



Idaho's Forest Products Industry Current Conditions and 2012 Forecast

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Idaho's Forest Products Industry

Current Conditions and 2012 Forecast

Operating Conditions

Conditions for Idaho's forest products industry improved somewhat during 2011. Employment and output at Idaho mills were up slightly, as were timber harvests. U.S. housing starts, coming off record lows of 2009 and 2010, increased about 15 percent, up to approximately 630,000 starts for 2011. Commodity lumber prices, however, were about 5 percent lower in 2011 than during 2010 (Figure 1), so the net effect was essentially no increase in Idaho forest product sales from 2010 to 2011. The total impact of the industry on Idaho's economy was to provide more than 19 thousand jobs and more than \$2.8 billion in sales, including forest products manufacturing and support industries such as logging and trucking. Future growth in the industry is constrained by overall economic conditions and raw material availability, among other things.

Idaho Industry Sales, Employment, and Production during 2011

The University of Montana's Bureau of Business and Economic Research (BBER), in cooperation with the College of Natural Resources at the University of Idaho, conducted a survey of Idaho's wood products manufacturers in December of 2011 as part of the Inland Northwest Forest Products Research Consortium's ongoing efforts to quantify and describe the region's forest industries. We attained a survey response rate of 80 percent, with 83 of Idaho's largest primary and secondary wood processing facilities responding to our questions. For Idaho's major wood products manufacturers, 2011 was slightly better than 2010, according to our survey results. At 36 percent of the responding wood-based businesses operating in Idaho, sales and production increased in 2011, whereas 25 percent of the firms reported decreases in sales and 19 percent decreased production. This is an improvement from 2010, when almost half (48 percent) of the responding firms indicated decreases in profits, sales, and production.

Production trend. At some time during 2011, 30 percent of the responding firms temporarily curtailed production. This is an improvement from 2010 when 45 percent of the respondents curtailed production, and it also improves upon the 60 percent reporting curtailment in 2009. The number of facilities that reported making major capital expenditures doubled from 15 percent in 2010 to 31 percent in 2011, indicating some optimism about economic recovery among Idaho wood-based manufacturers. Profitability remained flat, on average, with 29 percent of respondents indicating increased profits for 2011 and 31 percent indicating decreased profits.

Sales trend. Sales value of Idaho's primary wood and paper products manufacturers for 2011 was \$1.5 billion, essentially unchanged from 2010 (Figure 2). Lumber production, the largest component of Idaho's wood products industry, increased to an estimated 1.33 billion board feet (lumber tally) in 2011, up 6 percent from 2010 (Figure 3). However, sales did not increase in 2011 because a drop in lumber prices offset the increase in lumber production. Secondary wood and paper products are manufactured by further processing of primary products, and sales increased to an estimated \$325 million in 2011, up from about \$300 million in 2010. By comparison, during the strong markets in 2004 and 2005 sales of primary products were nearly \$2 billion with an additional \$1 billion in sales of secondary products.

Economic impact of sales. Because of linkages to supporting industries each dollar of wood and paper products sold and exported from the state generates, on average, an additional \$0.60 of sales by other industries within the state. About 84 percent of the wood products manufactured in Idaho are exported elsewhere, and we assume all paper products are exported. Using the output multipliers in the IMPLAN model, the total impact in Idaho from converting timber into consumer products is more than \$2.8 billion in sales, of which almost \$1 billion are sales in industries that support forest

Figure 1
Nationwide Composite Lumber Prices
Monthly, 1990-2011

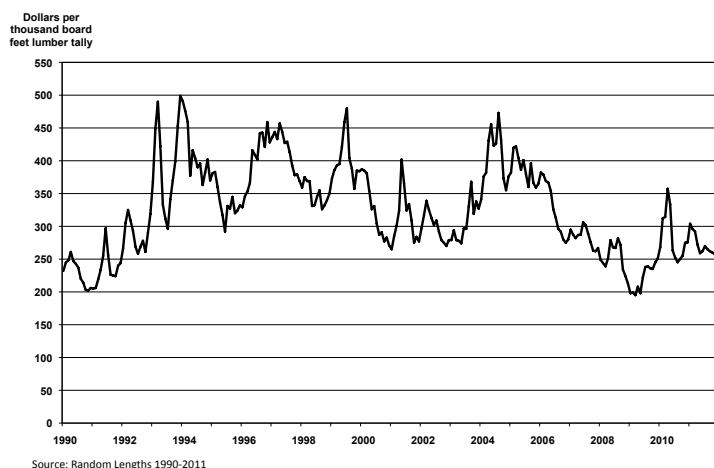
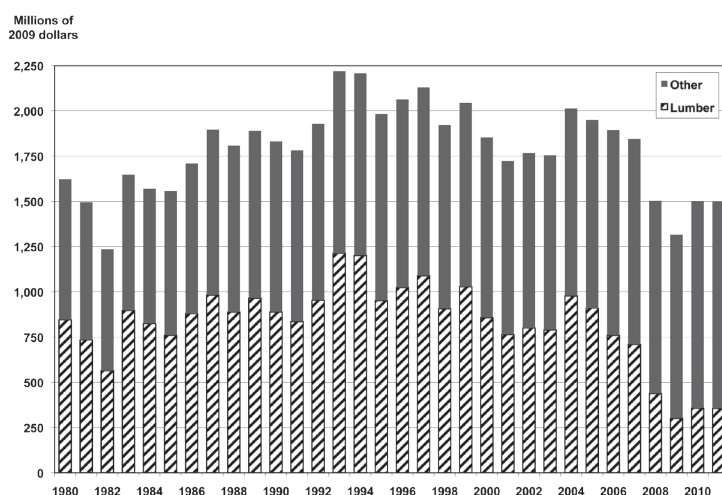


Figure 2
Sales Value of Idaho's Primary Wood Products
1980-2011



products manufacturing, such as forestry, logging, heavy equipment, and trucking.

Employment trend and labor income impact. Direct forest industry employment during 2011 was about 10,267 workers (including private sector foresters and loggers, primary and secondary wood and paper product manufacturers, and forestry support activities). Employment increased by about 5 percent from 9,767 workers in 2010, but was 2,050 workers less than in 2008 and 4,181 fewer

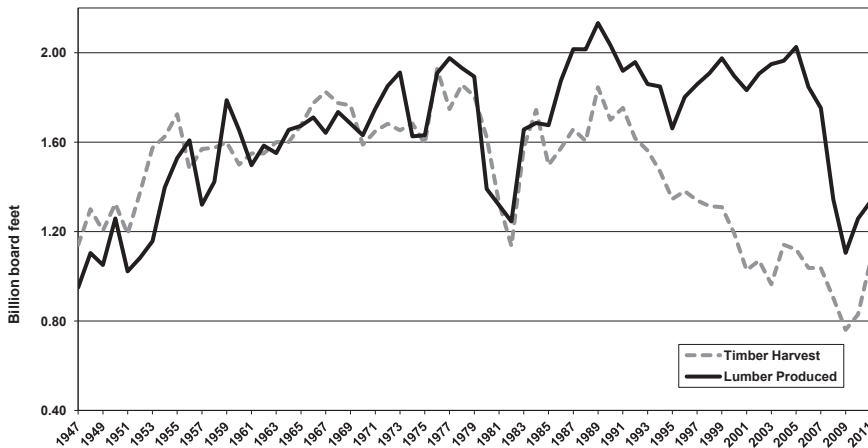
employees than 2006 (Figure 4), which was the last year before the recent economic recession and subsequent slow recovery. The IMPLAN model estimates that every export-related job in the forest products industry supported, on average, 1.7 jobs in other sectors of Idaho’s economy. To summarize, an estimated total of 19,274 jobs are generated by converting timber to useful consumer products in Idaho due to inter-industry linkages and the multiplier effect. Similarly, each dollar of labor income in the forest products industry

attributable to export sales on average generated \$1.10 of wages in supporting industries, for a total labor income impact of \$654 million from Idaho’s forest products industry.

Timber Harvest Trend and Economic Impact

Timber harvest volume in Idaho during 2011 was estimated at 1.065 billion board feet (Scribner log scale), an increase of 13 percent from 2010. This is about the same harvest volume as in 2007 (Figure 5). In 2011 private lands provided more than half (57 percent) of the harvest volume, which was a small increase from 2010. State lands provided just under one-third of Idaho’s total harvest, up about 17 percent from 2010. Federal lands provided about 13

Figure 3
Idaho Timber Harvest and Lumber Production
1947-2011



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

Footnote to Fig. 3

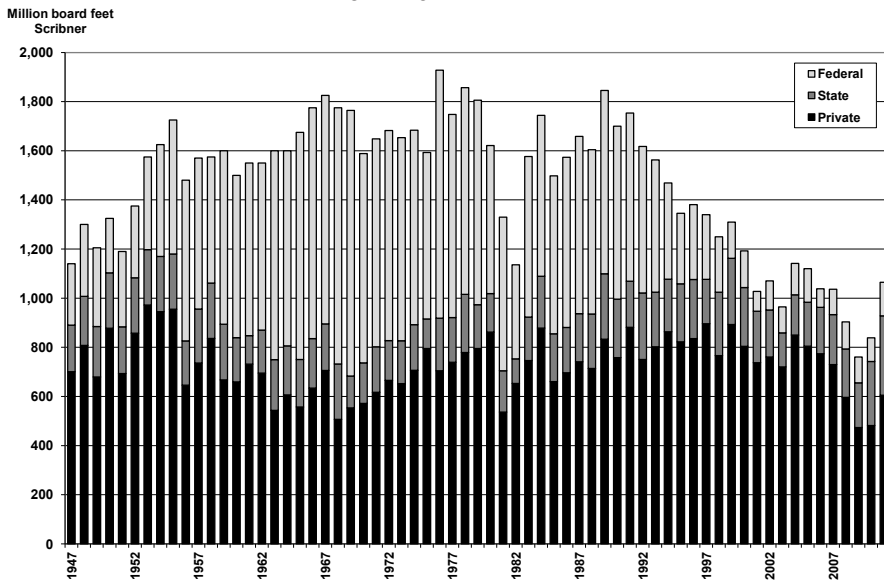
Volume of timber harvested, expressed in board foot Scribner scale, and lumber production, expressed in board foot lumber tally, were roughly equal from 1947 to 1983 (Figure 3). After that time, timber harvest began to decline while lumber production continued to increase. Several factors contributed 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 that can be produced from a small-diameter log is under-estimated by the Scribner scale.

Figure 4
Employment in Idaho’s Forest Products Industry
1990-2011



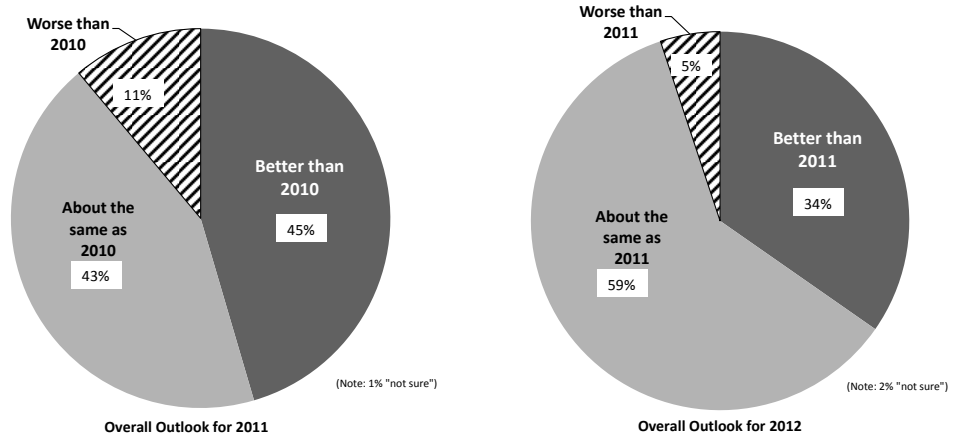
Source: U.S. Department of Commerce, Bureau of Economic Analysis. Regional account date; Bureau of Business and Economic Research, The University of Montana-Missoula.

Figure 5
Idaho Timber Harvest by Ownership
1947-2011



Source: Bureau of Business and Economic Research, The University of Montana-Missoula; USDA Forest Service Region One, Missoula, -Montana

Figure 6
Idaho's Wood and Paper Product Producers Overall
Outlook for 2012 Compared with Previous Outlook 2011



Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

percent of the 2011 harvest, as harvest volume from U.S. national forests increased about 30 percent compared with 2010 (Figure 5). In summary, each million board feet of timber harvested and processed in the state provides 18 jobs, \$614 thousand in labor income, and generates more than \$2.6 million in sales of goods and services.

Outlook for 2012

National forecasts call for slow, modest growth in the U.S. economy as well as consumption of wood and paper products. U.S. housing starts are not expected to recovery substantially until 2013 and beyond. Idaho's wood products industry executives responding to our survey expressed guarded optimism about the future, with 34 percent expecting operating conditions in 2012 to be better than 2011, and 59 percent expecting conditions to be about the same as 2011, (Figure 6).

Slightly less than half of the respondents (47 percent) expect profits to increase from 2011 to 2012, whereas only 4 percent said they expect to see profits decrease. Less than one-half of Idaho wood products manufacturers expect increased sales and production (45 and 40 percent, respectively), with 3 percent expecting decreases. Furthermore, only 24 percent expect increased prices for their products, while 67 percent of the respondents expect prices to stay about the same as during 2011.

Factors constraining industry growth potential. Nearly all of Idaho's wood products industry executives mentioned general market conditions, housing starts and the overall economic condition as the major issues that affected their operations in 2011, and these factors will continue to affect their operations in 2012. Industry executives also mentioned raw material availability, health insurance costs and legislation, and increases in transportation and energy costs as major issues that will continue to impact their operations.