited group of timber sales, its report will have an important impact on the overall debate.

The Endangered Species Committee has not yet rendered its decision, but even if it decides that the protection being offered the northern spotted owl is too expensive or unnecessary, it is unlikely that the timber in the critical habitat area will be available any time soon. Further court challenges, including challenges to the legitimacy of the appeal to the Endangered Species Committee, will keep things tied up.

The amount of standing timber in the U.S. is actually increasing, since the amount being cut down or lost to fires and natural destruction is exceeded by new growth, and modest declines in the amount of land devoted to forest have been offset by increases in standing timber per acre. But the supply of large-dimension sawn lumber such as 2" x 10" or 2" x 12" depends on large-diameter trees in old-growth forests or the older second-growth forests, while most of the growth in timber supply consists of growth in trees planted in the past few decades. Most of the remaining old-growth timber is on

government-owned land—the land of the northern spotted owl.

Federal Supply

While the protection of the northern spotted owl is the most significant factor in the reduced supply of logs from federal lands, it is not the only factor. The protection of other species, including the California spotted owl, Mexican spotted owl, northern goshawk, marbled murrelet, and red-cockaded woodpecker, is delaying some timber sales, although all of these birds have not yet been listed as threatened or endangered species. As with the northern spotted owl, if they are designated as threatened or endangered, it could affect private lands as well as public lands.

After a 15-year delay, the U.S. Forest Service completed forest land management plans for northwest national forests required under the 1976 National Forest Management Act. These forest plans call for sales volumes from national forests that are below the historical levels.

In the mid-1980s, national forests and the land administered by the Bureau of Land Management provided an average of more than 12 billion board feet of logs. By 1991, the volume of timber sales was down to about 7 billion board feet, but harvests (based on previous sales) still totaled 9 billion board feet. By 1993, harvests are likely to fall to the recent sales level, unless there is some offsetting government action.

The Canadian Connection

The duty on Canadian lumber is another supply-side influence on lumber prices. In March, the U.S. government made a preliminary determination that Canadian lumber producers are subsidized by provin-

cial government policies that hold down the cost of timber. The ruling by the U.S. Department of Commerce calls for a countervailing duty of 14.48 percent on most imports of Canadian lumber. Although a final ruling will not come until this summer, importers must now post a bond, and any duty imposed in the final decision will be retroactive to March 12. Canadian lumber accounted for about 27 percent of U.S. lumber consumption in 1991.

The action against Canadian lumber stems from a similar action initiated in 1986. At that time there were preliminary rulings by the U.S. International Trade Commission and the Department of Commerce (both of which are involved in decisions on countervailing duties) that the provincial government stumpage fees (i.e., fees for the right to cut government timber) were too low and ought to be offset by a 15 percent import duty. Before a final decision was made, the U.S. and Canada entered into an agreement under which Canada imposed an export duty instead. The agreement provided that the export tax could be eliminated or reduced for provinces that raised their stumpage fees. British Columbia (the principal source of imported lumber) raised stumpage fees to a level where its exports were no longer subject to the export duty, and several other provinces took similar actions. In each case where higher stumpage fees were substituted for the export tax, the U.S. government and U.S. industry agreed to the change. By 1991, the volume of Canadian lumber exports subject to the export tax had fallen by 90 percent.

On September 3, 1991, the Canadian government notified the U.S. that it was withdrawing from the agreement, citing the fact that stumpage fees had been increased. The motiva-

tion for the Canadian action appears to have been largely due to resentment at having to seek U.S. government approval for any changes in provincial policies. The reaction in the U.S., however, has been to treat the Canadian action as a dirty trick. Sixty-six U.S. senators sent a letter to President Bush calling for "swift and strong action to counter the Canadian decision" and threatening a "legislative remedy" in the absence of such action. On October 6, the Department of Commerce initiated a new countervailing duty investigation.

The International Trade Commission (ITC) issued a preliminary ruling in December finding "injury," which means that the domestic lumber industry is apparently in bad shape and that imports may have contributed to its distress. It is rare for the ITC to kill a countervailing duty investigation at the preliminary stage.

In its analysis, the Department of Commerce again considered the allegation that stumpage rates are too low in Canada, despite the fact that they had approved the stumpage fees in most provinces as adequate to eliminate the export tax. In addition, they considered the allegation that restrictions on the export of Canadian logs benefitted Canadian mills to an extent that represented a subsidy.

In its preliminary ruling, DOC attributed most of the duty to restrictions of log exports from British Columbia (B.C.), which were deemed to justify a country-wide duty of 8.23 percent. Stumpage programs were judged to require a duty of 6.25 percent.

DOC did not argue that the B.C. log export restrictions, which date back to 1906, are an unfair practice because U.S. mills cannot get equivalent access to Canadian timber.

Rather, they claim that the price of logs to B.C. mills is artificially reduced because the logs aren't sold to the Pacific Rim, where they could fetch a higher price. In the U.S., there are also restrictions on exports of logs from federal lands and from land owned by western states, although logs from private lands may be exported.

In general, transportation costs dictate that logs be processed fairly close to the forests where they are harvested, and there is little economic incentive to export logs rather than lumber or to send logs long distances within a country. The relatively high price of logs compared to lumber in the Pacific Rim reflects Japanese trade practices. Japan discourages lumber imports and encourages log imports to supply its lumber industry.

The impact on U.S. home prices of the duty on Canadian lumber is unclear. Several studies have suggested that only one-third to one-half of the duty would be passed through to U.S. consumers in the form of higher lumber prices. Assuming lumber at \$300 per 1,000 board feet, 16,000 board feet per house, and a rise in wholesale lumber prices of 7 percent, the direct effect would be an increase in costs of only \$336.

Plywood is not subject to the duty on lumber, but some logs in the U.S. would be diverted from plywood to lumber, raising plywood prices slightly. Products such as windows and doors that use lumber as an input would also be indirectly affected. Moreover, some other costs for builders and retailers, such as financing costs, sales tax, insurance, and pilferage, would increase in proportion to the increase in raw material costs. The net effect of the duty on the cost of a

typical new single-family home would probably be about \$500.

Price Outlook

The dramatic increase in prices since the start of the year reflected fears of future restrictions of timber supply and expectations that prices would go even higher. This has been a common phenomenon in the lumber market, as panic buying and hoarding of available timber supplies have followed each court decision or similar event, even though the actual quantity of available timber has not been immediately affected. When the panic subsides prices often fall just as quickly as they rose.

Lumber prices are unlikely to fall back all the way this time. Demand has strengthened as the housing market has recovered, and the duty on Canadian lumber is still in force.

Over the next few years, demand for lumber from home builders is likely to continue growing, while the effect of recent restricted sales of federal timber will show up as reduced log supplies. Even if the duty on Canadian lumber is rescinded, reductions of the harvest in British Columbia are occurring, so the shortfall cannot be filled by imports. Thus, the long-term outlook is for rising prices.

¹ Anderson and McKeever estimate 1988 consumption for residential new construction as 19.7 billion board feet. Apparent total consumption in that year was 48.7 billion board feet. See Robert G. Anderson and David B. McKeever, *Wood Used in Residential Construction in the United States*, 1988.

² A board foot is a foot-long piece of 1" X 12" (or 2" X 6", etc.) lumber.

³ Robert G. Anderson and David B. McKeever, *Wood Used in New Residential Construction in the United States*, 1988.

Lumber Crisis

Michael Carlner

Price Increases

From early October 1992 to the end of February 1993, lumber prices, as measured by the *Random Lengths* composite average,¹ increased by 90 percent, from about \$250 per 1,000 board feet² to \$474 (Figure 1). During the period from early October to February the average price for structural panel products such as plywood rose by more than 30 percent. Prices for millwork products such as moldings, windows, and doors also rose. Thus far, reports from builders indicate problems with price rather than availability, but there have been some reports from lumber dealers and mills indicating longer lead times and allocations (rationing).

The primary forces contributing to price increases have been the rise in demand from the home building industry, a decline in timber supply from government-owned lands in

the Pacific Northwest, and speculative behavior such as panic buying and withholding of supplies.

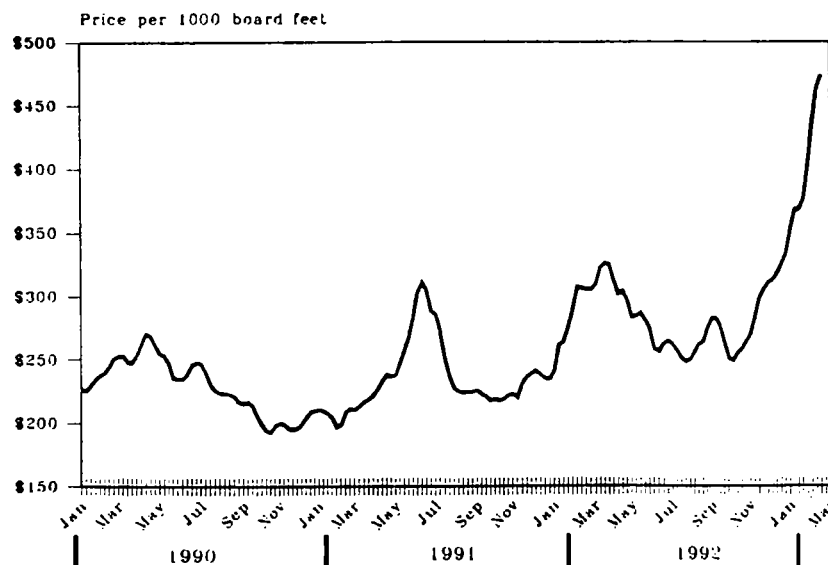
Home building and residential remodeling each account for about one-third of lumber consumption. The increase in housing starts in 1992 translated into an increase in lumber demand of 3 billion board feet. Increased remodeling also contributed to lumber demand, and the expected further increases in residential construction in 1993 will mean additional demand. But these increases are not extraordinary. The 18 percent increase in housing starts in 1992 pales in comparison with the 61 percent increase in 1983, and the 1.2 million starts in 1992 was far below the 1.8 million in 1986. Total lumber consumption in 1992 was probably about 45.5 billion board feet, up from 42.0 billion in 1991, but below the 1987 peak of 50.5 billion. Thus, neither the total size of the demand nor the rate of increase

has been overwhelming in historical perspective.

The restrictions on timber supply have developed gradually over the past five years. The only significant supply-side developments between October and February were the agreement on December 16 to accelerate the endangered species listing process and the announcement by the U.S. Forest Service on January 16, 1993 that it will further restrict logging in California in order to protect the California spotted owl, an "unlisted" relative of the northern spotted owl. These decisions will mainly affect future sales of timber cutting rights, not current harvesting of timber.

Although lumber prices are quite sensitive to small changes in supply or demand, it's hard to attribute a 90 percent price jump to any recent changes in home building or forest policy. It is likely that prices will drop back. In the past, it has been common for quoted prices to shoot up due to panic buying and then to fall back down again when the speculative bubble bursts. A previous temporary price spike developed after the May 1991 injunction by Judge William Dwyer restricting timber sales. Another spike developed with the combination of additional court rulings and duties on Canadian lumber in late 1991 and early 1992. Hurricane Andrew, in August 1992, caused a large spike in plywood prices and a smaller spike in lumber prices. This short-term volatility is overlaid on a more fundamental trend toward higher prices.

Figure 1 Framing Lumber Prices



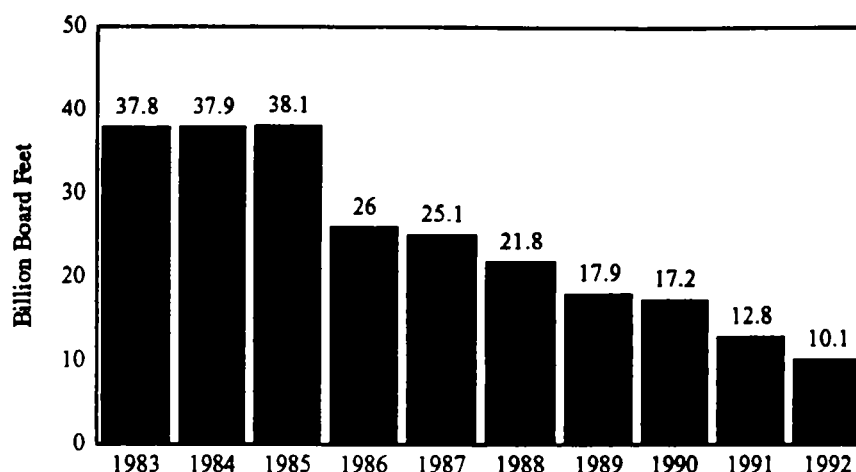
Source: *Random Lengths*

Impact on House Prices

Since about 15,000 board feet of framing lumber goes into a typical new 2,000 square-foot single-family home with median price of about \$120,000, the increase in lumber prices at the mill between the low point in October and the record high in February translates directly into an increase of \$3,300 for such a house. Taking into account the increases in the prices of panel products and millwork, as well as costs that rise in proportion to the materials cost, such as sales tax, financing, insurance, and real estate brokers' commissions, the effect on home prices will be over \$4,500 (Table 1).

Fortunately, the increase in wood product prices is being balanced by stability in the prices of most other materials, by manageable labor costs, and by declines in mortgage rates. But the housing recovery definitely would be more vigorous if lumber prices were brought under control.

Figure 2 National Forest Timber Under Contract to Purchasers Awaiting Harvest



Source: U.S. Department of Agriculture, U.S. Forest Service.
Note: Excludes Bureau of Land Management timber.

Timber Supply

Forests occupy about one-third of the land area in the United States, and about two-thirds of the nation's forests are "timberland" capable of producing wood products in commercial quantities. Softwood species—the type used for construction—are concentrated in the West and South.

About 53 percent of the standing softwood timber stock is in

government-owned forests. Only 16 percent is in forests owned by forest product companies, while the remaining 30 percent is on other privately held land. The amount of standing timber in the nation is actually increasing, as tree growth exceeds removals and slight decreases in forested acreage have been more than offset by increases in timber per acre.³

In the past few years, as demand and prices have increased while timber harvests from federal lands have declined, the volume of timber harvests from private lands has increased, especially in the South. The potential for further increases in supply from privately owned forests is limited, however, and in many cases harvests have exceeded sustainable rates. The possibility of future environmental restrictions on private harvests has led some private land owners to accelerate harvests.

Historically, timber harvests from federal lands have accounted for 25 percent of lumber consump-

Table 1 House Price Impact Comparing 2/26/93 Price to October 1992

		LUMBER*	STRUCTURAL PANELS**	TOTAL
MILL PRICE INCREASES:				
Mill Price 2/26/93		\$474	\$421	
Mill Price October 9, 1992		\$249	\$321	
Increase		\$225	\$100	
Percent Increase		90%	31%	
Quantity, excl millwork		14.659	6.278	
Quantity, incl millwork		15.824	6.325	
Direct increase, excl millwork		\$3,298	\$628	\$3,926
Direct increase, incl millwork		\$3,560	\$633	\$4,193
OTHER COST INCREASES:				
	RATE			
Sales Tax	0.04	\$142	\$25	\$168
Financing Cost	0.03	\$111	\$20	\$131
Co-op Brokers Fee	0.03	\$114	\$20	\$135
TOTAL COST INCREASE		\$3,928	\$698	\$4,626

Sources: Random Lengths, Eugene, Oregon; Robert G. Anderson and David B. McKeever, Wood Used in Residential Construction in the United States.

Note: *Per 1,000 board feet; **Per 1,000 square feet, 2/2 basis.

Table 2 Lumber and Timber Statistics

		LUMBER STATISTICS (in MMBF, Lumber Talley)					
		1987	1988	1989	1990	1991	Estimated 1992
Production							
1	West	23,942	23,638	23,212	21,175	19,075	18,570
2	South	12,473	12,676	12,544	12,911	12,507	13,924
3	Other	1,820	1,816	1,789	1,705	1,579	1,624
4	Total U.S.	38,235	38,130	37,545	35,791	33,161	34,118
Lumber Imports							
5	Canada	14,564	13,700	13,526	12,081	11,650	13,259
6	Other	113	106	112	67	92	122
7	Lumber Exports	2,423	3,264	3,414	2,970	3,090	2,651
8	+/- Inventory Change	69	(159)	206	34	185	463
9	Consumption	50,558	48,513	47,975	45,003	41,998	45,311
		TIMBER STATISTICS (in MMBF, Scribner Scale *)					
		1987	1988	1989	1990	1991	Estimated 1992
Federal**							
10	Sales - Total	12,479	11,982	9,160	9,895	6,887	4,545
11	West	10,248	9,963	7,080	7,926	5,008	2,742
12	Other	2,231	2,019	2,080	1,969	1,879	1,803
13	Harvest - Total	14,015	14,238	13,299	11,444	9,069	7,940
14	West	11,399	11,672	10,941	8,799	6,978	5,752
15	Other	2,616	2,566	2,358	2,645	2,091	2,188
16	Under Contract ***	27,334	23,172	19,110	18,213	13,761	10,760
17	NW State Harvest****	1,402	1,346	1,334	1,053	817	750
18	NW Private Harvest****	9,057	8,977	9,248	8,726	8,351	8,200
Log Exports							
19	Total	3,959	4,594	4,519	4,000	3,478	2,823
20	From Northwest ports	3,168	3,682	3,614	3,008	2,542	2,234

Sources: U.S. Forest Service; Bureau of Land Management; AFPA

Notes: *1 Scribner board foot of timber provides up to about 1.5 board feet of lumber.

**Includes timber in national forests and with Bureau of Land Management.

***Uncut timber under contract may change because of cancelled sales and other revisions.

****NW includes Oregon, Washington, Montana, and Idaho.

tion. More recently they have accounted for about 17 percent. The right to cut timber from federal lands is sold at auction, and there is typically a lag of several years before the timber is actually harvested. The current declines in timber harvests are the result of reduced sales a year or two ago. From 1987 to 1992, federal timber sales in the West fell by nearly three-fourths, with the reduc-

tion equivalent to more than 11 billion board feet of lumber. The inventory of uncut timber under contract is being rapidly depleted (lines 10-16 of Table 2; Figure 2).

The listing of the northern spotted owl as a "threatened" species has been the primary reason for the restrictions on sales of timber cutting rights. In January 1992, the U.S. Fish and Wildlife Service designated 6.9

million acres in Washington, Oregon, and California—an area nearly as large as the state of Massachusetts—as critical habitat for the owl. All of the designated critical habitat area is on public land. On private land, logging is generally restricted only near where owls have actually been found. Moreover, the laws governing sales of public timber include special provisions for the protection of endangered species. Thus, although the Endangered Species Act covers private as well as public land, most of the restrictions have affected forests owned by the federal government or state governments.

The lower volume of sales is partly due to explicit policies by government agencies, but much of the reduction is due to court injunctions and administrative appeals by environmental groups. Ambiguities and conflicts in three major laws affecting forest policies—the Endangered Species Act, National Environmental Policy Act, and National Forest Management Act—have resulted in legal gridlock, with most new timber sales in the West held up by court injunctions.

Imports and Exports

A major portion of U.S. lumber supply is imported from Canada. On October 31, 1991, the U.S. Department of Commerce initiated a countervailing duty action against Canadian softwood lumber, based on alleged subsidies provided to Canadian mills in the form of low prices for timber. In March 1992, a duty of 14.5 percent was imposed on most lumber imports, but on May 15, 1992 the duty was reduced to 6.5 percent. That duty is still in effect, although the Canadians have appealed to a bi-national arbitration panel. A ruling on the appeal is due in the summer of 1993. The current duty

probably contributes less than 3 percent to the average U.S. lumber price, since some part of the duty is absorbed by the Canadian producers and Canadian lumber is only competitive in a portion of the U.S. market.

The Canadian share increased from 27.3 percent of U.S. lumber consumption in 1991 to 29.3 percent in 1992. Because Canadian supplies are also affected by environmental pressures, there isn't much potential for further increases in Canadian timber supplies. Any increase in U.S. imports of Canadian lumber would have to come from Canadian domestic consumption or offshore exports.

Exports from the U.S. of both logs and lumber (Table 2, lines 7, 19, 20) subtract somewhat from domestic supply. The 2.8 billion board feet of log exports in 1992 represent the raw material for about 4.2 billion board feet of lumber. Combined with the 2.6 billion board feet of lumber exports, the 1992 export total was equivalent to 15 percent of U.S. lumber consumption.

Exports of logs from government lands are restricted by law, so the log exports come from privately owned forests. Exports fell as U.S. demand and prices have increased and the economic situation in Japan deteriorated.

Demand Adjustments

In a normal market system, higher prices cause declines in demand and increases in supply. Despite imperfections in the lumber market that lead to excessive volatility, adjustments will occur. On the demand side, in addition to building fewer and/or smaller homes, builders have several alternatives available to reduce lumber consumption.

The amount of lumber per unit can be reduced by using fewer pieces of wood. For example, most builders continue to space studs at intervals of 16 inches, even though building codes now allow spacing at 24-inch intervals for many applications. The relatively low cost of lumber during the past decade has discouraged adoption of these conservation measures, but higher prices will accelerate use of optimum value engineering (OVE) methods. In addition to the OVE practices using lumber more sparsely, conservation may be accomplished by changes in design, such as the substitution of patios for decks. In 1991, consumption of pressure-treated lumber, used mainly for decks, totaled 6 billion board feet.

A number of wood-based products have been developed that substitute for large-dimension sawn lumber. These include trusses, I-beams, laminated-veneer lumber, and other engineered wood products. As the supply of large logs declines and as manufacturing capabilities are enhanced, these products will come into more widespread use.

The use of masonry products in load-bearing structural applications is another alternative. The raw materials for masonry products are abundant. Masonry construction is common in certain areas, especially in the South, and could substitute for wood in more cases.

The use of framing made of steel is widespread in nonresidential construction, but, so far, has had only slight penetration in single-family home building. With higher lumber costs, metal framing could become much more competitive, especially for use in interior non-load-bearing walls.

All of these options are likely to be adopted to some degree in response to higher lumber costs, but it will take time for builders to make the necessary adjustments. While these options for conservation and substitution will tend to limit the increases in lumber costs, housing will still end up being less affordable.

Supply and Policy

Supply-side adjustments to higher prices for timber and lumber are less clear, since so much of the timber supply is now controlled by political or legal factors rather than economics. Some supplies on private lands that were not economical to harvest under low prices may now become economically viable. The latest price spike may also influence the constraints on federal timber imposed by government policy and litigation. The economic impact of environment restrictions on lumber producers and workers was already creating pressure for political action.

During the 1992 presidential election campaign, candidate Bill Clinton promised to convene a summit meeting to resolve the conflicts regarding forest policy in the Pacific Northwest. The commitment to hold such a meeting was repeated after the election, and an announcement of the timing and format is expected soon.

¹These prices are a weighted average for nine major varieties of softwood framing lumber at the mill. Prices in the Northeast typically include an additional \$75 to \$100 for transportation, \$10 to \$15 for wholesale margin, and \$50 to \$75 for retail margin.

²A board foot is a foot-long piece of 1"x12" (or 2"x6", etc.) lumber.

³U.S. Dept. of Agriculture, *An Analysis of the Timber Situation in the United States, 1989-2040*, (USDA Forest Service Technical Report RM-199, December 1990).

Forest Conference

Written Testimony

**Jim Irvine
Vice President/Treasurer
National Association of Home Builders**

**Portland, Oregon
April 2, 1993**



National Association of Home Builders

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FOREST CONFERENCE TESTIMONY April 2, 1993

My name is Jim Irvine. I am Vice President/Treasurer of the of the National Association of Home Builders (NAHB), and on behalf of our 160,000 members, I want to extend our sincere gratitude for being included in the Forest Conference. President Clinton's recognition of the housing industry as a key player in this debate affirms what we have maintained all along -- that this issue is not just a regional question but it is an issue that has significant national consequences that extend far beyond the Northwest, with a profound impact on affordable housing, the current housing recovery, and, therefore, on the overall economic recovery.

THE LUMBER PRICE INCREASE: IMPACT ON HOUSING AND THE ECONOMY

Since October 1992, the price of lumber as measured by the Random Lengths composite average,¹ has more than doubled from about \$250 per 1000 board feet² to over \$500. (See figure 1). Because of the increase in wood product prices, the cost of a 2,000 square foot, median priced (\$120,000) home has increased by about \$5,000. (See table 1). The effect this has on the housing market is immense. That \$5,000 increase means that more than 130,000 prospective home buyers who would have qualified to purchase a median-priced home can no longer do so. Furthermore, many other potential buyers who can still qualify for a mortgage will be discouraged from buying a home by those higher prices.

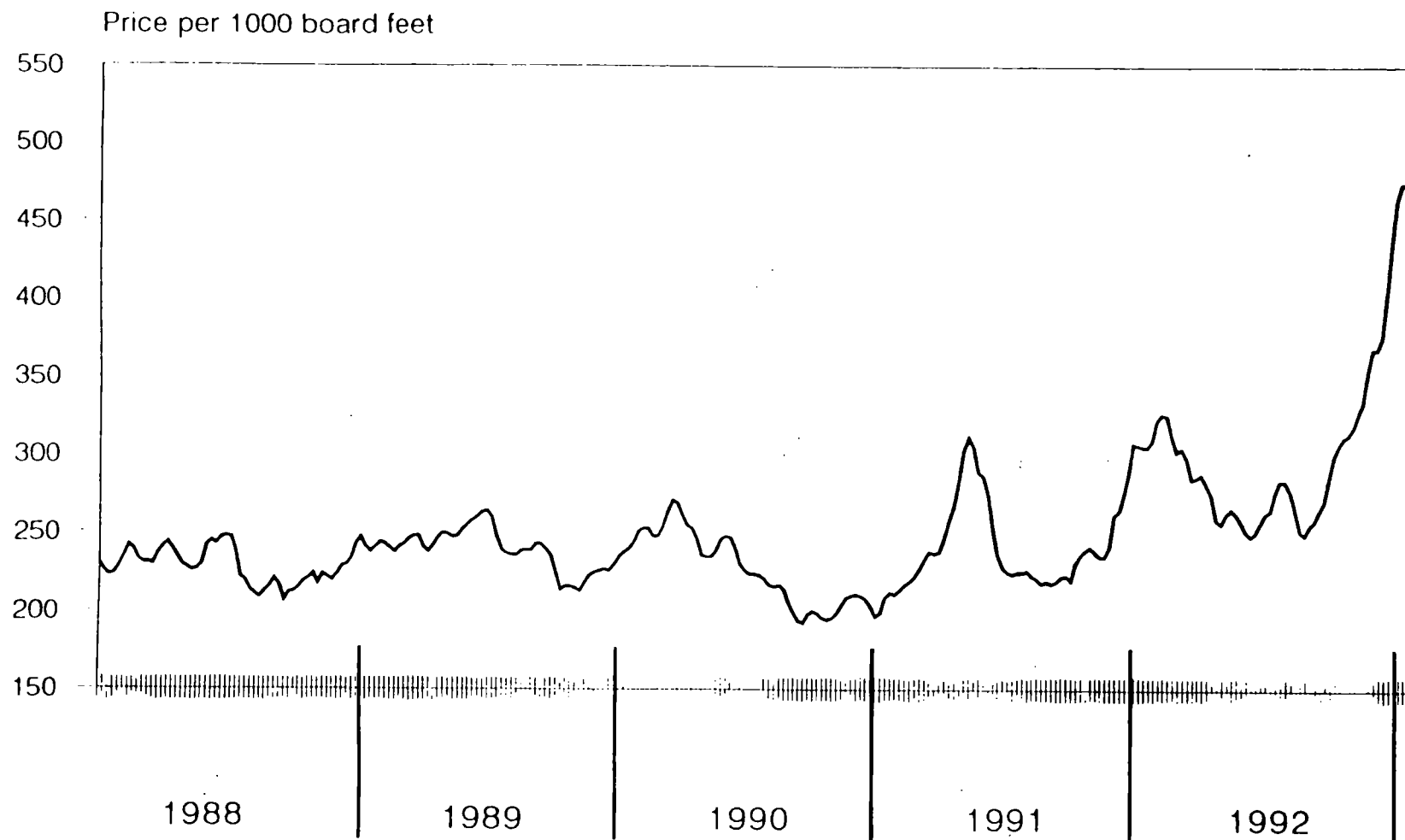
Mortgage rates have declined to the lowest levels in 20 years. Just since the election in November, the rate on 30-year loans has fallen more than 70 basis points. Normally, this could be expected to stimulate a surge in demand for new homes. However, the increase in lumber prices has pushed up home prices, and has counteracted much of the positive effect of lower financing costs.

¹These prices are a weighted average for 9 major varieties of softwood framing lumber at the mill. Prices in the Northeast typically include an additional \$75 to \$100 for transportation, \$10 to \$15 for wholesale margin, and \$50 to \$75 for retail margin.

²A board foot is a foot-long piece of 1"x12" (or 2"x 6", etc.) lumber.

FIGURE 1

Framing Lumber Composite Price



Source: Random Lengths, Eugene, OR

TABLE 1
House Price Impact
Comparing Latest Price to October, 1992

	LUMBER*	STRUCTURAL PANELS**	TOTAL
MILL PRICE INCREASES:			
Mill Price 3/26/93	\$501	\$399	
Mill Price 10/9/92	\$249	\$321	
Increase	\$252	\$78	
Percent Increase	101 %	24 %	
Quantity, excl millwork	14.659	6.278	
Quantity, incl millwork	15.824	6.325	
Direct increase, excl millwork	\$3,694	\$490	\$4,184
DIRECT INCREASE, INCL MILLWORK	\$3,988	\$493	\$4,481
OTHER COST INCREASES:			
	RATE		
Sales Tax	0.04	\$160	\$20
Financing Cost	0.03	\$124	\$15
Co-op Brokers Fee	0.03	\$128	\$16
			\$144
TOTAL COST INCREASE	\$4,400	\$544	\$4,944

*Sources: Random Lengths, Eugene, OR
Robert G. Anderson and David B. McKeever,
Wood Used in Residential Construction in the United States*

** Per Thousand Board Feet, ** Per Thousand Square Feet (1/2" Basis)*

Higher home prices not only offset much of the reduction in monthly payments that lower mortgage rates provide, they also raise down-payment requirements (the biggest barrier to homeownership among first-time home buyers³) and drive away many financially capable potential buyers with sticker shock.

As was mentioned previously, the price of lumber has doubled since October, 1992. Approximately 15,000 board feet of framing lumber goes into a typical new 2,000 square-foot median priced (\$120,000) single-family home⁴. The increase in lumber prices at the mill between October 1992 and the record high in March 1993 translates directly into an increased construction cost of \$3,700 per house. Taking into account the increases in panel products and millwork prices, as well as costs that rise in proportion to the cost of materials, such as sales tax, financing, insurance, and real estate brokers' commissions, the rise in home prices will be closer to \$5,000.

While there are alternatives to sawn framing lumber, such as steel framing, masonry, and engineered wood products such as laminated veneer lumber, the transition to using alternative products is not an easy one, especially for the majority of the nation's builders who produce fewer than ten homes a year. Granted, all of these options could be adopted to some degree in response to higher lumber costs, but it will take time for builders to make the necessary adjustments, and there is inadequate manufacturing capacity to produce enough alternative materials to replace wood framing. These options for substitution may limit the increases in lumber costs, as each additional price increase makes lumber less competitive. However, the adoption of substitute materials will not restore housing affordability.

The rapid lumber price increase has had a disruptive effect on home building that goes beyond the reaction to higher home prices. Builders that contracted to deliver homes at fixed prices are now finding it difficult to fulfill their commitments because the fixed prices do not cover the higher construction costs. It has become difficult for both builders and home buyers to get financing because property appraisals do not yet reflect the cost increases. Lumber dealers, who normally would provide price guarantees for 30

³ See Peter J. Fronczek and Howard A. Savage, "Who Can Afford to Buy a House?" Current Housing Reports. U.S. Department of Commerce, Economics and Statistics Administration, Bureau of the Census, Washington, D.C., May 1991.

See also Harvard University, Joint Center for Housing Studies, The State of the Nation's Housing, 1989.

⁴ Robert G. Anderson and David B. McKeever, Wood Used in New Residential Construction in the United States, 1988.

or 60 days, now are unable to quote prices more than a few days in advance. Builders have attempted to cope with that situation by incorporating escalation clauses in their sales contracts (see figure 2), but home buyers frequently are unable or unwilling to accept the risk of uncertain prices. Thus, they decide not to buy and that has an obvious impact on the level of new homes built.

The surge in prices also threatens the favorable financial environment that has developed as current and expected inflation has abated. As the increase in wood product prices shows up in measures of overall inflation, it will inevitably be reflected in higher interest rates.

The reduction in revenue from federal timber sales also has a significant effect on the budget deficit as the reduction in sales volume translates into lost revenue. The budget deficit is of course another factor influencing interest rates. Finally, every new home that isn't built costs one year-round full-time job in home building, and another in supplier industries.

CAUSES OF THE CRISIS

There have been numerous explanations put forth as reasons for the current price explosion. However, the decrease in supply of timber due to increased regulations placed on federal timberlands, and the uncertainty that results from this situation, are the key ingredients that have led to this crisis. Other factors, such as log exports, an increased demand for lumber, and activity by private firms have been suggested as causes of this problem, and certainly all are part of the demand/supply equation. However, the significant dropoff in timber supply from government-owned forest lands is the one predominant reason for the crisis we now face, and is a subject that must be addressed if we are to achieve a long-term solution to this debate. Each of these contributing factors will now be reviewed.

SUPPLY AND THE UNCERTAINTY THAT SURROUNDS IT

While all of the causes suggested above have played some role in creating the current lumber price crisis, there is one overriding reason that has had the most significant impact: lack of timber supply from government owned lands in the Pacific Northwest. And, there is one overriding reason for the lack of supply: the increasing amount of federal timberland that has been deemed off-limits due to court injunctions and inconsistencies in the three principal acts that govern national timber management. Indeed, these inconsistencies have created uncertainty in the market, and no attempt at finding a long-term solution to this problem will be successful if they are not addressed. Conflicts and ambiguities in the law have left the door open for forest policy decisions to be

FIGURE 2

SAMPLE ESCALATION CLAUSE

Addendum to Contract dated _____

Due to the volatility of lumber prices the contractor is unable to guarantee the exact price of lumber to be used in the framing construction of the contracted home. Therefore, it is hereby agreed that the sum of \$_____ shall be an allowance for framing material. The purchaser agrees to reimburse the contractor for any direct cost over the above allowance. Said increase, if any, to be the result of an increase in the cost of said materials only. Contractor takes full responsibility for the quantities and proper use of the materials. Contractor agrees to provide to purchaser a breakdown of cost increases, should they occur. The cost of the lumber is to be fixed at the time the material is ordered and the overage, if any, will be disclosed to the purchaser at that time. Payment for the overage will be due upon completion of the home per the contract.

PURCHASER

CONTRACTOR

made by judges and not by administration officials who are supposed to have the authority to do so.

The current crisis in timber supply has been brewing for several years, as increasing restrictions have been imposed on federal timber sales. Increased volatility in lumber prices has been a symptom of the growing problem, and each new court decision has led to panic behavior, even though most of those decisions have concerned future stumpage sales that would not have resulted in harvests for several years.

The decline in timber supply from government-owned lands, coupled with speculative behavior such as panic buying and the withholding of private supplies due to expectations of further federal supply restrictions, have joined together to put strong upward pressure on the market. When these elements are coupled with the rise in demand generated by the recovery currently taking place in the home building industry, the result is a problem of crisis proportions. While prices may eventually fall back, they will probably never again reach October's level, and may not ever again approach it.

Historically, timber harvests from federal lands have accounted for approximately one-third of all timber produced in the U.S. More recently federal timber has supported only 25% of production (see table 2) even though the federal government owns more than half of the standing softwood timber stock. The right to cut timber from federal lands is sold at auction, and there is typically a lag of several years before the timber is actually harvested. The current declines in timber harvests are the result of reduced sales in recent years, and the inventory of uncut timber under contract is being rapidly depleted. The decline in annual timber sales from 1990 to 1992 is equivalent to 24 percent of U.S. lumber production, if it was all used for lumber rather than panels or other products. This lumber, if used for framing purposes alone, is enough to build over 400,000 single family homes.

Additionally, cutbacks in supply cannot be attributed to depletion of our national forests. The amount of public and private standing timber in the nation is actually increasing, as tree growth exceeds removals, and the slight decreases in forested acreage have been more than offset by increases in timber per acre.⁵ In federal forests, softwood growth exceeds harvests by more than 36 percent.

The impact of the restriction of sales of timber cutting rights over the past few years has been cushioned by the

⁵U.S. Dept. of Agriculture, An Analysis of the Timber Situation in the United States, 1989-2040, (USDA Forest Service Technical Report RM-199, December, 1990).

TABLE 2

LUMBER STATISTICS

(in MMBF, Lumber Talley)

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TIMBER STATISTICS

(in MMBF, Scribner Scale *)

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Source: USFS, BLM, AFPA

Notes:

* 1 Scribner board foot of timber provides up to about 1.5 board-feet of lumber.

** Includes timber in National Forests and with Bureau of Land Management.

*** Uncut timber under contract may change because of cancelled sales and other revisions.

**** NW includes OR, WA, MT, ID

availability of uncut timber from previous sales as well as increased supplies from other sources. Production of lumber from supplies in the South and North partly offset the drop in production in the West.

These factors, however, cannot be expected to provide long-term offsets to the continuing reductions in federal timber sales. The backlog of uncut timber under contract is disappearing. Production of timber in parts of the South from private lands may already be in excess of sustainable rates. Although further increases in the North may be relatively large in percentage terms, total lumber production in that region accounts for less than four percent of U.S. consumption. Finally, the substantial decline in U.S. log and lumber exports has probably run its course.

In 1987, total softwood lumber consumption reached a record 50.6 billion board feet. (See table 2.) The average price for framing lumber in that year was \$229. (See table 3.) Since then, demand has declined, exports of both logs and lumber are down, and the supply of timber from private lands outside the Northwest has increased. Imports fell from 1987 to 1991, but increased in 1992. (See table 2.) What this tells us is that the only factor that has moved in the direction of tighter markets and higher prices has been the restrictions on timber supply from the Northwest.

DEMAND

Home building and residential remodeling currently account for more than two-thirds of U.S. lumber consumption. The increases in demand since the trough in building activity in early 1991 have not been extraordinary by any form of measurement. (See figure 3). The 23% rise in housing starts in 1992 and the 10% increase expected for 1993 are quite modest compared to past recoveries -- for example there was a 61% rise in housing starts in 1983 compared to the recession year of 1982. (See table 3.) Further, the 1.2 million starts in 1992 and the projected 1.32 million in 1993 are far below the 1.8 million in 1986. Total lumber consumption in 1992 was near 45.3 billion board feet, up from 42.0 billion in 1991 but below the 1987 peak of 50.5 billion. (See table 2.) Consumption in 1993, at best, is unlikely to exceed 49 billion⁶. It should be clear, then, that the total size of the demand and the rate of increase are both modest in comparison to past experience. It is therefore inaccurate to conclude that the current price situation is due primarily to the modest upturn in housing starts. Certainly demand has played a role, as coupled with the severe lack of supply it has served to force prices upward. But a 100%

⁶ Even assuming that the price recedes from the March 1993 peaks to average only \$437 for the year (as was assumed in table 3 and figure 3), the price increase has been out of line with the small demand increase.

TABLE 3

Year	Housing Starts 1000s of Units		Annual Levels Value Put in Place Billion 1987 Dollars			Softwood Lumber Consumption	Random Lengths' Framing Lumber Composite Price	PPI Mats. & Comps. for Construction
	Single Family	Multifamily	Single Family	Multifamily	Adds. & Alts.			
1975	892	268	\$63.1	\$14.3	32.5	30.3	\$134	60.1
1976	1,162	376	\$87.8	\$13.8	35.1	35.7	\$177	64.1
1977	1,451	536	\$112.1	\$18.1	35.7	40.8	\$207	69.3
1978	1,433	587	\$115.7	\$20.4	38.6	42.6	\$232	76.5
1979	1,194	551	\$102.5	\$24.1	38.5	40.6	\$254	84.2
1980	852	440	\$67.9	\$21.5	39.5	33.8	\$203	91.3
1981	705	379	\$62.0	\$20.8	35.5	32	\$195	97.9
1982	663	400	\$47.8	\$17.9	31.9	31.2	\$169	100
1983	1,067	635	\$82.3	\$25.6	35.2	39.6	\$221	102
1984	1,084	665	\$95.0	\$31.3	44.4	42.8	\$199	105.6
1985	1,072	669	\$93.7	\$31.0	47.6	44.2	\$194	107.3
1986	1,180	625	\$106.6	\$32.4	56.3	47.5	\$206	108.1
1987	1,146	474	\$114.4	\$25.5	54.7	50.6	\$229	109.8
1988	1,081	407	\$112.0	\$21.4	56.8	48.5	\$228	116.1
1989	1,003	373	\$107.8	\$20.6	52.9	47.9	\$240	121.3
1990	895	298	\$98.1	\$17.3	49.2	45.2	\$229	122.9
1991	840	174	\$85.4	\$13.6	42.3	42.7	\$235	124.5
1992	1,030	170	\$103.7	\$11.5	47.1	45.3	\$283	126.5
1993 Projected	1,149	171	\$119.8	\$10.9	50.9	*48.4	**\$432	128.1

Year	Housing Starts		Annual Percentage Changes Value Put in Place			Softwood Lumber Consumption	Random Lengths' Framing Lumber Composite Price	PPI Mats. & Comps. for Construction
	Single Family	Multifamily	Single Family	Multifamily	Adds. & Alts.			
1976	30.3	40.3	39.1	-3.5	8.0	17.8	32.1	6.7
1977	24.9	42.6	27.7	31.2	1.7	14.3	16.9	8.1
1978	-1.2	9.5	3.2	12.7	8.1	4.4	12.1	10.4
1979	-16.7	-6.1	-11.4	18.1	-0.3	-4.7	9.5	10.1
1980	-28.6	-20.1	-33.7	-10.8	2.6	-16.7	-20.1	8.4
1981	-17.3	-13.9	-8.7	-3.3	-10.1	-5.3	-3.9	7.2
1982	-6.0	5.5	-22.9	-13.9	-10.1	-2.5	-13.3	2.1
1983	60.9	58.8	72.3	43.0	10.3	26.9	30.8	2.0
1984	1.6	4.7	15.4	22.3	26.1	8.1	-10.0	3.5
1985	-1.1	0.6	-1.4	-1.0	7.2	3.3	-2.5	1.6
1986	10.1	-6.6	13.8	4.5	18.3	7.5	6.2	0.7
1987	-2.9	-24.2	7.3	-21.3	-2.8	6.5	11.2	1.6
1988	-5.7	-14.1	-2.1	-16.1	3.8	-4.2	-0.4	5.7
1989	-7.2	-8.4	-3.7	-3.7	-6.9	-1.2	5.3	4.5
1990	-10.8	-20.1	-9.1	-16.0	-7.0	-5.6	-4.6	1.3
1991	-6.1	-41.6	-12.9	-21.4	-14.0	-5.5	2.6	1.3
1992	22.6	-2.3	21.4	-15.4	11.3	6.1	20.4	1.6
1993 Projected	11.6	0.6	15.5	-5.2	8.1	*6.8	**\$52.5	1.2

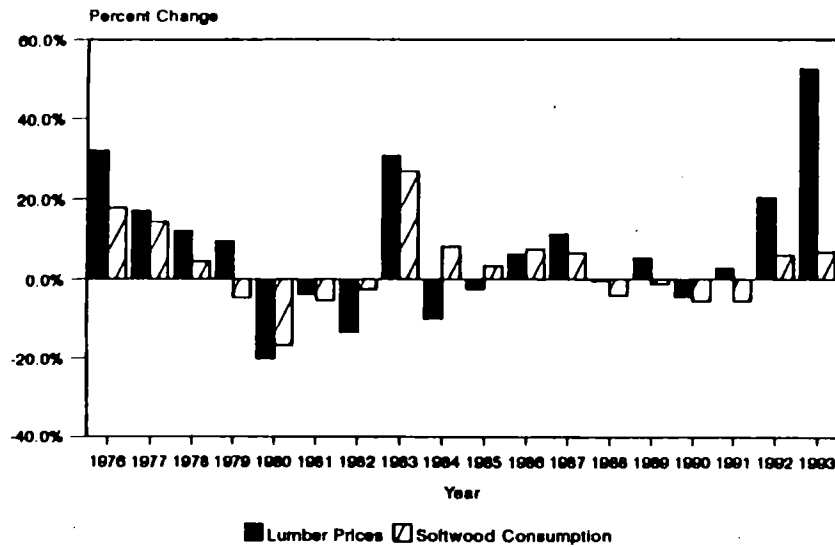
* American Forest & Paper Association forecast

** Based on the Average of the first three months of 1993

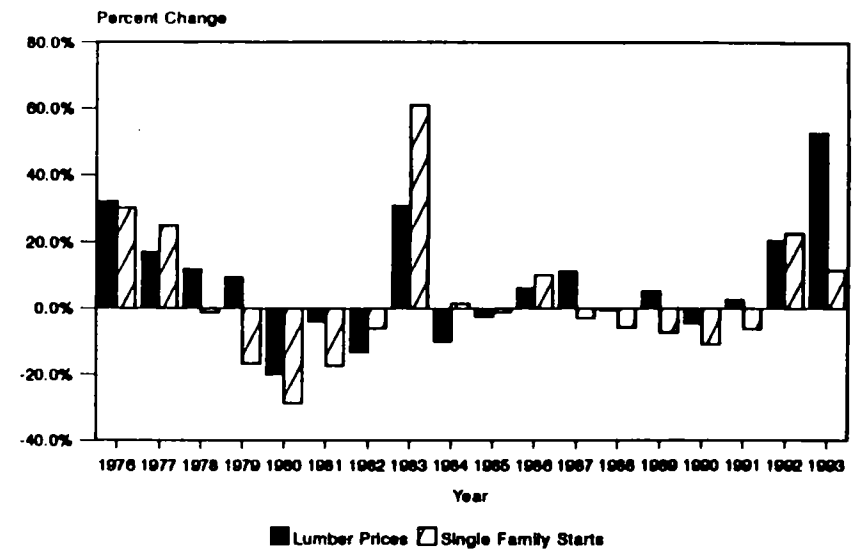
All other 1993 projections are NAHB housing forecasts

FIGURE 3

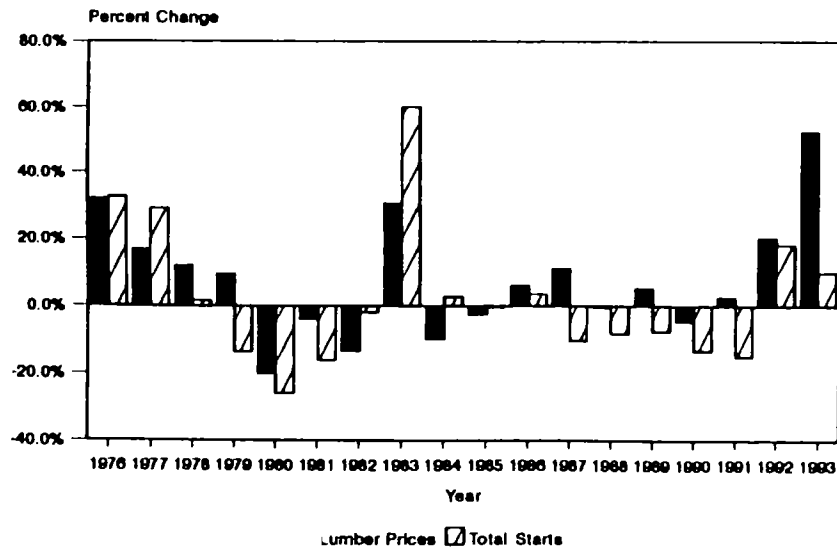
Lumber Prices vs. Softwood Consumption



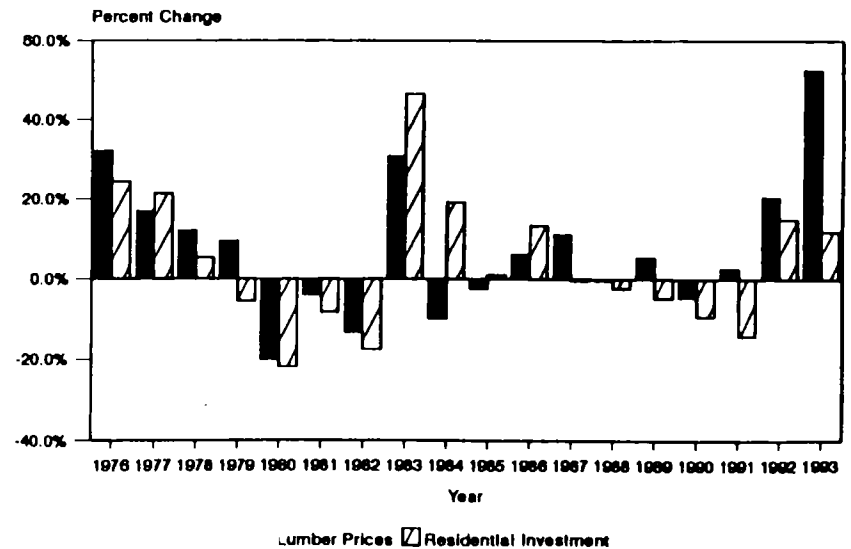
Lumber Prices vs. Single Family Housing Starts



Lumber Prices vs. Total Housing Starts



Lumber Prices vs. Residential Fixed Investment



increase simply cannot be attributed primarily to increased demand, as some have claimed.

EXPORTS

Import/export issues have repeatedly surfaced during the timber debate and the suggestion to curtail the exports of American timber is heard over and over again. U.S. exports of both logs and lumber do subtract somewhat from domestic supply. In addition, it is important to remember that exports of logs from government-owned forests are illegal and there are tight controls to make sure that private producers do not substitute government timber for private exports. The 2.8 billion board feet of log exports in 1992 was 38% less than the 4.5 billion that was exported in 1989 (see table 2), with the decline reflecting tighter controls imposed through 1990 legislation as well as changes in market conditions. Furthermore, total log exports in 1992 were equivalent to 6.7% of U.S. saw timber harvests, down from approximately 9.2% in 1989. (See table 2). The volume of lumber exports has also declined over that period.

While the argument that exports are a major factor in this surge might have merit had exports increased significantly in the past few years, the fact that they have actually gone down makes this claim extremely questionable. Certainly exports play a role in higher domestic prices on an overall basis, and if no wood was exported whatsoever it would have a downward effect on prices. However, there simply is no foundation upon which to base the claim that the recent inordinate price spike is due to the exports of domestic timber.

PRIVATE TIMBER SUPPLY

There are many who believe that the cost of lumber is attributable to the actions of timber companies taking advantage of the current supply situation. Such a premise deserves examination, but at this time NAHB has no documentation to indicate this to be a factor in the skyrocketing prices. Notwithstanding, NAHB has contacted the leadership of the four largest timber producing firms in the United States in order to discuss this issue.

Where there is no monopoly power and no collusion, it is perfectly legal to seek the highest price possible. Lumber producers with their own forests have undoubtedly enjoyed windfall gains in the current situation. It is important to remember, however, what has opened up the opportunity for such advantage to be taken: a severe drop in supply from federal lands in the Pacific Northwest that sparked this upward movement. Private timber harvests in the Northwest have also been subject to environmental restrictions. Therefore, though activities in the marketplace may have some role in the overall scenario, the fact remains that the underlying cause is still one of supply.

PROPOSED SOLUTIONS

We all understand the magnitude of this issue, and that there are no easy solutions. However, I would like to take this opportunity to offer some suggestions that I believe provide a balanced approach to this problem, and that can have a substantial impact. While there are some actions that can be taken immediately, and I will outline those later, this conference has been convened so that we may attempt to hammer out proposals that will resolve this issue on a long-term basis.

CONSISTENT NATIONAL TIMBER POLICY

The most important thing that can be done in the immediate future is to determine the level of timber that can be harvested in the northwest. This is critical so as to establish much needed predictability in the market. As I have stated, at the root of the current impasse are the conflicting and ambiguous requirements under the principal laws that govern national timber management, the National Forest Management Act (NFMA), the National Environmental Protection Act (NEPA) and the Endangered Species Act (ESA). In many ways these laws do not coincide with one another and in fact at times run headlong into each other. This explains why many of the decisions concerning our national forests are being made in court, when they should be made administratively.

Exacerbating this problem is the fact that much is left to interpretation of the governing agency, and recently the interpretations have moved in the direction of tightening government supply. For example, the NFMA planning process has de-emphasized the commodity production purpose of the national forests. Planned outputs identified in the forest plans are significantly below the potential yield of a forest under the previous timber management scheme. The Forest Service has chosen to provide a lower level of timber production and to enhance noncommodity resources. In doing so, the agency has forsaken the delicate but necessary balance between the competing goals of a National Forest. Through the NFMA planning process, the Forest Service also reduced the land base for timber management. The shift in land use, and the reduced volume available for harvest, clearly reflect the agency's de-emphasis of commodity production. Moreover, the production of actual outputs has not matched plan levels because of continued appeals of Forest Service decisions.

Even worse, the Forest Service appears unwilling to use the forest plans as the basis for resolving new conflicts. Instead of proceeding with plan amendment procedures as required by the NFMA and the agency's regulations, the Forest Service responds to new challenges by adopting interim guidelines or policy changes that conflict with the final forest plans. This practice invites legal entanglements. The Forest Service needs more explicit direction on

how to implement the forest plans.

Much of the problem could be resolved by reviewing these laws, determining how they affect forest management, and reforming them so that we have one consistent national timber policy that eliminates the opportunities for repeated administrative appeals by environmental groups and other organizations. In order to achieve this, it is critical that the legislative proposals that come from this conference incorporate "sufficiency language", guaranteeing that any new law governing timber management is deemed the authority, notwithstanding any other acts. This would serve to ensure that the will of Congress is carried out, and that a consistent supply of timber is provided by eliminating unpredictability in the market.

ENDANGERED SPECIES ACT REFORM

Without question the Endangered Species Act is the most controversial of the three laws that have impact on federal timber supply. While the National Association of Home Builders supports species preservation, we believe there needs to be an extensive reform of the current ESA to provide for a more balanced approach. The Endangered Species Act reform bill, H.R. 1490, introduced by Congressman Tauzin (D-LA), achieves many of the reforms we advocate. I would like to emphasize, however, that the reforms do not entail elimination of protection for America's endangered animals and plants. We must avoid subjective determinations and ensure that listings are based on objective and irrefutable scientific data. Often the listing decisions and designations of critical habitat are based on questionable criteria. Moreover, the Act's ambiguous provisions have created unacceptable situations. For example, species listings are rarely accompanied by critical habitat designation, in clear contravention to the Act. When critical habitat is finally designated, it is often done after prolonged periods. Additionally, recovery plans, which are designed to achieve the Act's goals and remove a species' endangered or threatened status, are rarely prepared or implemented. The Northern Spotted Owl listing illustrates the Act's shortcomings. After the Owl was listed as threatened, the Fish and Wildlife Service took over one and one-half years to designate critical habitat. To date, no recovery plan has been implemented.

The reforms NAHB offers will correct the ESA's shortcomings without weakening the protection afforded to plant and wildlife. The reforms we suggest include: mandating more thorough scientific analysis during the listing process; providing for peer review process of the scientific data presented; analyzing fully the economic impacts of species recovery plans; requiring that emergency listings of species rest firmly on proof of imminent danger; and, establishing clear guidelines for prompt designations of critical habitat.

Reform of the Endangered Species Act is not the ultimate solution to the timber crisis. It is, however, a significant step towards arriving at a balanced national timber policy. If the ESA were reformed tomorrow and our proposed changes were included, the Fish and Wildlife Service would develop a species recovery plan for the Northern Spotted Owl that would use objective and irrefutable scientific data in determining critical habitat for the Owl. That habitat would more than likely not provide 2,500 acres of timberland for each pair of owls, as is currently being done in Washington State, but have a much more reasonable area set aside to provide for the Owl's strong comeback right along side the housing and logging industries. Incidentally, 2,500 acres can produce 50 million board feet (log scale) -- enough framing lumber for between 4,000 and 5,000 homes. (See table 4.)

Secretary Babbitt has suggested an interesting approach to species preservation based on multiple species habitat planning that is certainly worthy of examination. NAHB looks forward to learning more about this concept and to working with the Secretary as he further develops his proposal.

REPEAL THE COUNTERVAILING DUTY

Imports from Canada play a key role in satisfying our need for lumber and cushioning the shortage of timber supply. U.S. consumption of Canadian lumber has gone from 27.3% in 1991 to 29.3% in 1992. (See table 2.) On October 31, 1991, the U.S. Commerce Department initiated a countervailing duty action against Canadian softwood lumber, based on alleged subsidies provided to Canadian mills in the form of low prices for timber. The alleged subsidies consist primarily of restrictions on the export of unprocessed logs. Although the full 6.5% duty is not reflected in the average U.S. price of lumber, since some part is absorbed by the Canadian suppliers, and Canadian lumber is only competitive in a portion of the U.S. market, this duty is another factor in the cost of lumber for building homes.

We understand that eliminating the countervailing duty alone will not solve the timber crisis facing America, but it would help change the psychology that has fueled the speculative increase in lumber prices and begin to establish a downward trend. It will also increase the incentive for Canadians to sell their lumber to us rather than to offshore markets.

ELIMINATE THE INCENTIVE FOR EXPORTING TIMBER

Another potential long-term solution is the elimination of the tax incentives that currently exist for timber companies to export raw logs. While NAHB is a strong believer that private property rights be preserved and that no restrictions be imposed on private log exports, we do not support the idea that those exports should be encouraged through tax incentives. The Administration and

TABLE 4

STATE OF WASHINGTON PRIVATE LAND IMPACTS NORTHERN SPOTTED OWL LISTING	
Area per OWL NEST (1.8 mile Circle)	6,600 Acres
Area which cannot be logged in circle	2,523 Acres
Timber volume per Acre of Habitat	20,000 BF-log
TIMBER volume set-aside for OWL	50,460,000 BF-log
Lumber use in average HOME	15,800 BF-lbr
Plywood use in average HOME (1,890 square-foot home)	8,400 SF3/8"
Lumber MBF per Timber MBF conversion	1.6 MBF-lbr
Plywood M3/8 per Timber MBF conversion	3.4 M3/8"
TIMBER volume required per HOME	12,300 BF-log
THEREFORE:	
Each OWL NEST locks-up enough Timber to supply Lumber and Plywood to build	4,100 HOMES

Congress should reconsider whether the tax incentives provided foreign sales corporations ought to be available for exports of raw materials, such as logs, thereby encouraging sales to foreign manufacturers rather than U.S. establishments.

NAHB supports legislation (H.R. 1542) introduced on March 30 by Reps. Pete Stark (D-CA), Peter DeFazio (D-OR) and Jolene Unsoeld (D-WA), that seeks to eliminate current subsidies for timber exports.

SALVAGE TIMBER SALES

Another step that the President can take is to immediately direct the Forest Service to undertake salvage sales of dead, down and dying timber. Many of our national forests have large volumes of such timber due to insect infestation and disease caused by recent climactic conditions, the general age of the forest, and pests such as the Spruce Budworm and the Gypsy Moth. Many of our western national forests have experienced seven years of drought. Efforts to salvage these trees from national forests have bogged down as a result of appeals, litigation and overburdensome regulation. These trees can be used to produce valuable lumber and other wood products, but only if they are harvested on a timely basis. The President has the authority, due to the need for immediate relief, to waive the requirement that salvage sales meet the conditions of NEPA, which governs these sales.

Furthermore, the Clinton Economic Stimulus Package appropriates money to the Forest Service to perform trail maintenance, road repair, etc. These funds could be reallocated to support salvage sales of timber. Since part of the incentive for allocating these funds to the Forest Service was to provide jobs to those who might have lost timber industry jobs, this reallocation would be beneficial on two fronts. In addition, either the National Forest Management Act [16 U.S.C.472a(h)] or the Department of Interior's appropriations could be amended to allow agency discretion, under special circumstances, to allow salvage timber harvesting on any federal timber lands.

CONCLUSION

This crisis needs to be addressed immediately, to avoid forestalling the housing recovery. Underlying all, this situation dramatically illustrates the necessity for government policies that assist rather than stifle economic activity. In particular, it illustrates the need to establish mutually supportive policies for environmental protection and economic growth.

Everyone involved in producing and consuming lumber is affected not only by the level of prices, but also the volatility and uncertainty of prices. It is very hard to do business when

there are such violent changes in price. The unpredictability and capriciousness of the behavior of government is the main cause for increased volatility. Any policies adopted to reform forest management ought to have stability and predictability as priorities.

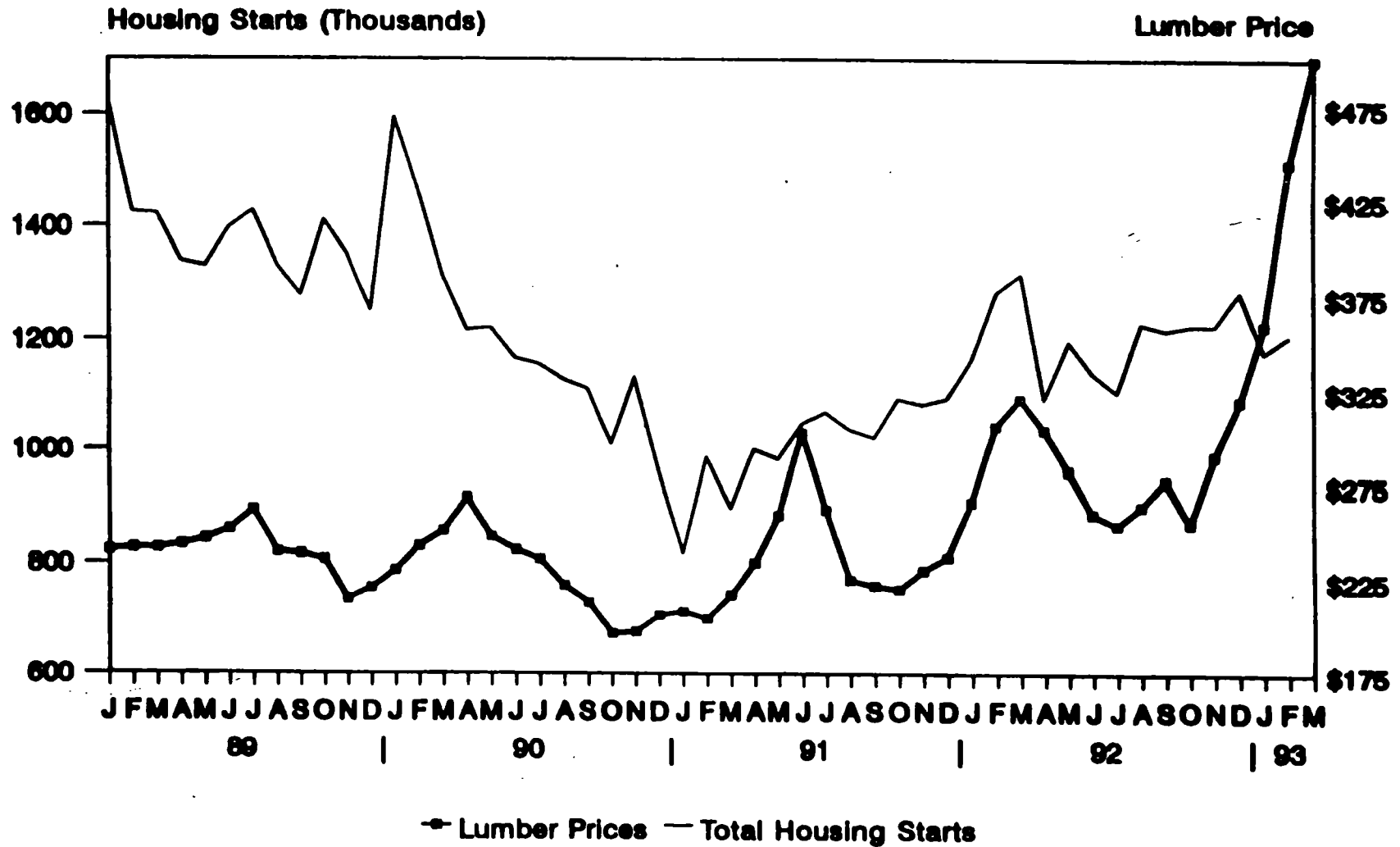
At the time of the election in November, interest rates were relatively high. However, through his public statements, his key appointments, and his economic proposals, President Clinton demonstrated his commitment to deficit reductions and has sparked a rally in the bond market. The President's proposals have not yet been enacted into law, but simply by announcing his intentions, he has given us the lowest mortgage rates in 20 years.

The lumber market is in many ways similar to the bond market. Expectations about the future can be as important as current changes in the underlying elements of supply and demand. The changes in final demand since October have been very modest, and the cutbacks in timber supply from federal lands have not developed overnight. The doubling of prices has occurred largely because of panic buying and speculative withholding of supplies.

A wide range of suggestions will be made at the Forest Conference on how to ultimately address the problems of the timber shortage while protecting the environment. It will no doubt take time to sort out these proposals and obtain legislation where necessary.

But in the short term, the most important thing that can be done is for President Clinton to simply to state his intention to act. We urge the President to make a clear commitment today to end the legal logjam that has virtually halted stumpage sales, to take federal forest policy out of the courtroom and back into the decision-making apparatus of the executive and legislative branches of government, to make the supply of timber from government-owned forests adequate and predictable and to make sure that we have the wood we need to build homes for the American people. Doing so will burst the speculative bubble in the lumber market and allow the recovery in home building and the overall economy to proceed.

Housing Starts vs. Lumber Prices



Source: U.S. Bureau of the Census, Random Lengths.



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RESPONSE TO MARCH 10, 1993 CONGRESSIONAL RESEARCH SERVICE REPORT ON RISING LUMBER PRICES

The March 10 memorandum by Ross Gorte of the Congressional Research Service on Lumber Prices is a thoughtful but incomplete discussion of the factors behind the rapid increase in lumber prices. Among the major deficiencies of that analysis are the following:

- Cyclical demand increases are described as the major cause, but lumber consumption has grown slowly and is below the levels of the mid-1980s. Moreover, demand growth during the past few months has decelerated while lumber prices doubled.
- Although the CRS analysis notes that the problems on federal lands go beyond the spotted owl, it looks only at federal timber supply from the spotted owl area. The historical contribution of federal timber in the entire Pacific Coastal region to lumber production was more than 20 percent and cutbacks in sales of timber in that area have been dramatic.
- Speculative behavior has played a big role in the recent increase and is neglected in the CRS analysis, but the only underlying factor that can explain the increase is the recent and expected cutback in federal timber supply.
- The share of the cost of a home attributable to wood costs was about 7 to 8 percent, not 5 percent, before the price increases. It is now about 12 to 13 percent.

The CRS memorandum presents an interesting analysis of the recent increase in lumber prices and its effect on the housing market. It mentions most of the major demand and supply factors, but the judgments about their relative importance are not supported by the analysis. The memorandum concludes that increased demand due to the economic recovery is primarily responsible for recent increases in lumber prices, based on a comparison of the current situation with the behavior of lumber prices during the recoveries of 1976 and 1983.

Table 1 shows annual percentage changes in real measures of housing activity. The table indicates that the recoveries of 1976 and 1983 were much more robust than that of 1992. Since the trough in home building early in 1991, home building has experienced a very modest recovery. In 1992 single family real construction spending and starts were up by a little over 20 percent over 1991, and multifamily activity actually declined. In 1983 single family construction in real dollars was up over 70 percent, single family starts were up over 60 percent, multifamily starts were up nearly 60 percent, and multifamily construction in real dollars was up over 40 percent. In 1976, the housing increase was also much greater than in this recovery without an equivalent rise in lumber prices. The CRS memorandum acknowledges that the recent rise in housing starts is relatively modest but still assumes that its effect on lumber prices should be similar to past recoveries.

The pattern of softwood consumption also casts doubt on demand as the major force behind recent price increases. In 1992 U.S. softwood consumption was up, but only by 6 percent. In contrast, this consumption measure rose by nearly 18 percent in 1976 and nearly 27 percent in 1983.

The anomalous nature of the current situation is more obvious if the analysis is extended to include 1993. During the period since October when lumber prices doubled, there was no increase in home building. Total starts (seasonally adjusted) were lower in January and February than in any month from August to December of 1992. For January and February of 1993, single family housing starts were up only 0.2 percent compared to the same period of 1992. (See Figure 1)

Mr. Gorte indicates (p3) that the Forest Service and BLM historically have provided about a third of the timber harvested in the owl region, and that the owl region produces about 30 percent of the lumber manufactured in the U.S., so that Federal timber in the owl region historically has provided 10% of total domestic timber supplies. However, as he notes elsewhere, the problem of supply from federal lands goes beyond the owl region. The Forest Service's TAMM data base indicates that the government share of West Coast harvests of softwood sawtimber over the period from 1983 to 1988 ranged from 42% to 46% and the West Coast share of national sawtimber harvests ranged from 43% to 45%, so that the share of national softwood sawtimber accounted for by harvests from West Coast government forests ranged from 18% to 21%. (See Table 2)

The government harvests in the TAMM data base include harvests from state lands, but those are a relatively small part of the total, and in any case the state forests have also been affected by environmental restrictions.

The significance of west coast government timber to lumber supply and costs is even greater than the traditional 20% share of sawtimber harvests implies. A portion of the harvest from private lands is exported as raw logs. Taking into account private log exports, west coast government timber represented nearly 25% of the timber supplies for U.S. sawmills over the 1983 to 1988 period.

Since 1988 sales and harvests of government timber have dropped sharply. (See Table 3) There was a decline in sales of federal timber from 12.5 BBF to 4.5 BBF in 1992. If all of that timber were used to produce lumber, rather than panels or other products, the decline is equivalent to almost 12 BBF of lumber (since 1 BF of logs can make 1.5 BF of lumber), equal to a third of U.S. lumber production and enough to build 800,000 single family homes.

WOOD SHARE OF HOME PRICE

The memorandum refers to the January 1989 issue of the NAHB's Housing Backgrounder in estimating that wood accounts for 5% of the price of a new home. That report presented a cost breakdown for a single 2300 square foot new home in Fairfax County, Virginia. In that example -- where high labor costs, high fees, and high land costs prevailed -- the \$10,290 cost of wood products was only 5 percent of the \$196,000 sale price. But in a more typical area, the total cost of such a home in 1988 would have been more like \$120,000 to \$150,000, and the share devoted to wood products would be 7 to 8.5 percent.

In our analyses, we used the data developed by Anderson and McKeever in a study sponsored by the Forest Service and a number of forest product associations.¹ That analysis showed the physical volume of lumber and panel products used in a typical house based on a national sample. We believe this to be a more reliable source than the single example shown in the Housing Backgrounder. Using the estimated quantities shown in Anderson and McKeever -- and assuming that the cost of transportation and dealers' margins is \$200 per thousand board feet -- then the total cost of framing lumber and structural panels for a home in 1992 was \$10,856 or 9 percent of the median home price of \$120,000. The cost of lumber and panel prices in March 1993 is nearly \$5,000 higher compared to the average 1992 price and increases the wood share to about 12.5 percent, even assuming that dealers' margins remain constant (and therefore fall in percentage terms). The effect on home buyers with moderate incomes is relatively greater, because the percentage of cost due to wood is typically greater in smaller or less expensive homes. (See Table 4)

EFFECT ON HOME BUYERS

The memorandum compares the impact of an increase in lumber prices to the impact of an increase in interest rates on monthly mortgage payments. However, studies by both the U.S. Bureau of the Census² and the Joint Center for Housing Studies at Harvard University³ have shown that potential home buyers more often lack sufficient wealth to make an initial down payment on a home than they lack sufficient income to make monthly mortgage payments. In addition, rising prices have an adverse effect on home buyers who may balk at taking on extra debt even if it is at a lower interest rate, and even if they could technically afford it.

In terms of the effect on recovery in home building and the overall economy, the relevant question is what happens relative to a situation where lumber costs are held in check. The goal is not to stand still. Even if the effects of mortgage rates and lumber prices are offsetting, the result is a failure to achieve the increased construction that low interest rates would otherwise stimulate.

WHAT HAS CAUSED THE INCREASE?

Mr. Gorte identifies five factors as contributing to the price increase (p5)

1. Economic Recovery
2. Seasonality
3. The countervailing duty on Canadian lumber
4. Possible Japanese economic recovery
5. Spotted owl protection

As noted above, the economic recovery has been too weak to explain the increase, and the recovery in home building faltered during the time that prices exploded. The countervailing duty was lowered in May 1992 and cannot explain the increases since October. Japanese recovery hasn't yet translated into increased U.S. exports of logs or lumber.

A major factor affecting lumber prices but neglected in the memorandum is the role of expectations. It has become increasingly common for lumber prices to shoot up due to panic buying and other speculative behavior, such as withholding logs in hopes of even higher prices. Prices fall back down again when the speculative bubble bursts. A previous temporary price spike developed after the May 1991 injunction by Judge Dwyer restricting timber sales. Another spike developed with the combination of additional court rulings and duties on Canadian lumber in late 1991 and early 1992. Hurricane Andrew, in August 1992, caused a large spike in plywood prices and a smaller spike in lumber prices. Thus, a likely factor in the current price surge is speculation, probably due to the expectation of further lumber supply restrictions based on the declining volume of uncut timber under contract, the sharply reduced volume of new stumpage sales, the possibility of even more stringent environmental laws, and expected cutbacks in timber harvests in British Columbia. Because of these supply problems, the price is unlikely to fall back to the earlier levels. Expectations of greater demand can also fuel speculation, but most forecasts of home building and remodeling call for only modest further increases.

The problem of reduced supplies of federal timber goes beyond the spotted owl, as Mr. Gorte notes. Compared to 1987, when lumber consumption reached its historic peak, demand is lower, private harvests have increased, and exports have declined. Imports are currently below the 1987 level, but not enough to make a big difference. Only the sharp cutback in the supply of federal timber has changed the demand-supply balance toward substantially higher prices.

In the past two years, increases in demand have been offset by higher private harvests, further declines in exports, and increased imports from Canada. These cushions are no longer available. Private harvests are already at maximum sustainable rates, exports have reached a plateau, and further increases in imports are limited by cutbacks in harvests in Canada. The backlog of uncut federal timber under contract is disappearing. The crisis has arrived.

NOTES

¹ Robert G. Anderson and David B. McKeever, Wood Used in New Residential Construction in the United States, 1988.

² Peter J. Fronczek and Howard A. Savage, "Who Can Afford to Buy a House? Current Housing Reports. U.S. Department of Commerce, Economics and Statistics Administration, Bureau of the Census, Washington, D.C., May 1991.

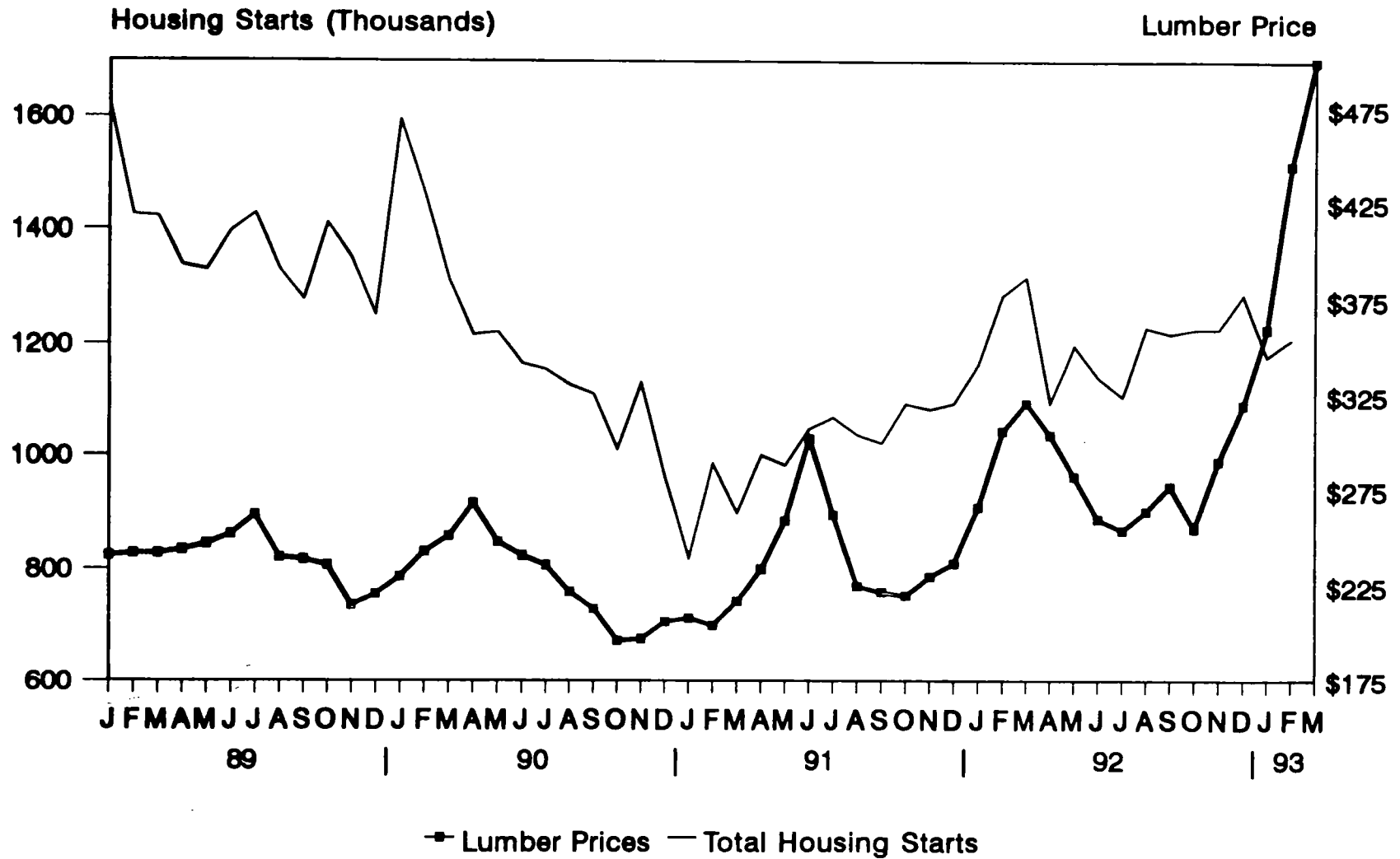
³ Harvard University, Joint Center for Housing Studies, The State of the Nation's Housing, 1989.

Table 1

Percentage Change in Housing Activity					
	Housing Starts		Value Put in Place 1987 Dollars		
Year	Single-Family	Multifamily	Single-Family	Multifamily	Adds & Alts
1976	30.3%	40.3%	39.1%	-3.5%	8.0%
1977	24.9	42.6	27.7	31.2	1.7
1978	-1.2	9.5	3.2	12.7	8.1
1979	-16.7	-6.1	-11.4	18.1	-0.3
1980	-28.6	-20.1	-33.7	-10.8	2.6
1981	-17.3	-13.9	-8.7	-3.3	-10.1
1982	-6.0	5.5	-22.9	-13.9	-10.1
1983	60.9	58.8	72.3	43.0	10.3
1984	1.6	4.7	15.4	22.3	26.1
1985	-1.1	0.6	-1.4	-1.0	7.2
1986	10.1	-6.6	13.8	4.5	18.3
1987	-2.9	-24.2	7.3	-21.3	-2.8
1988	-5.7	-14.1	-2.1	-16.1	3.8
1989	-7.2	-8.4	-3.7	-3.7	-6.9
1990	-10.8	-20.1	-9.1	-16.0	-7.0
1991	-6.1	-41.6	-12.9	-21.4	-14.0
1992	22.6	-2.3	21.4	-15.4	11.6

FIGURE 1

Housing Starts vs. Lumber Prices



Source: U.S. Bureau of the Census, Random Lengths.

Table 2

SOFTWOOD SAWTIMBER HARVEST

-----West Coast Region-----				
	Total	National Forest	Other Gov't	Total
1983	34,038	4,229	1,827	14,563
1984	34,847	4,225	2,300	15,143
1985	35,089	4,513	2,425	15,280
1986	38,172	4,986	2,539	16,736
1987	40,759	5,127	2,711	18,270
1988	40,880	5,575	2,878	18,524
1989	39,258	4,498	2,373	17,275

SHARE OF WEST COAST

	National Forest	Other Gov't	Total Gov't	Private
1983	29.0%	12.5%	41.6%	58.4%
1984	27.9%	15.2%	43.1%	56.9%
1985	29.5%	15.9%	45.4%	54.6%
1986	29.8%	15.2%	45.0%	55.0%
1987	28.1%	14.8%	42.9%	57.1%
1988	30.1%	15.5%	45.6%	54.4%
1989	26.0%	13.7%	39.8%	60.2%

SHARE OF NATIONAL

	Total West Coast	Coast National Forest	Coast Other Gov't	Coast Total Gov't
1983	42.8%	12.4%	5.4%	17.8%
1984	43.5%	12.1%	6.6%	18.7%
1985	43.5%	12.9%	6.9%	19.8%
1986	43.8%	13.1%	6.7%	19.7%
1987	44.8%	12.6%	6.7%	19.2%
1988	45.3%	13.6%	7.0%	20.7%
1989	44.0%	11.5%	6.0%	17.5%

Source: U.S. Forest Service, TAMM data Base
Harvest in Millions of Board Feet

Table 3

LUMBER STATISTICS

(in MMBF, Lumber Talley)

	1987	1988	1989	1990	1991	Estimated 1992
Production						
1 West	23,942	23,638	23,212	21,175	19,075	18,814
2 South	12,473	12,676	12,544	12,911	12,507	13,968
3 Other	1,820	1,816	1,789	1,705	1,579	1,637
4 Total U.S.	38,235	38,130	37,545	35,791	33,161	34,419
Lumber Imports						
5 Canada	14,564	13,700	13,526	12,081	11,650	13,379
6 Other	113	106	112	67	92	119
7 Lumber Exports	2,423	3,264	3,414	2,970	3,090	2,652
8 +/- Inventory Change	69	(159)	206	34	185	200
9 Consumption	50,558	48,513	47,975	45,003	41,998	45,465

TIMBER STATISTICS

(in MMBF, Scribner Scale *)

	1987	1988	1989	1990	1991	Estimated 1992
Federal**						
10 Sales - Total	12,479	11,982	9,160	9,895	6,887	4,545
11 West	10,248	9,963	7,080	7,926	5,008	2,742
12 Other	2,231	2,019	2,080	1,969	1,879	1,803
13 Harvest - Total	14,015	14,238	13,299	11,444	9,069	7,940
14 West	11,399	11,672	10,941	8,799	6,978	5,752
15 Other	2,616	2,566	2,358	2,645	2,091	2,188
16 Timber Under Contract ***	27,334	23,172	19,110	18,213	13,761	10,760
17 NW State Harvest****	1,402	1,346	1,334	1,053	817	750
18 NW Private Harvest****	9,057	8,977	9,248	8,726	8,351	8,200
Log Exports						
19 Total	3,959	4,594	4,519	4,000	3,478	2,823
20 From Northwest ports	3,168	3,682	3,614	3,008	2,542	2,234

Source: USFS, BLM, AFPA

Notes:

- * 1 Scribner board foot of timber provides up to about 1.5 board-feet of lumber.
- ** Includes timber in National Forests and with Bureau of Land Management.
- *** Uncut timber under contract may change because of cancelled sales and other revisions.
- **** NW includes OR, WA, MT, ID

TABLE 4
Wood's Cost in a Home
1992 Average

	LUMBER*	STRUCTURAL PANELS**	TOTAL
PRODUCT PRICE:			
Mill Price	\$283	\$308	
Transportation & Distribution	\$200	\$200	
Retail Price	\$483	\$508	
Quantity, excl millwork	14.659	6.278	
Quantity, incl millwork	15.824	6.325	
Direct cost, excl millwork	\$7,080	\$3,189	\$10,270
DIRECT COST, INCL MILLWORK	\$7,643	\$3,213	\$10,856
ADD-ON COSTS			
	RATE		
Sales Tax	0.04	\$306	\$129
Financing Cost	0.03	\$238	\$100
Co-op Brokers Fee	0.03	\$246	\$103
TOTAL COST	\$8,433	\$3,545	\$11,978

Wood's Cost in a Home: March 1993

	LUMBER*	STRUCTURAL PANELS**	TOTAL
PRODUCT PRICE:			
Mill Price 3/19/93	\$506	\$409	
Transportation & Distribution	\$200	\$200	
Retail Price	\$706	\$609	
Quantity, excl millwork	14.659	6.278	
Quantity, incl millwork	15.824	6.325	
Direct increase, excl millwork	\$10,349	\$3,823	\$14,173
TOTAL COST	\$11,172	\$3,852	\$15,024
ADD ON COSTS			
	RATE		
Sales Tax	0.04	\$447	\$154
Financing Cost	0.03	\$349	\$120
Co-op Brokers Fee	0.03	\$359	\$124
TOTAL COST	\$12,326	\$4,250	\$16,576

Sources: Random Lengths, Eugene, OR

Robert G. Anderson and David B. McKeever,

Wood Used in Residential Construction in the United States

* Per Thousand Board Feet, ** Per Thousand Square Feet (1/2" Basis)