



May 7, 2021

RE: Supply Challenges and Price Increases Impacting All Pallet Types

Good Day to you, Friends:

Three weeks ago, we were alerted to an anticipated shortage of wooden pallets that has been attributed to a shortage of new lumber as a result of the pandemic. At that time, we initially thought it may be a regional issue affecting just one or two states. But we were most definitely wrong.

In the time since, the situation has expanded to include the entire country and beyond as it grows. The National Watermelon Association (NWA) enlisted help from other national and some regional fruit & vegetable associations, while continuing to investigate the issue. It is evident to us all that this issue is challenging all pallet types – not just block-style – and the availability to ship all fruits & vegetables on wooden pallets will be a challenge that possibly has never been seen before by the F&V Industry.

Some of our member-companies have lost their supplier, while most others are on allocations based on the availability of pallets in that farming area. If they can find and purchase pallets from other suppliers, they are paying significantly higher prices, while others are having to secure pallets from untraditional vendors or sources. The cost for both common and used pallets has increased dramatically, and the availability is hit-and-miss. The more unique the pallet style, the harder and more costly that pallet seems to be to find.

The issue is centered on a lumber shortage created by both logging and milling operations running at partial capacity over the last 14 months – due to Coronavirus lockdowns and subsequent related issues. The price of lumber has skyrocketed, with reports showing costs as much as 200-350% higher than Q1 2020. The home building and construction sectors are buying the mother-load of lumber and paying the significantly higher prices. This has vastly reduced the available lumber inventory for pallets companies to add new pallets, which means companies must rely heavily on recycled pallets. Further eating into the supply are companies that are holding pallet inventories back to load consumer goods as a result of the buying trends due to COVID-19.

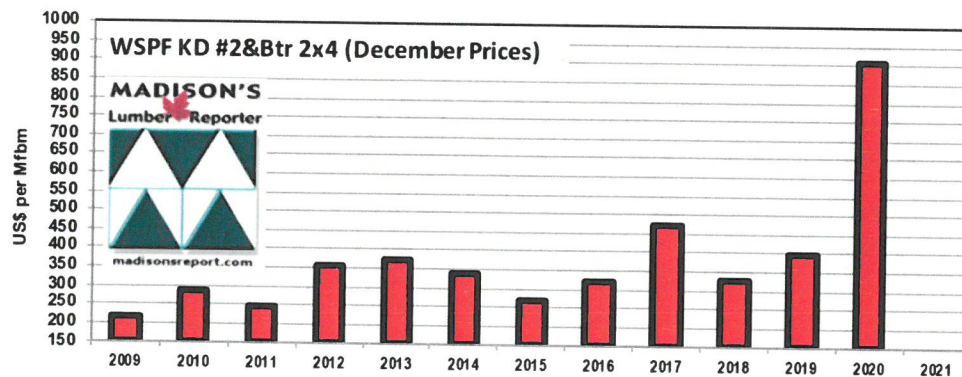
The forecast for when the situation will “return to normal” or at least improve also varies, but most of us believe that it is **unlikely to happen this year** due to on-going labor shortages and elevated demand for building materials throughout the country. If the lumber futures market describes the trend, the home building market will hold the lion’s share of lumber through the summer months, and potentially beyond.

Hopefully, an alternative solution will present itself to alleviate the many challenges around this issue. What that solution(s) may be is yet to be thought of. However, we can all help to increase the availability of ‘used’ and ‘pooled’ pallets by taking some steps that will help increase the availability and reduce the rising costs. The NWA offers a few best practices that many are already implementing:

#1) Speak with your shippers regularly to get updates on the finer details of the issue, as well as current and future orders. They too may be with limited options. Consider establishing routine calls to verify their purchase orders (and pallet availability) to keep all parties apprised of any changes.

#2) Receivers that require a certain type of pallet should be alerted to any forecasted shortages and work to change shipments to a pallet source that can be located. The fact is many shippers are (or will) struggle to find pallets, never mind a specific type (i.e. block style). If your suppliers cannot secure a specific pallet type, we respectfully request that you offer a pallet 'waiver' at least through November 1st.

We have included a graph and articles below for your reference.



Source: Madison's Lumber Report, <https://madisonsreport.com>

ARTICLES

1 Murray, Brendan. Bloomberg, "The Forgotten Shipping Pallet Stages a Pandemic-Era Rally." <https://www.bloomberg.com/news/articles/2021-04-09/the-forgotten-shipping-pallet-is-staging-a-pandemic-era-rally>. Published April 8, 2021. Accessed May 3, 2021.

2 Lambert, Lance. Fortune, "Wood production hits 13-year high – but lumber prices are still up 171% since COVID started." <https://fortune.com/2021/03/31/lumber-prices-2021-chart-wood-production-high-why-is-lumber-so-expensive-right-now-home-prices-data-update/>. Published March 31, 2021. Accessed May 3, 2021.

3 Morgan, Tyne. AgWeb, "Labor Shortage, Wet Weather Cause Lumber Prices to Surge 395%". https://www.agweb.com/news/business/taxes-and-finance/labor-shortage-wet-weather-cause-lumber-prices-surge-359?mkt_tok=ODQzLVlHQi03OTMAAAF80uic1NH-htuh3dCUaQLQWJFfZ8Mcb1mmq5HOnqXSbjU8_20UGhf6Hj0fqcnKhEkm7rGTduLaLNa841s8HpDBOUBYi91D9fSTYzPBokULXQvLcKt8. Published May 3, 2021. Accessed May 3, 2021.

4 Pallet Consultants.Com, "Lumber Prices are Soaring – Here's How to Control Pallet Costs." <https://www.palletconsultants.com/blog/how-to-control-pallet-costs>. Published September 4, 2020. Accessed May 3, 2021.

The NWA will continue to work with our allied partners to monitor the situation, advise our members, and seek solutions to this pallet crisis. We will appreciate your help in anything and everything you may do to increase the availability of used & pooled pallets for the timely shipment of fresh F&V (including sweet watermelon). Thank you for your consideration, and your anticipated support.

Sincerely,

Robert 'Bob' Morrissey
Executive Director