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Idaho's Forest Products Industry: Current Conditions and Forecast 2009

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The Inland Northwest Forest Products Research Consortium, a research cooperative centered at the Forest Products Department at the University of Idaho, the Bureau of Business and Economic Research at the University of Montana-Missoula, and the Wood Materials and Engineering Laboratory at Washington State University.

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Operating Conditions

The collapse of the U.S. housing industry and related global financial crisis had a substantial negative impact on Idaho's forest products industry in 2008. Annual U.S. housing starts peaked in 2005 at just over 2 million, and by the end of 2008 housing starts were down to their lowest level in more than six decades, at less than 1 million. With weak demand, lumber prices fell about 33 percent from 2005 to 2008 (Figure 1).

Idaho Industry Sales, Employment, and Production for 2008

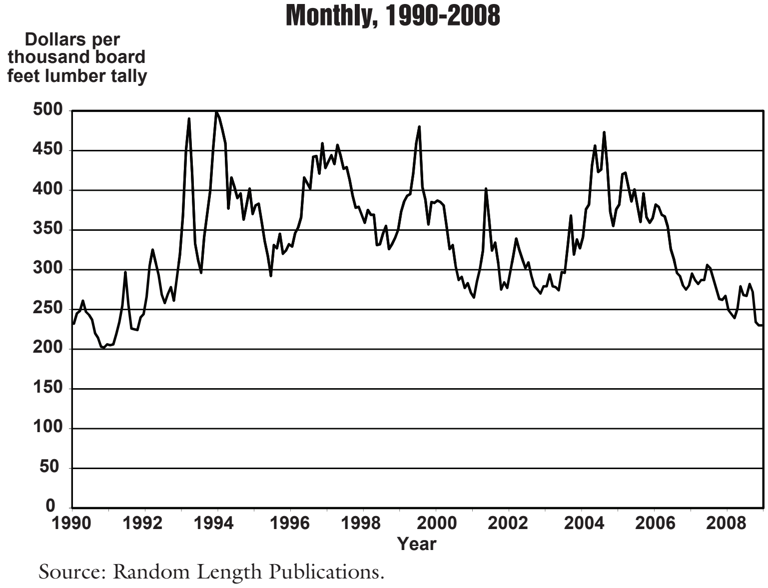
The University of Montana's Bureau of Business and Economic Research (BBER), in co-operation with the Forest Products Department at the University of Idaho, conducted a survey of Idaho's wood products manufacturers in late November and early December of 2008. The survey had a response rate of nearly 70 percent and secured responses from 63 of Idaho's largest wood processing facilities as well as numerous smaller facilities. Results of the survey indicate that major wood products manufacturers in Idaho experienced a substantially poorer year in 2008 versus the already weak operating situation of 2007.

Sixty-eight percent of responding wood and paper product manufacturers indicated a decrease in profits for 2008 relative to 2007, while only 14 percent indicated an increase. Sixty-three percent of the facilities curtailed production in 2008, and nearly 60 percent reduced employment. Forty-six percent of responding manufactures indicated a decrease in sales, and 64 percent indicated a decrease in production. Furthermore, the number of facilities that reported making major capital expenditures declined to 29 percent in 2008 from 48 percent in 2007.

The estimated sales value of Idaho's primary wood and paper products for 2008 was just under $1.7 billion, down approximately $170 million (approximately 9 percent) from 2007 (Figure 2). The number of forest industry workers (including the self-employed) was estimated at 13,500 in 2008, down by about 10 percent or 1,500 workers from 2007 (Figure 3). Production of lumber, the largest component of Idaho's forest products industry, fell to an estimated 1.6 billion board feet in 2008, down almost 9 percent from 1.75 billion board feet in 2007 (Figure 5).

Timber harvest declines were seen across the timber ownership classes (Figure 4), with lower prices offered by mills being a major factor. Idaho's estimated timber harvest volume during 2008 was just below 1.0 billion board feet, down about 4 percent from 1.03 billion board feet in 2007 (Figures 4 and 5). Private land harvest, including industry and non-industrial private lands, was about 5 percent lower than during 2007. The harvest from federal lands was down about 5 percent, bringing federal harvest levels near their lowest level since World War II (Figure 4). Harvest from state lands was down about 2 percent from 2007.

Figure 1
Nationwide Composite Lumber Prices
Monthly, 1990-2008



Source: Random Length Publications.

Figure 2
Sales Value of Idaho's Primary Wood Products
1980-2007

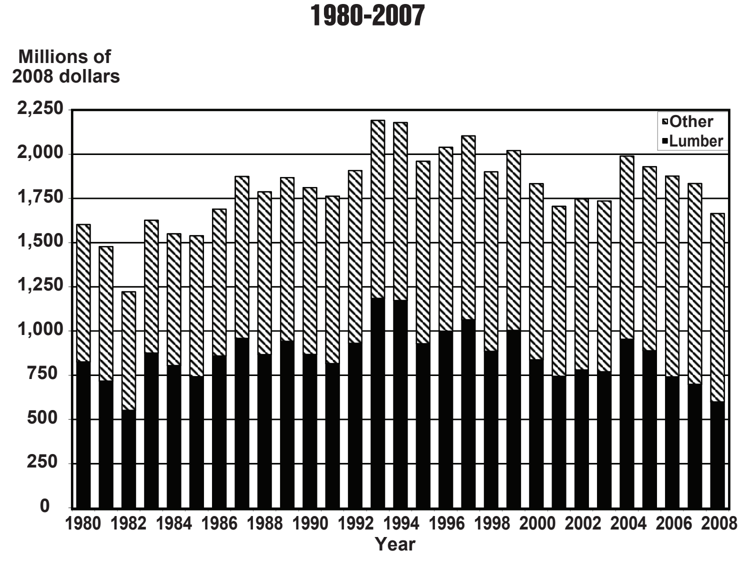
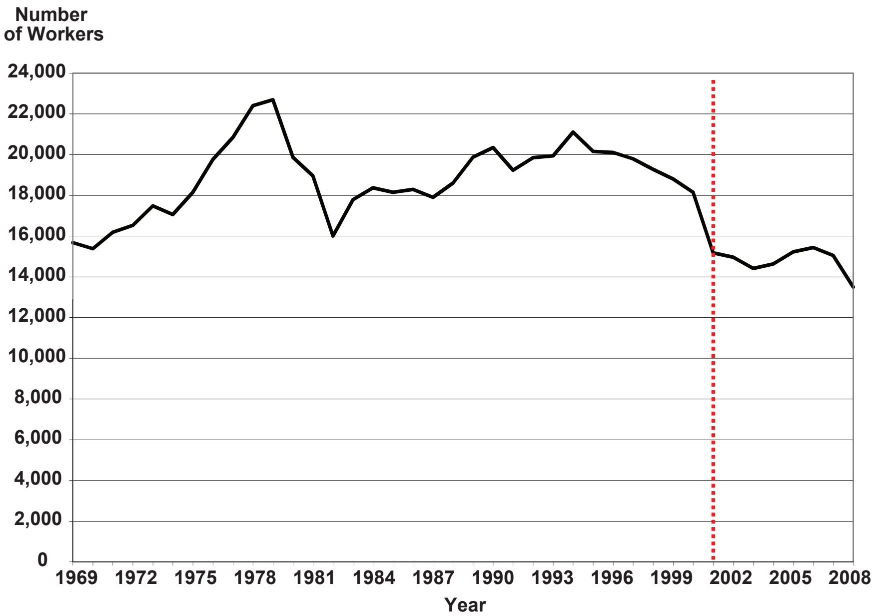


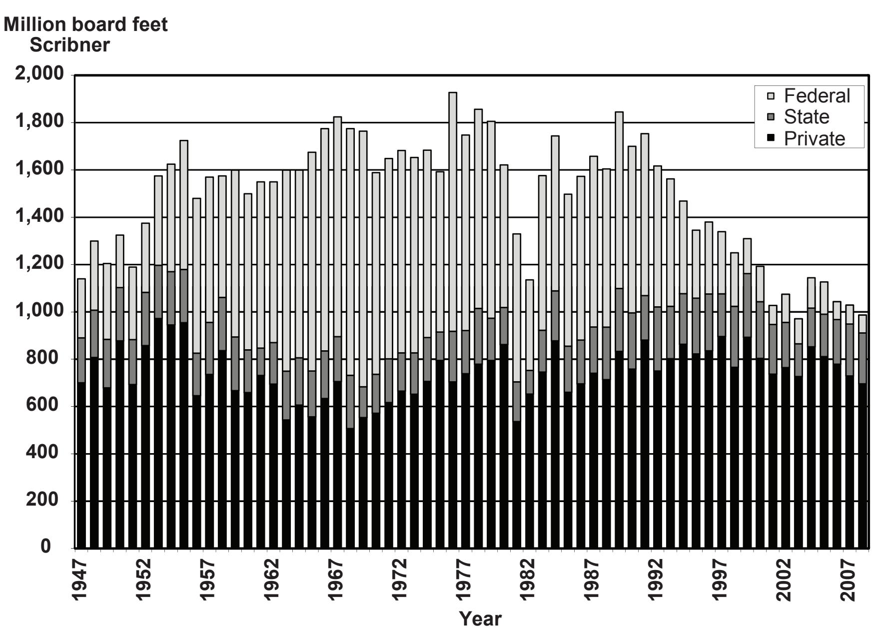
Figure 3
Employment in Idaho's Forest Products Industry
1969-2008



Note: The change from the Standard Industrial Classification (SIC) system to the North American Industry Classification System (NAICS) has made it problematic to provide consistent and continuous time series data for employment and labor income. Numbers for years prior to 2001 are based on the old SIC system, while the more recent figures are based on NAICS.

Source: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 4
Idaho Timber Harvest by Ownership
1947-2008

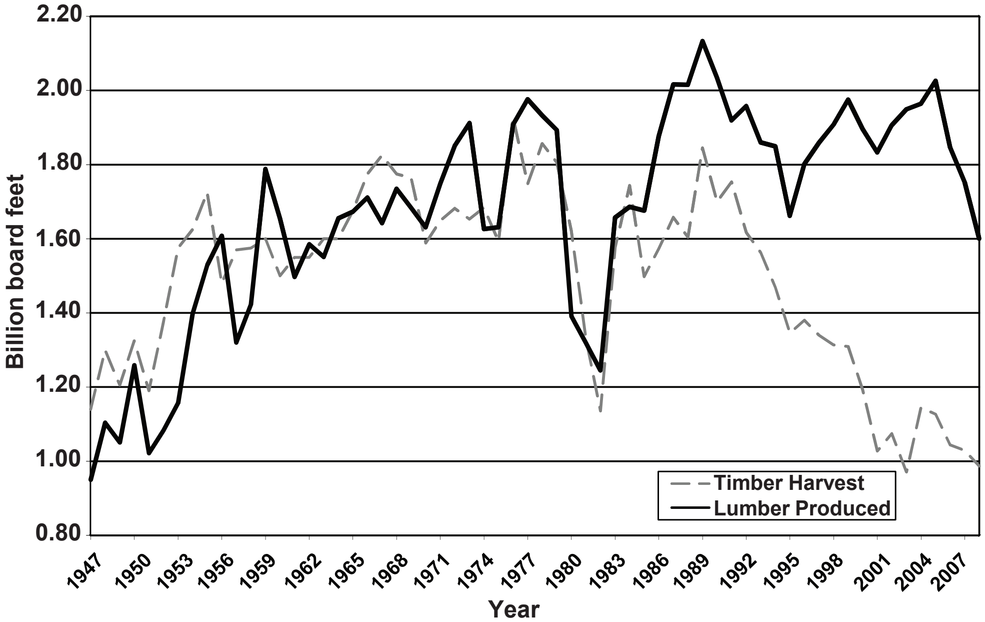


Volume of timber harvested, expressed in board foot Scribner, and lumber production, expressed in board foot lumber tally, were roughly equal from 1947 to 1983 (Figure 5). After that time, timber harvest began to decline while lumber production continued to increase. Several factors contributed to this divergence. One factor was improvements in sawmill efficiency. In the mid 1980s, Idaho's sawmills started to incorporate quality control and size control practices, improved sawblade technology, and computerized process control. A second factor was that Idaho's plywood industry began to decline in the 1980s, and a higher proportion of harvested timber went to Idaho sawmills. Additionally, many sawmills began to re-tool during the 1980s to handle smaller-diameter logs. By 2003, nearly 60 percent of all logs processed in Idaho were less than 10 inches in small-end diameter, and some mills were processing logs less than 6 inches small-end diameter. The increased use of smaller-diameter logs exposed a weakness in the Scribner log scale—namely that the actual volume of lumber produced from a small-diameter log is under-estimated by the Scribner scale.

Outlook for 2009

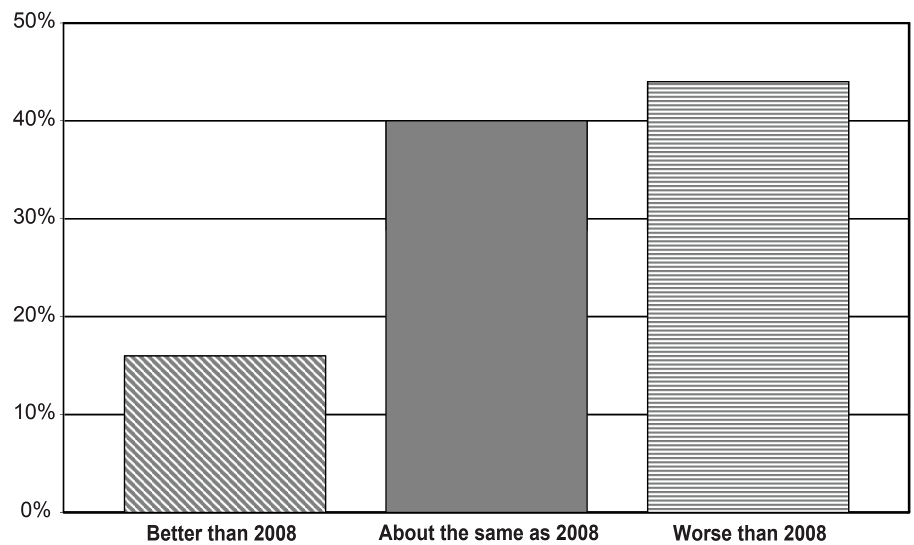
U.S. housing starts for 2009 are expected to decline further, and expectations are that the U.S. and global recession will likely last through the year. Idaho wood products manufacturers indicated a pessimistic outlook for 2009, with 44 percent of the survey

Figure 5
Idaho Timber Harvest and Lumber Production
1947-2008



Source: Western Wood Products Association; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 6
Idaho's Wood and Paper Product Producers Overall Outlook for CY 2009



respondents expecting operating conditions to worsen and another 40 percent expecting no improvement in 2009 (Figure 6). Thirty-seven percent of respondents indicated they expected to decrease employment during 2009 while only 11 percent expected to increase employment.

Forty-four percent of the wood products manufacturers stated they expect profits to decrease from 2008 to 2009, while only 22 percent said they expect to see profits increase. Only 14 percent of the facilities surveyed anticipate an increase in production, and 16 percent expect to experience greater sales in 2009. Furthermore, only 16 percent stated that they expect to see a price increase on their products, while 51 percent of the respondents expected prices to stay about the same as those in 2008.

Nearly all of the producers mentioned general market conditions and the overall economic condition as the major issues that will affect their operations in 2009. Idaho's wood products producers also mentioned raw material availability and increases in transportation and energy costs as major issues that will continue to impact their operations in 2009.