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www.bearcreeklumber.com



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Open and Ready For Business

The staff at Bear Creek Lumber is back at work after a well deserved break over the holidays. 2002 was a good year. With the growing popularity of the Internet, our



company is hearing from many more people from around the world. We have broadened our product line and continued to upgrade our facility so we can better handle customer's needs and timelines. Customer satisfaction is still our number one goal and we plan to keep our track record strong. We invite you to visit us at www.bearcreeklumber.com or come by the lumberyard for a tour. We have an amazing inventory and a sales staff that is ready to assist you in any project you are planning.

New In The Yard

Welcome, Kristie!

We have added a new member to our small staff to help us do a better job of customer service and sales. Kristie Edwards is originally from Bellingham, Washington and has been a jack of all trades, having worked in everything from carpentry to blacksmithing to baking in a metropolitan area bakery. She is now learning the art of lumber sales as the newest member of our customer service team. Her main duties are assisting our sales manager and office manager with paperwork but she is already manning the phones, which is a great help considering the flood of calls and emails that have been coming in. Her enthusiasm is wonderful!



Port Orford Cedar

One of the jewels of the Northwestern forests, this excellent product comes from sustainably managed forests in the southwest of Oregon. Port Orford is an unusual product for most lumber companies and we are very happy to announce our new stock is even prettier than we hoped for. If you have been considering using Port Orford, now is your chance to take advantage a particularly nice milling as seen on the right.



Two-by-fours made at Riley Creek Lumber Co. sell for less than they did six months ago - an irony not lost on Marc Brinkmeyer, who recalls the bold predictions made about a U.S. tariff on Canadian lumber imports. "The economists told us that half of the tariff would come back to us in the form of higher prices," said Brinkmeyer, owner of the Laclede sawmill. In an Econ 101 scenario, the tariff should have reduced the amount of Canadian lumber flowing into U.S. markets, raising prices through the laws of supply and demand.

But nothing has gone by the book since the U.S government slapped a 27 percent tariff on Canadian lumber imports on May 22. British Columbia sawmills - direct competitors of American mills - actually increased production by more than 6 percent. U.S. production and European imports are also up slightly, sending the composite price for framing lumber into a all-time slump. "There's too much lumber on the market for even a robust housing market to absorb," said Kevin Binam, director of economic services for the Western Wood Products Association.

"This is just a big tar baby," Brinkmeyer said of the tariff. "We need a settlement with Canada so they don't have an incentive to overproduce", a sentiment voiced on both sides of the border these days. Most mill operators in Canada and the U.S. want an end to a particularly acrimonious chapter in a long-running trade dispute between the two countries.

The Weyerhaeuser Co. unveiled a proposal to get the governments back to the negotiating table. "Clearly, the tariff doesn't work. In fact, it's backfired as Canadian producers have increased production to lower costs," said Weyerhaeuser Chairman and CEO Steve Rogel. Weyerhaeuser is suggesting that Americans and Canadians agree to drop litigation over the dispute.



Tariff Misses Its Mark

Under the proposal, the Canadian government would institute a border tax when the composite price of lumber drops below \$325 per thousand - roughly what the price was when the tariff took effect, Rogel said. The border tax would remain until the Canadians overhaul their system of selling logs from government lands, which American mills say amounts to an unfair subsidy.

"In spite of what the Americans hoped when they put the duties in place, the tariffs have not stopped U.S. mills from closing, nor have they significantly reduced Canadian lumber production. The situation underlies how no one wins a trade war."

Canadian mills produce about one-third of the fir, pine, spruce and other "softwood" lumber sold in the United States. For years, U.S. producers have accused the Canadian government of subsidizing its mills through cheap log sales. When lumber prices are high, the issue gets little attention. But when prices sink, U.S. producers accuse Canadians of dumping below-cost timber into the market. The issue came to a head last year, when a quota on Canadian lumber imports expired. The Bush administration enacted the tariffs in May. Weyerhaeuser's Canadian operations paid out \$30 million in tariffs during the third quarter. The company, the world's largest producer of softwood lumber, operates 18 mills in Canada and 27 in the United States.

Under the tariff system, Canadians have no incentive to negotiate a solution, Rogel said. They hope to win a case pending before the World Trade Organization, which would allow them to recoup the \$750 million paid out in U.S. tariffs, he said. A border tax would bring the Canadians back to the table, Rogel said, because the Canadian government collects the tax. It goes into the Canadian government's coffers, and there's no provision for companies to win it back.

Elements of the Weyerhaeuser proposal make sense to Dick Bennett, an Idaho sawmill owner, and member of the Coalition for Fair Lumber Imports, a U.S. industry-backed group. "The tariffs inflamed the trade war, with the two largest Canadian producers ramping up production in an effort to lower costs", Bennett said. The lower prices have hurt both American and smaller Canadian producers. If nothing changes, "you'll see a hell of a lot of bankruptcies in the next six months," he predicted. At the moment, Bennett's mill - Shearer Lumber Co. of Elk City, Idaho, is losing about \$200,000 per month. "We're not trying to force the market up," Bennett said. "We're trying to get it back to where it was before the tariff took effect."

Reprinted from the Spokesman Review,
December 2002



A End to Republic?

The closure next year "might be the one that turns the lights out in Republic," said Ron Tatlow, owner of the Hitch-in Post restaurant and lounge in Republic WA. "It's a devastating blow to this community. Nobody around here can remember when that mill hasn't been here."

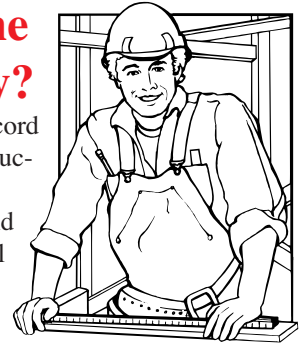
Colville, WA-based Vaagen Bros. told about 90 employees last week that they will saw their last log Jan. 27. Company President Duane Vaagen blamed Canadian lumber imports and inability to buy timber from the Colville National Forest. Three weeks ago, the Echo Bay Minerals gold mine, that is about a mile from the sawmill, closed.

"You shut that mine down and that sawmill, and what the hell have we got?" said Louie Dragnich, 79, who was in the logging business more than 50 years.

"Despite a 27 percent tariff imposed in April on Canadian lumber, Canadian mills are selling even more lumber in the United States and now have 40 percent of the market," Vaagen said. But he thinks the bigger problem for U.S. sawmills is high log prices because of declining timber sales in national forests.

Industry News

Predictions for the Housing Industry?



A new year, new predictions. Can the housing industry keep racking up record month after record month as it did in 2002? Will war in Iraq shot down any hope of continued strength in construction? Or will it help? Will global warming mean we will all start living in tents anyway?

Predicting the coming year, especially after such an incredible year for housing and with record low interest rates hanging around for so long, is not going to be easy. There are still parts of the country, such as California, where housing needs may never catch up to demand. Other places, where housing got ahead of affordability may see construction levels inch down. There is no clear indication of what kind of economy we have ahead of us this year. Most builders we are talking to seem to have work on the books, but many of their projects continue to be held back by customers with a wait and see schedule. At Bear Creek Lumber, we are hearing this from our customers from Maine to Hawaii. Confidence is low, and only the ridiculously low interest rates keep interest in housing high. Luckily, interest rates won't rise anytime soon. Even war made only a small dent last time the nation faced recession followed by war (back in 1991). Housing back then dropped by about 3%.

Housing prices, with nationwide employment rates dropping, may not fair so well. What will hold them up is how tight most urban housing markets are. Open lots are at a premium in hot sectors such as Las Vegas. And even new home buyers are looking into the remodeling their digs as soon as the papers are signed. Americans are investing more in their homes than ever, adding the latest amenities at record rates. New bathrooms, kitchens, home offices and family spaces are leading the charge. Multi-age housing (for extended families who want to share housing) is also a growing trend.

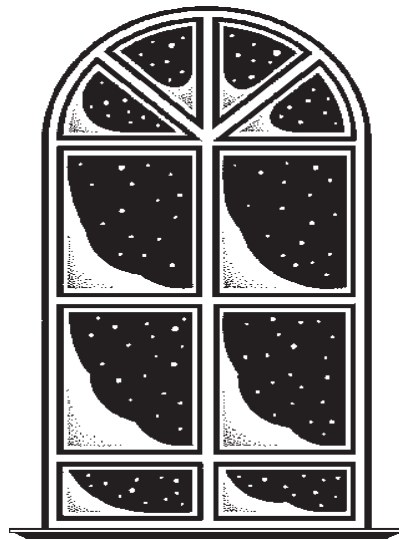
In short, housing, the big boy on the economic front, could well continue to pull the rest of the country along until the rest of the American financial picture clears up.

Affordability Falters

Rising interest rates, coupled with increases in housing prices have finally put a damper on affordability. The National Association of Homebuilders (NAHB) measures American's ability to buy homes through its Housing Opportunity Index, which is based on median household prices and weighted interest rates in nearly 200 metro areas. The index reflects the percentage of homes sold in a given area that a family with a median income for that area could have bought. In 1999 the trend shows that people's ability to buy dropped over the course of the year.

Since the NAHB started the Index in 1991, housing affordability reached its highest point in the first quarter of 1999. The national average that quarter was 69.9 percent. By the end of last year, it had slipped to 63.9 percent. Over the same 12 months, the national median home price went from \$134,000 to \$139,000 and interest rates rose from 6.95% to 7.58%. More incremental drops in affordability are likely as the Fed continues to push interest rates up, says Gopal Ahluwalia, the NAHB's director of research. As expected, the Fed raised overnight interest rates by half a percent in mid-May, to 6.5 percent.

Ahluwalia derives the national numbers from studying 192 metro areas. While some individual markets fluctuated significantly, he says, in general, the Midwest



has been consistently the most affordable region. For example, Cincinnati registered 75.7 percent at the end of last year. St. Louis reached 70 percent, Des Moines, Iowa 82 percent. In the Northeast, affordability ranged from 54.3 percent from Boston to 89.9 percent for Manchester, N.H.

The national average is somewhat skewed, Ahluwalia adds, by two dozen areas in California where prices, already notoriously high, continue to escalate. The U.S. city with the least affordable housing, per the Index, is San Francisco, with a rating last year of 11 percent compared with the national average of 64 percent. Sacramento was 57 percent, Los Angeles, 43.4 percent, and San Diego 33.9 percent. Other cities in the Pacific region are also on the low side of the affordability scale, including Honolulu, at 51 percent, and Seattle at 48 percent.

"I don't think the (National) numbers are going to fall off the cliff? But with interest rates and prices going up, affordability will go down.."

A logo for Bear Creek Lumber. It features a stylized house shape with a brown outline. Inside the house, there are several green pine trees of varying heights. In the center of the house, there is a yellow sun with rays. Below the house shape, the text "Bear Creek Lumber" is written in a serif font, and "TIMBERLINE" is written in a larger, bold, blue serif font. Below that, the address "P.O. Box 669 Winthrop, WA 98862" and the website "www.bearcreeklumber.com" are listed. The phone number "(800) 597-7191" and fax number "fax (509) 997-3110" are also provided. At the bottom, the names "Sage Bannick, Feature writer" and "Ela Bannick, Editor" are listed.

Bear Creek Lumber
TIMBERLINE
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www.bearcreeklumber.com
(800) 597-7191 fax (509) 997-3110
Sage Bannick, Feature writer Ela Bannick, Editor