



THE CONTRACTOR SUPER-CYCLE IS ON THE HORIZON

Death and Taxes. These are generally the two concepts that most will agree we cannot avoid.

But since we work in a commodity driven industry that is subject to the ups and downs of markets, the fundamental law of supply and demand is a third concept we cannot avoid since it drives all of our behaviours.

The law of supply and demand is not an actual law, but it is a well confirmed and understood realization that if you have a lot of one item, the price for that item should go down. At the same time you need to understand the interaction—even if you have a high supply, if the demand is also high, the price could be high too. In the world of investing, the law of supply and demand can contribute to explaining a stock's price at any given time. In a contractor's world, too many contractors and too little work is a recipe for pricing behaviour that is unpalatable.

In 2009, we saw this law take hold and we all witnessed the devastating impacts it had on the forest products industry. US housing starts hit an all-time low and the demand for lumber fell like a rock. The Random Lengths Framing Lumber Composite Index followed suit and fell from \$387 per thousand board feet in 2005 to \$222 in 2009 despite massive sawmill closures and curtailments globally at the low point in the recession. The law of supply and demand nipped a whopping 43 per cent off the price of lumber.

The reverse application of these laws of supply and demand show up in the long awaited lumber “super-cycle” that was forecast to generate historically high lumber prices, as the so-called “stars aligned.” Forecasters have indicated continued growth in US housing and Chinese lumber markets and the decline of production for the BC Interior and other Canadian regions. With rising demand for lumber in the face of falling supply, the “law” suggested higher prices. The super-cycle may still be just around the corner (but don't hold your breath).

As logging contractors, these laws of economics can also apply and, in fact, may

be concepts we should all take more seriously in our day-to-day thinking.

Looking forward, the demand for workers and contractors is forecast to rise dramatically in BC as new demand comes online.

Pacific NorthWest LNG, which is controlled by Malaysian energy giant Petronas, announced recently that it is close to confirming a final investment decision on the \$36 billion project in north-eastern BC and, at the time of writing, the BC legislature had confirmed in law the legal framework to support them. If built, then up to 4,500 jobs will be created at the peak of construction, plus 330 new, long-term careers operating the facility in the community and up to 330 more long-term careers in the region.

In July, the British Columbia government granted approval for the first phase of construction to start on the massive Site C hydroelectric dam project on the Peace River. Construction of the almost \$9-billion project is touted to require another 10,000 workers that may very well be needed when Petronas also requires their 4,000 workers. Could the stars be aligning for contractors?

tractors across BC?

Over the past year we have seen many contractors exit the industry as a result of low returns and few have chosen to enter the business for the same reasons. The majors continue pressing their agenda of rate reductions and lack of acknowledgment of costs. So, as contractors and workers age, it is safe to say more will leave the sector in the coming years.

It is also safe to say that some contractors will look for more cooperative business partners as these new work opportunities around the province start to materialize. Employers who can afford to pay the rates that support investment in equipment and human resources will attract contractors that are paid a rate of return that justifies the investment and risk they take on.

It is certain that the supply of logging contractors is not increasing and going forward, there will be rising pressure for it to decrease. Managing log supply on a quarter-to-quarter focus will surely catch some sawmills (and their investors) by surprise when they wake up to this potential future reality.

Less logging contractors in the business and growing demand for them from the

We have already witnessed severe competition for workers in BC's northeast.

According to IUOE News, the official publication of the International Union of Operating Engineers Local 115; along with the other potential LNG projects, Northern Gateway and the Kinder Morgan pipelines (which are still on the table), the combined demand for workers in BC could be as high as 100,000 with decades of employment opportunities on the horizon.

In fact, we have already witnessed the severe competition for workers in the northeast of the province, in towns like Chetwynd.

So how does this impact logging con-

lumber super-cycle and the law of supply and demand will naturally kick in. So whether you stay logging or choose to seek your fortunes in other sectors, we hazard the comment that ***the contractor super-cycle is on the horizon.*** ▲