



A Hardwood Market Report Publication

## Economic Woe or Economic Whoa?

Editors of the *HMR Executive*® are not economist, so writing an article on the economy is somewhat intimidating. But, not being an economist might provide practicality to a highly complicated and often overly academic issue.

The beginning of the US economy's downfall began much earlier than was noticed by average citizens. During the housing boom, borrowing was cheap and easy. In many cases, qualifying for a loan – cars, appliances, furniture, and houses – meant simply having a job.

But, the housing boom did not last forever, and the house of cards that much of the financial world was built upon collapsed, almost destroying the US economy. Too simplistic, probably. But, the fact remains that cheap lending overheated activity and provided loans to unqualified borrowers.

Move forward to September 2008. Panic, mayhem, and near-runs on the banking industry as major financial institutions closed their doors. Then AIG realized they had placed AAA ratings on junk (toxic) bonds; premiums charged were too low for the level of risk associated with pooled loans. Wasn't there a time when 30 year mortgage loans were made to credit worthy customers and held by the institution that loaned the money? That was certainly not the case in this housing run-up.

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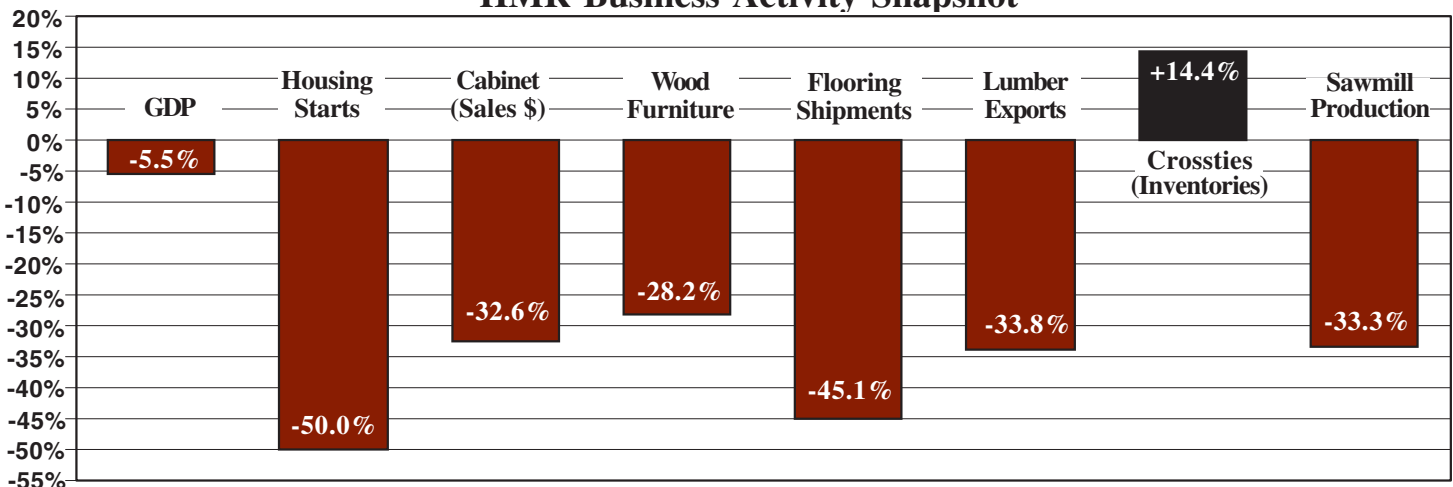
✿ The US Department of the Treasury *Monthly Treasury Statement* for May 2009 shows outlays exceeded receipts by \$189.7B for the one-month period. The eight-month year-to-date figures for fiscal 2009 have receipts at \$1.4T (-18.0%) and outlays at \$2.4T (+18.7%); the deficit increased 210.6% from y-t-d 2008.

✿ Personal income in the US increased \$167.1B (1.4%), and disposable income increased \$178.1B (1.6%) in May. Personal consumption edged up \$25.1B (0.3%) for the month. As a percentage of income, personal savings increased to 6.9% in May from 5.6% in April.

✿ Private wages and salary payments decreased \$12.4B in May. Goods-producing industries cut payrolls \$12.9B, of which manufacturing shed \$9.8B. Service-producing industries increased payrolls \$0.5B. Government wage and salary disbursements increased \$3.9B.

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### HMR Business Activity Snapshot™



In the first few days of the economic crisis last September, the US government stepped-up to provided security and confidence in the economy, promising enough liquidity to ease fears. Initially, that meant a stimulus of around \$800 billion to prop up banks and insurers of loans and to provide liquidity to commercial lending. So far so good. The US has a bad cold. But, we sneezed and the rest of the world caught the flu.

By the latter stages of 2008, there was a global economic crisis. Do you remember the feeling? The wood products industry had suffered through a severe cyclical downturn in housing, which may have been close to bottoming. How much more could the industry endure?

Advance to July 2009. Sawmill production has declined over 30% compared to 2008's annual rate, with little hope for a near-term recovery in demand for hardwood construction materials. Additionally, the US government has now promised to issue a total of \$1.7 trillion to stimulate the economy. Where is it? Why are wood products manufacturers seeing bank fees and interest rates increase? Or worse, their lending institutions are reducing or eliminating lines of credit completely. Aren't our tax dollars supposed to be helping businesses?

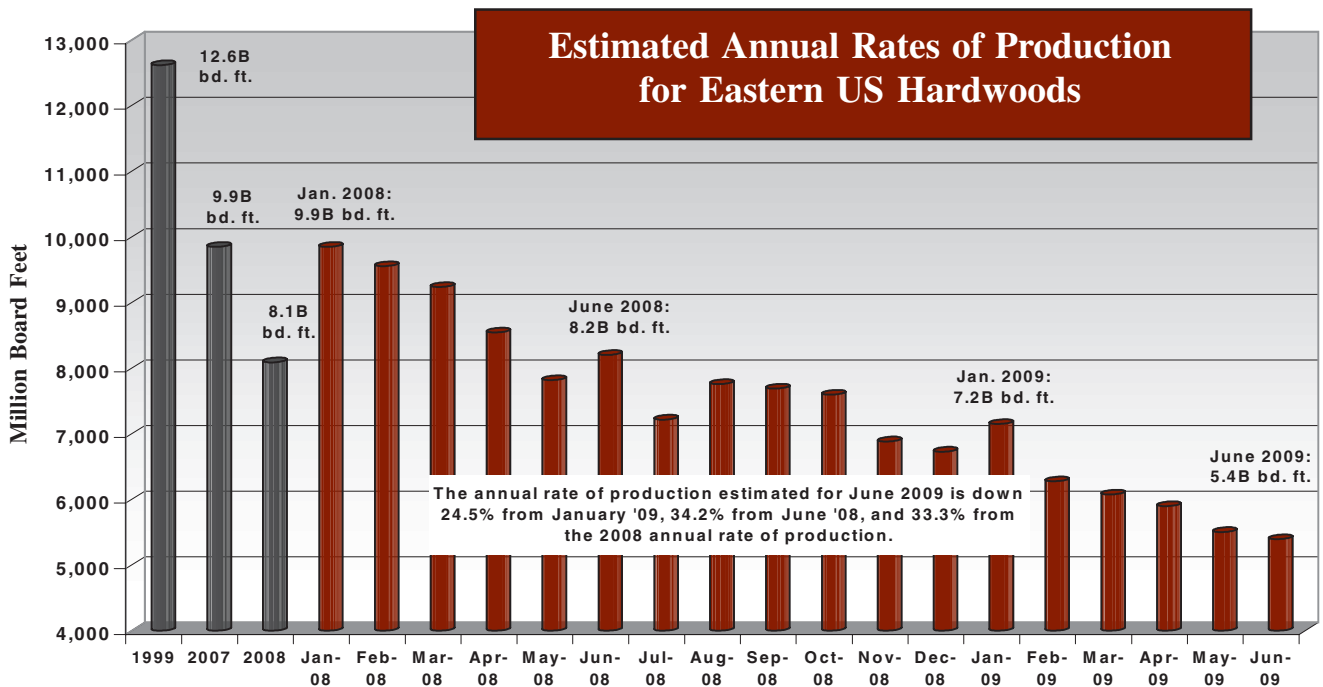
At some point, we must pay for all of the borrowing by the

US government. Tax increases on everything from alcohol to sodas are not going to generate enough money to pay back our enormous debt. Interest rates on Treasury notes have climbed to attract additional buyers, which is counterproductive to stimulating home purchases through low interest rates. There is another option some would consider: print more money. However, opponents point out the likelihood of downward pressure on the dollar's value and runaway inflation.

Regardless of the method, most economists believe the ultimate outcome from the government bailouts will be a weaker currency, increasing interest rates on loans, and high inflation. While they are now historically low, interest rates for mortgages and business loans have increased, and the speed at which they have climbed is unprecedented. Furthermore, affordable mortgage rates are key to sustained improvement in housing, thus traction for the hardwood industry.

The Central Banks in many industrialized nations have taken a much more controlled approach to economic stimulation and have warned the US to proceed more cautiously. Only time will tell which approach will work the best, but let's hope we do not see inflation like in the 1980s or worse. 🍁

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*Executive*<sup>®</sup>

**Deb Hawkinson**

**Executive Director, Hardwood Federation**

### **What exactly is the Hardwood Federation, and what role does it play for hardwood companies?**

The Hardwood Federation is an umbrella organization that serves as the US hardwood industry's united voice in Washington, DC. It represents more than 25 local, regional, and national trade associations having hardwood businesses and families in every state in the nation.

Hardwood Federation promotes and advocates the common business interests of our industry on Capitol Hill and with Administration officials. It works to maintain a healthy business environment for the family-owned and small to medium size companies that make up most of the US hardwood industry.

Hardwood Federation also administers the Hardwood Federation Political Action Committee (HFPAC). The PAC is an important part of our Washington strategy because it enables us to demonstrate to Members of Congress that our industry is not only engaged in our issues, but also actively involved in the political process. The HFPAC supports our industry's allies in Congress and strives to attract new allies through Hardwood Federation educational initiatives.

### **What are the key issues Hardwood Federation is working on for the industry?**

Most of the issues worked on boil down to improving our industry's competitiveness.

For example, we've found the US hardwood industry is at a distinct competitive disadvantage in the world market because of illegal logging and foreign subsidies. We work with the US government and international bodies to address these inequities.

Hardwood Federation is also working diligently on several US policies that impact our members – from tax policy to green building legislation, and regulations concerning renewable energy.

We believe the US hardwood industry has a great story to

tell, as an environmental champion, as an engine of the economy, and as a business leader. At Hardwood Federation, we view our job as making sure policymakers and regulators know the full picture before they enact any policy that could impact our industry.

### **Why is it important for the hardwood industry to be represented in Washington, DC?**

Decisions are made every day in Washington that affect all aspects of our lives – personal and professional. The volume of information that feeds those decisions is staggering, and our leaders need help sifting through it all.

The industry that has no representatives in Washington is the industry that has a hard time making its voice heard. It is the industry that Members of Congress cannot easily check or confer with to determine how a particular piece of legislation might impact them.

Having unified, credible, reliable representation in Washington is vital to the health and long-term sustainability of any industry. And when you are talking about an industry like ours – that is at the forefront of environmental and energy policy – the risk of not having a presence in Washington is far too great. You know the saying, "it's the squeaky wheel that gets the grease."

### **How can the industry help Hardwood Federation help them?**

Stay informed and be willing to get involved.

I know you have a business to run and don't have time to keep up with every single thing happening here in Washington. That is why Hardwood Federation is here. We keep an eye on Congress and the Administration to let them know how whatever bill they are considering will impact our industry. But, every once in awhile they need to hear from you directly.

That's when we'll issue a call to action for the industry, and we need you to be ready to step up to the plate. We may ask you to make a personal call to a Member of

*Interview with Deb Hawkinson, Executive Director, Hardwood Federation, continued from page 3*

Congress, send an email or letter to a Federal agency, or to participate in one of our grassroots events in Washington. Whatever we ask, there is a reason behind it, and helping us then is the best way you can help yourself.

Additionally, getting financially involved in the HFPAC, at any level of support, is also important. It is vital to ensuring the PAC remains strong and lets Members of Congress know industry leaders care about issues and about how elected leaders view and treat the hardwood industry. Participation speaks volumes to politicians.

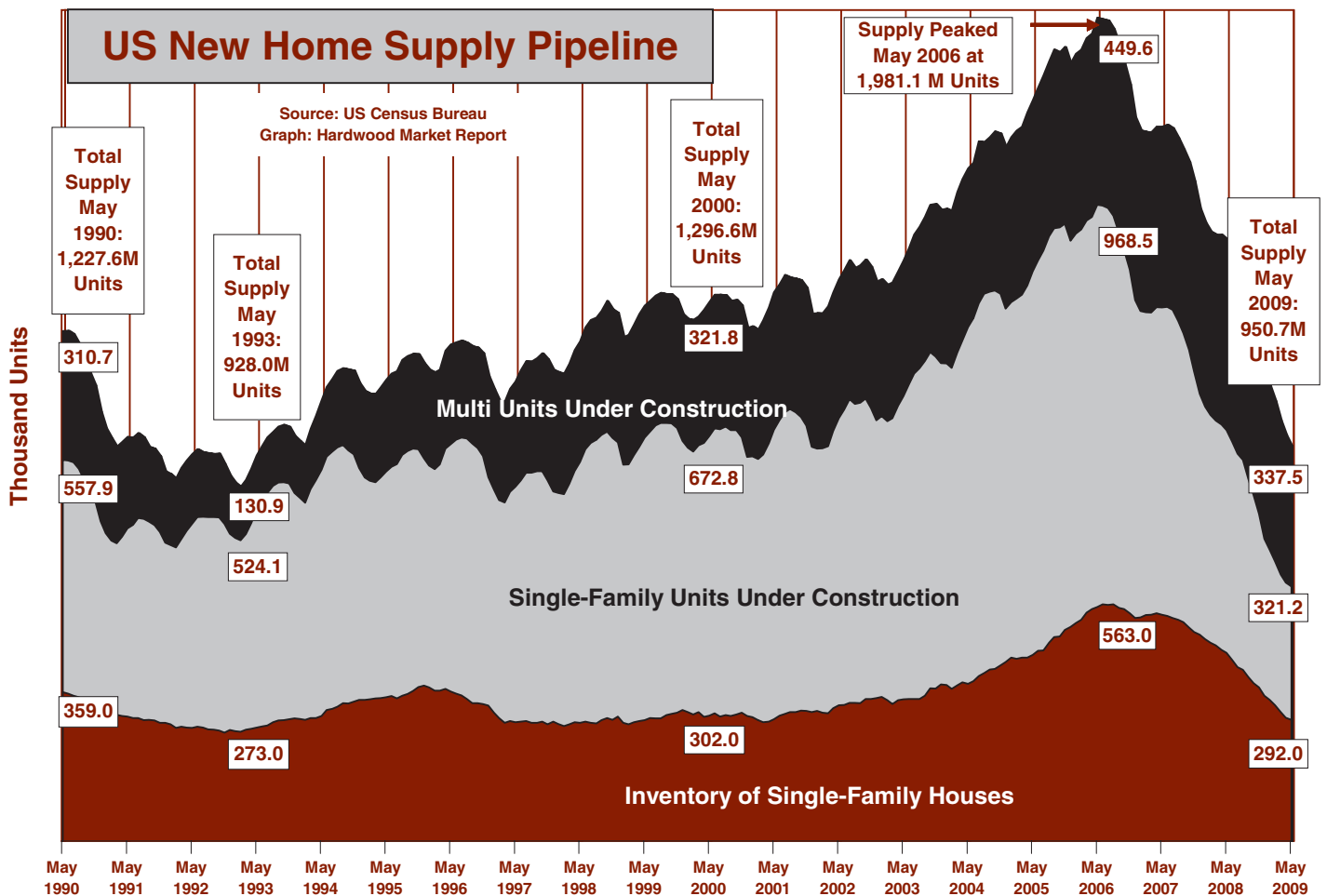
There are two avenues for support: one is through the Hardwood Federation’s advocacy fund, and the other is through the Hardwood Federation PAC.

- Advocacy fund contributions come from corporations or associations and enable the Federation to lobby on board-set legislative priorities that benefit the US hardwood industry. Donations may be made by check or credit card; the documents section of our website has more information

[www.hardwoodfederation.com](http://www.hardwoodfederation.com)

- HFPAC contributions are made by individuals, which provide support to candidates who positively impact the competitiveness of the US hardwood industry. I encourage anyone wanting to learn more to call us at 202-463-2705 or email me at

[deb.hawkinson@hardwoodfederation.com](mailto:deb.hawkinson@hardwoodfederation.com)



## Decoding the Certification Paradigm

When hardwood people read the word “certification,” they think of acronyms such as FSC, SFI, or PEFC. But, today certification can refer to people as well. In fact, there is a trend toward firms seeking people with specific types of “skill certifications” or accreditations. A search through widely used recruiting websites will reveal scarcely a job that doesn’t require some form of additional certification beyond formal education. Entire industries have quickly developed to supply training and certification of individuals for project management, quality assurance, information technology management, etc. The list goes on and on; every conceivable job, profession, or vocation has a litany of certifications, certifying bodies, and service providers vying for applicants’ training dollars. Moreover, a tight employment market has job seekers looking to enhance their marketability any way they can, hence there is growing demand for certification services even as their value is oftentimes difficult to quantify. Recently, those hoping to raise their employment profile are seeking to add a few letters after their name – whatever those letters mean or don’t mean.

Carefully reading between the lines of some job postings can reveal that employers themselves often aren’t clear regarding what a particular certification entails or qualifies a person to do; they just know they want one on staff. Undoubtedly, certifications can provide employers with baseline information regarding a prospective employee’s qualifications. However, with little regulation and few standards, there is considerable uncertainty regarding the value of various certifications to employers and employees alike. In short, employers would be wise to avoid overusing certification as a hiring filter. Given the significant amount of variation among certifying bodies and criteria, overreliance on certifications could filter out a high value candidate in an effort to simplify the initial candidate review process.

To help employers determine the value of certification as it relates to human resources, below is a brief summary of common certification requirements found among manufacturing companies seeking professional managers and leaders for their organization.

### **Project Management**

Project management is a combination of scheduling,

budgeting, and scope control regardless of the nature of the project (e.g. software development or building construction). Important in the process are tools that help managers coordinate parallel and serial activities, maintain project milestones and quality “toll gates,” and control project costs. **For organizations that rely on highly complex project-based work, effective project management can make or break profitability.**

The Project Management Institute (PMI) offers a comprehensive range of certifications for project management professionals. PMI credentials are recognized by the International Organization for Standardization (ISO). The topics of coverage are broad and obtaining certification is largely examination based. Specific certifications cover project and program management, project scheduling, and risk management. For more information go to [www.pmi.org](http://www.pmi.org) and/or consult A Guide to the Project Management Body of Knowledge, which is PMI’s standard for the project management field.

### **Lean Manufacturing**

Ask a dozen different people to define “Lean Manufacturing” and you might get a dozen different answers. **In simple terms, Lean Manufacturing is doing more with less; and, that requires the removal of waste or non-value added activity from production, service, administrative, maintenance, and supply functions.** First termed by Womack et al. (1990) in the seminal book The Machine That Changed The World: The Story of Lean Production, Lean Manufacturing is the Americanized adaptation of the Toyota Production System. Like other disciplines, Lean Manufacturing comes with a variety of tools. These tools are aimed at helping people deconstruct and improve processes with an eye on waste elimination. However, Lean Manufacturing is much more about organizational culture development than the tools ascribed to it; yet, the tools receive the lion’s share of focus in most certification programs.

Lean Manufacturing certification is not formally recognized by any single governing agency, but the nationwide Manufacturing Extension Partnership (MEP) network provides various Lean Manufacturing based modules as well as on-site consulting services. Moreover, various agencies, universities, and consulting firms offer certification for

different levels of Lean Manufacturing. Consultants and trainers with direct ties to Toyota are often viewed as most knowledgeable regarding Lean Manufacturing philosophy beyond the cadre of tools. As such, certification stemming from those individuals is often perceived as having more value.

Emerging areas of focus in both the study and practice of Lean Manufacturing are: the concept of “lean accounting” and “lean performance measurement,” as well as developing Lean Manufacturing professionals aimed at both internal value stream management and lean supply chain management.

### **Six Sigma**

Created, developed, and formalized internally at Motorola Inc. and General Electric Co., Six Sigma has proliferated rapidly in the last decade. The essence of Six Sigma is minimizing and controlling variation in processes that affect product or service quality. Beyond general statistical process control tools, **Six Sigma represents a structured model for identifying sources of variation, quantifying effects, analyzing capabilities, implementing improvements and finally sustaining the improvement.** This is done through the “DMAIC” process, which stands for: Define, Measure, Analyze, Improve, and Control. Both Lean Manufacturing and Six Sigma can be thought of as programs to implement and sustain a scientific or experimental approach to improvement in business and industry.

While the American Society for Quality (ASQ) does not officially govern or recognize Six Sigma as a quality program such as the common ISO standards, certifying bodies have grown exponentially in recent years. An internet search using the keywords: Six Sigma will yield countless organizations and consultants offering Six Sigma training. And while Six Sigma certification is broadly unregulated, certification is structured similar to the process of earning belts in martial arts. Lower level orange

and yellow belt certification is aimed at frontline employees, while upper level black belt and master black belt status is intended for those who will be charged with directly managing Six Sigma projects and other black belts, respectively. Not unlike Lean Manufacturing certification, trainers with direct ties to Motorola or General Electric are often perceived as more knowledgeable and their certification designation more valuable.

Of course, a combination of experience (results) and education can more than make up for a lack of any of the above certifications. It is best to assess candidates based on the combination of these two variables in addition to references from people who know them professionally and personally. Those who are eager to learn and progress in your company are more likely to make a significantly positive impact in a relatively short period of time; even a small monetary investment can pay dividends in the sense of loyalty one feels for the company. As such, it can be beneficial to seek candidates to obtain the specific certification you require from the certifier of your choice. Moreover, formal arrangements are common whereby the employee agrees to a defined tenure with the company subsequent to the company’s investment in a certification. No one wants to bear the cost of training their competition.

In summary, skill certification has proliferated across industries, and it will likely continue to grow. These certifications provide a strong baseline from which to begin the candidate review process. As well, they provide a standardized language that can greatly facilitate comparison of prospective team members. However, overuse of skill certification can be dangerous simply because there is so much variation among certification bodies, standards, and content. While certifications help improve the efficiency of the hiring process, they cannot and should not replace the traditional means used to evaluate candidates as individuals. At the end of the day, it is the individual who will influence your team’s dynamics regardless of the letters listed after their name. 🌿



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