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Times Hit Wood Industry Hard

By LESTER ALDRICH

Hardwood floors and maple cabinets were coveted decorative flourishes during the housing boom, but the recession has chiseled so deeply into the smaller specialty wood industry that it may never hit its peak again.

Lumber mills that produce hardwoods like oak, ash, maple and walnut for items such as floors, cabinets, trim and furniture have been shuttered, victims of the credit crunch and the housing implosion. There are thousands of these mostly mom-and-pop operations, which generally have only 20 or 30 employees compared with the big North American lumber mills that produce softwoods like spruce, pine and fir to create housing frames.

"As an industry, we're off 70%" on production, said Charles Netterville, owner of Fred Netterville Lumber Co., an Arkansas hardwood producer. "Prices now are around what we were getting in the 1980s. We need to see prices go back up substantially in order to survive."

The recession has seen hundreds of hardwood sawmills close, said George Barrett, editor of Hardwood Review Weekly. He estimates 2009 domestic production will be 6.7 billion board feet, down from an estimated 7.45 billion in 2008 and 8.31 billion in 2007.

Until credit availability improves, there is no chance shuttered hardwood mills will ever reopen, Mr. Barrett said. For credit to loosen, owners will have to show profit potential, which will take better markets and higher prices for their product. Many firms with multiple mills have closed a plant to limit the overall amount of product on the market and cut costs, Mr. Barrett said.

"The cabinet industry is running 25% to 35% of capacity, if they haven't closed altogether," Mr. Barrett said.

U.S. cabinet sales were 32% lower in the first quarter of 2009 than in the same period a year ago, according to the Kitchen Cabinet Manufacturers Association.

When the recession eases, it may be too late. There are inklings that hardwood demand is slowly rising, but much of the production may have shifted to lower-cost parts of the world, Mr. Barrett said. The small U.S. hardwood mills might have a hard time competing with subsidized producers with cheap labor in countries like China and Mexico, he added.

The furniture industry has shrunk significantly in the last 10 years as Asian and Mexican producers have taken over, Mr. Barrett said, because of labor costs.

More than 300 furniture plants have closed, with nearly 90,000 employees terminated, he said.

Mexico has an edge in the U.S. market because of the lack of ocean freight issues that accompany a move to production in other continents, Mr. Barrett said.

There is talk of some of this returning to the U.S. once the recession is over, but with changes to the cost structure of the plants, he said.

Some in the hardwood industry have said they expect the second half of 2009 to show market growth. Housing and hardwood lumber demand is showing some signs of bottoming, and sales are beginning to pick up, said Andrew Pointer of A&M Wood Specialty, who added that sales had declined 15% from before the recession.

Mr. Barrett said some wholesalers have increased purchases as a hedge against potential price increases or spot shortages.

There is some reason for caution, however, Mr. Barrett said. A large percent of the houses being started now are smaller and use relatively little hardwood.

Home remodeling uses more hardwood per project than a full house, but there are debates about the pace of that work. Some like Mark Brown, senior product manager for U.S. Lumber, say remodeling helps some specialty woods, like the more decorative pieces. Others say remodeling is down with the recession.

If demand for hardwoods rises, the market could find fewer supplies because of the lowered production, Mr. Barrett said. It is difficult to assess whether price gains will be sharp as a result or whether there will be slower gains as imported woods fill some of the supply holes.

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