

Testimony for the House Committee on Natural Resources and Western Caucus
Why Are Lumber Prices So High?
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Rex Lumber
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I would like to thank the Committee for holding this forum on lumber supply and demand. I would also like to thank the Committee for your ongoing work to ensure our nation's forests are properly managed and continue to provide benefits to the American people, including fiber for forest products manufacturers, habitat for wildlife, recreational opportunities, and economic growth.

Company Background

I am Caroline Dauzat, a fourth-generation owner of Rex Lumber, along with my brother and two sisters. Rex Lumber operates four Southern Yellow Pine lumber mills in Graceville and Bristol, Florida; Brookhaven, Mississippi; and Troy, Alabama. I am also a member and past director of the Southeastern Lumber Manufacturers Association (SLMA). SLMA is a trade association that represents sawmills, lumber treaters, and their suppliers throughout the Southeast. SLMA's members produce more than 4.5 billion board feet of solid sawn lumber annually, employ over 12,000 people, and responsibly manage over two million acres of forestland. These sawmills are often the largest job creators in their rural communities, having an economic impact that reaches well beyond people that are in their direct employment. Additionally, I serve as the current chair of the Softwood Lumber Board.

My family has been involved in the lumber industry since the early 1900s. Rex Lumber Company was founded by my great grandfather, W.D. McRae in 1926 in Graceville, Florida as a cypress sawmill, which later became an oak flooring manufacturer. In 1971, my grandfather, Robert McRae and his children, including my father Finley McRae, acquired full control of the company and proceeded to add a Southern Yellow Pine mill in Graceville. In 1980, the Graceville mill was sold and the family constructed a new sawmill in Bristol, Florida under the name North Florida Lumber. In 2001, my family bought the original Rex Lumber mill in Graceville out of bankruptcy and proceeded to completely rebuild the mill, restarting production in 2003, marking the return of the Rex Lumber name. In 2009, in the depths of the Great Recession, our family decided to purchase another sawmill in Brookhaven, Mississippi and upgraded the facility for improved high quality, high volume lumber manufacturing that is now leading the industry in safety, quality and production. In 2017, we made the decision to invest in a greenfield mill in Troy, Alabama, which is now a state-of-the-art mill that continues to increase production as additional equipment comes online and our workforce continues to grow.

In total, our sawmills employ more than 650 hardworking men and women while on track to start producing over 800 million board feet of lumber per year in 2022. The lumber we produce is used primarily in residential and commercial construction applications. In addition to lumber mills, our family owns Apalachee Pole Company, Inc. which manufactures utility poles and pilings, North Florida Woodlands, Inc., a timber procurement company, and Rex Transportation,

which is a flatbed and boom trucking company that transports our lumber and poles to customers. We also own timberland in Florida, Georgia and Alabama.

COVID-19 Impact and Unexpected Demand Increase

Like the rest of the world, the pandemic and proceeding market volatility took us by surprise. Our mills were operating at maximum production before the pandemic hit. When governments ordered the economy to shut down, we scrambled to keep our employees safe while simultaneously preparing for a recession. Fortunately, COVID infections within our company were not widespread and our industry received “essential industry” status, so we faced minimal disruptions in lumber production. In fact, with the continued ramp up of our new Troy mill and upgrades to our existing mills, we were able to produce 689 million board feet from June of 2020 to May of 2021 compared to 575 million board feet over the same time period in the prior year, an increase in production of 20%. As a whole, the North American lumber industry increased production by 1.4 billion board feet last year. Most of this growth was in the U.S. South, where production increased 1.1 billion board feet, marking a 5% increase over 2019.¹

In spite of this increase, new home construction was up nearly 12% in 2020 vs 2019.² According to the U.S. Census, the demand for new housing continued into 2021, as seasonally adjusted housing starts were up 37% in March 2021 compared to March 2020.³ In addition to new housing starts, the DIY and home renovation markets also unexpectedly increased more than 20%, when people began quarantining due to COVID-19.⁴ This unforeseen market demand reduced lumber inventories while mills were adjusting production levels in response to the economic slowdown and government mandated restrictions at the on-set of the pandemic.

On-going Industry Constraints

As the country and the economy slowly return to normal, sawmills have continued to manufacture lumber as quickly as possible to meet on-going high demand. However, we are constrained by current manufacturing limits, and increasing production is more complicated than simply deciding to make more lumber. Sawmill infrastructure declined significantly when the Great Recession began in 2007. In the South, for example, the total number of pine mills operating in 2007 was 276. In 2017, the total was only 240.⁵ In fact, production of Southern Yellow Pine’s previous peak was 19 billion board feet in 2005. The industry did not return to this level until 2019.⁶ Meanwhile, housing starts grew almost 200% between the fourth quarter of 2010 and first quarter of 2021.⁷

¹ https://forisk.com/wordpress/wp-content/assets/Press-Release_Mill-DB_20210518.pdf

² <https://www.marketwatch.com/story/new-home-construction-activity-soars-to-highest-level-in-over-a-decade-as-builders-rush-to-produce-single-family-homes-2021-01-21>

³ <https://www.census.gov/construction/nrc/pdf/newresconst.pdf>

⁴ <https://www.cnbc.com/2020/08/18/home-depot-hd-q2-2020-earnings.html>

⁵ <https://www.forest2market.com/blog/making-more-lumber-is-not-so-simple>

⁶ Southern Forest Products Association. May 6, 2021.

⁷ <https://www.forest2market.com/blog/making-more-lumber-is-not-so-simple>

Adding additional capacity through expansion of existing mills or building new mills takes eighteen months to three years to complete. Equipment manufacturers are also experiencing high levels of demand, leading to higher prices for concrete and steel to build the new equipment and structures. Another ongoing factor is the regulatory burdens, such as long permitting processes for air and water. For example, the Rex Lumber mill in Troy, AL, which employs 175 people, broke ground in 2018, started limited operations in 2019, produced over 100 million board feet in 2020, and is on target to produce 175 million in 2021. Upcoming 2022 projects at our Troy mill will increase production to 300 million board feet annually. The recently announced Tolko-Jasper mill expansion began in October 2020, but the new line will not be operational until at least January of next year. In total, projects that are currently underway across the South are expected to increase Southern Yellow Pine production by more than two billion board feet over the next two to three years.⁸ Lumber manufacturing expansion projects will increase the supply of lumber in the long term, while creating more markets for timberland owners, but are unlikely to have an immediate effect on the market.

Workforce shortages and trucking capacity constraints are also hindering our ability to increase lumber supply, especially in the short term. Our industry requires a variety of skill sets ranging from hourly mill production and maintenance positions, to salaried supervisors, managers, and administrative personnel. Hiring qualified people to fill these various roles is always difficult, but it became more challenging when enhanced unemployment benefits and multiple stimulus checks were issued during the pandemic. Because wood products manufacturing was deemed an “essential industry” that operated through the pandemic, we found ourselves suddenly competing with government benefits for employees. As some of these benefits have subsided in certain states, we are seeing capable individuals begin to apply for work again. However, the rebounding economy has made qualified employees scarcer and job offers plentiful. Rex Lumber, in addition to other members of SLMA, are taking various approaches to find qualified candidates. For example, we have coordinated with local community colleges to manage paid internship programs in hopes of finding qualified people that are able to quickly move up the company ladder. Additionally, SLMA has worked with members to design outreach materials for high school students that want to go directly into the workforce.

Trucking capacity was problematic before the pandemic and has become increasingly difficult to manage. At Rex Lumber, we are planning to increase our fleet over the next few years as we are unable to find outside companies to move our products in a timely fashion. This is another issue that is widespread in our industry. For example, another SLMA member in South Carolina had seven million board feet of sold lumber sit at his mill for a week earlier this month because he could not secure trucks to transport finished products to customers.

Federal Forest Timber Availability

In addition to the dramatic impact that the Great Recession had on lumber manufacturing across the country, the Rex Lumber and Apalachee Pole mills in Bristol, Florida have not had a steady dependable supply of timber from the Apalachicola National Forest, which is a large part of our

⁸ Ibid.

timber circle. The need for the timber from this local source is increased when lumber prices are lower, making transportation costs for sourcing logs from private lands farther away less feasible. Increasing and maintaining harvests on the Apalachicola has the benefits of increasing timber supply for the local area mills, reducing fire risks, and adding a positive income flow to the Forest Service Budget.

When Hurricane Michael devastated the Florida Panhandle, much of the surrounding privately owned forest was destroyed, making timber from the Apalachicola National Forest even more critical to the continued viability of our Bristol operations and the 150 employees that depend on the mill for work as well as the customers that need lumber and poles. Although over the last two and half years the Apalachicola National Forest has increased timber sales, we fear any reversal to past practices would be detrimental to the Bristol operations and this very rural area.

How to Increase the Supply of Lumber in the Short and Long Terms While Decreasing Volatility

1. Do not allow unemployment and other government benefits to compete with paychecks
2. Increase trucking capacity by growing the pool of drivers through an apprenticeship program for 18-20 year old commercial drivers as included in the DRIVE Safe Act
3. Increase sustainable management of federal forests to supply timber to forest products manufacturers located near such forests
4. Streamline the permitting processes that extend construction time of mill expansion projects
5. Continue the first year 100% capital expensing provision in the 2017 Tax Cuts and Jobs Act
6. Reduce the likelihood of mill infrastructure collapse during the next housing recession by encouraging increased market diversity for the forest products industry by utilizing mass timber for government and military construction projects while encouraging and assisting state and municipal code adoption of the 2021 International Building Codes that provide for taller residential and commercial mass timber buildings.

Conclusion

In conclusion, sawmills are producing and shipping lumber as fast as possible. We recognize that the current supply and demand imbalance creates difficulties throughout the supply chain and in the marketplace but would also note that lumber futures have already dropped by more than 50% since the May highs. The most effective way to increase the flow of lumber into the marketplace in the near term is to be sure employers are not competing with unemployment benefits and to address the need for increased trucking capacity. Thank you for your time and interest in this important issue.