

Montana's Forest Products Industry

Slow to Recover

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2011: Marginal Changes From 2010 but Big Differences From Pre-Recession Years

Conditions for Montana's forest products industry improved very little during 2011. U.S. housing starts, coming off record lows of 2009 and 2010, increased 10 to 15 percent, up to about 630,000 starts for 2011. Commodity lumber prices, however, were 5 percent lower in 2011 than during 2010. Montana's sawmills, plywood, and reconstituted board facilities reported production levels for 2011 that were down slightly from 2010. Job losses from curtailments and permanent mill closures during 2009 and 2010 continued to be reflected in the state's forest industry employment figures. The logging sector has also suffered from years of extremely low demand for timber as well as competition for skilled labor from the natural gas fields of eastern Montana and western North Dakota.

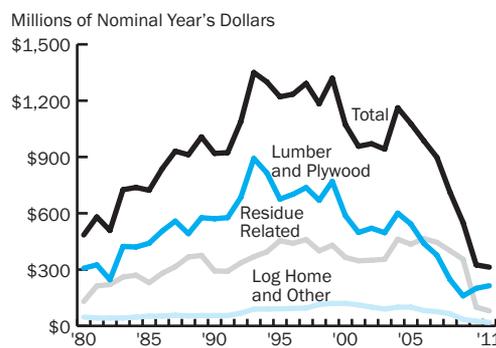
Sales value of Montana's primary wood and paper products was approximately \$314 million (fob the producing mill) during 2011, down about \$11 million or 3 percent from 2010. Primary sales were about \$670 million lower than pre-recession 2006 when sales were just under \$1.0 billion (Figure 1). Sales value of Montana's secondary wood products industry

was approximately \$275 million in 2011. The secondary industry includes window, door, and other wood products manufacturers that use outputs from the primary industry.

Total forest industry employment during 2011 was about 6,530 workers (including private sector foresters and loggers, primary and secondary wood product manufacturers, and forestry support activities), down by about 3 percent from 6,743 workers in 2010. Earnings in Montana's forest industry were about \$256 million during 2011, about 5 percent lower than the 2010 number of \$269 million. Among Montana's remaining sawmills, lumber production for 2011 decreased slightly, to about 495 million board feet lumber tally.

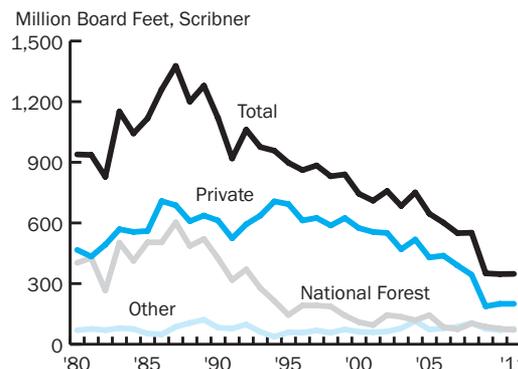
Montana's timber harvest volume during 2011 was an estimated 348 million board feet (Scribner), about the same as the estimate of 347 million board feet for 2010. The last three years' harvests are the lowest since 1945, and the industry is still dealing with harvest levels that have been declining since the early 1990s (Figure 2). The 2011 harvest from private lands is estimated to be 200 million board feet, roughly the same as 2010, which is less than half of the pre-recession 2006 harvest.

Figure 1
Sales Value from Montana Primary Wood Products Industry, 1980-2011



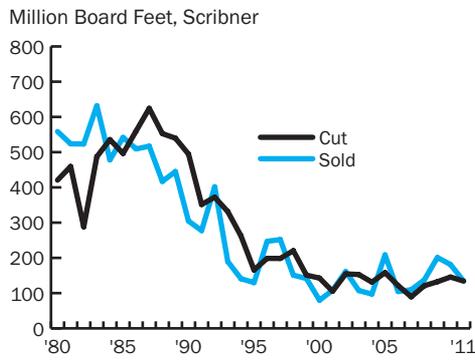
Source: Bureau of Business and Economic Research, The University of Montana; Western Wood Products Association.

Figure 2
Montana Timber Harvest by Ownership Class, 1980-2011



Source: Bureau of Business and Economic Research, The University of Montana; U.S. Forest Service Region One.

Figure 3
National Forest Cut and Sold Volumes in Montana, 1980-2011



Source: U.S. Forest Service.

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National forest timber harvest during fiscal year 2011 (Figure 3) was 134.2 million board feet Scribner, about 8 percent lower than FY 2010. This harvest volume is approximately 25 percent of the average annual harvest from 1989 through 1991. National forest cut and sold volumes include considerable amounts (nearly 65 percent by volume in 2011) of fuelwood and non-sawlog material that result from salvaging dead timber and fuel reduction treatments. However, with the loss of Smurfit-Stone Container, in-state markets for fuelwood and non-sawlog material are more limited than just a few years ago, while Montana sawmills rely on Forest Service timber for approximately one-quarter of their timber inputs.

Challenges and Optimism for the Year Ahead

National forecasts once again call for slow, modest growth in the U.S. economy and consumption of wood products, with substantial recovery in

U.S. housing starts not predicted until 2013 and beyond. Lumber sales to China have benefited a few Montana mills that were selling products to the Chinese; however, increased Chinese demand is focused on logs more than lumber. International log exports from Montana to date are very low, but if transportation rates to coastal ports become low enough to allow Montana more access to overseas markets, Montana landowners and loggers could benefit, while Montana mills could face higher log prices from competition with exporters.

Montana’s forest industry will continue to deal with a combination of local factors that make major recovery in the near-term seem unlikely. Although the pulp mill site in Frenchtown has been purchased, its future use is still unknown and may or may not involve wood products. The mountain pine beetle continues to impact large portions of the state’s lodgepole and Ponderosa pine forests. Attempts to develop Montana’s woody

biomass energy industry have been hampered by very low prices for natural gas and air-quality concerns. Federal lands, which account for more than 75 percent of the non-reserved timber in the state, face proposed budget cuts and a slew of internal and external issues that continue to keep timber harvest levels at historic lows.

Optimism among Montana’s forest products industry has slipped from previous years. Only 11 percent of wood products manufacturers responding to the Bureau’s annual survey believe that 2012 will generally be better than 2011. More than 20 percent of respondents expect profits to decrease in 2012, and 89 percent do not expect to make major capital expenditures during 2012.

Despite these challenges, several manufacturers, agency personnel, and policymakers involved with Montana’s forest industry remain optimistic and eager to capitalize on new opportunities. Development of new wood-using industries continues, with the recent opening of a wood chipping facility at the mill site in Bonner that will process lower value timber suitable for pulp mills and biomass energy, and the start-up of firms converting wood into bio-based products that can replace petroleum-derived chemicals. Other efforts related to sustaining and revitalizing Montana’s forest industry include a Montana-based nonprofit planning to use beetle-killed timber to provide building materials for disaster victims, a grassroots campaign to promote locally harvested and manufactured wood products, and exploration of a Montana Forest Products Retention Office. ¹²