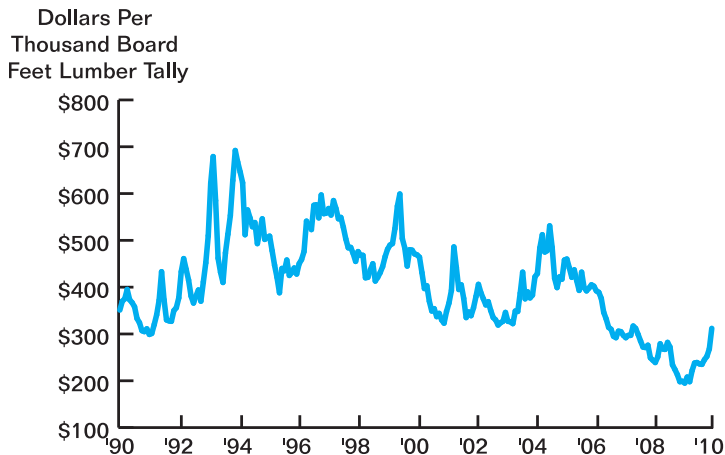


Montana's Forest Products Industry

Current Conditions and 2010 Forecast

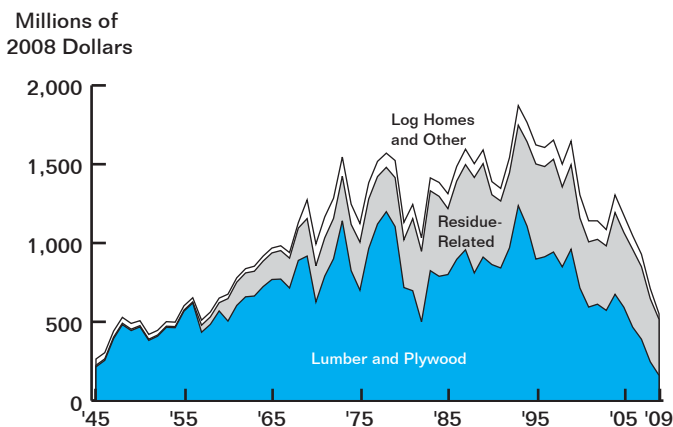
by Todd A. Morgan and Charles E. Keegan III

Figure 1
Nationwide Composite Lumber Prices
Monthly, 1990-2009



Source: Random Lengths Publications.

Figure 2
Sales Value of Montana's Wood and Paper
Products, 1945-2009



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

Operating Conditions

Economic conditions for Montana's forest products industry went from very bad in 2008 to dreadful in 2009. Lumber consumption in the United States was at its lowest level since the current statistical series began in 1950. Annual U.S. housing starts, which reached 2.1 million in 2005, fell to less than 1 million in 2008. In 2009, housing starts fell to just over 550,000 units, their lowest level in more than six decades. In response to the ongoing declines in housing, lumber prices dropped nearly 50 percent from 2005 to 2009 (Figure 1).

The federal stimulus program was perceived by most Montana wood-processing executives as not having much benefit for their firms. However, 25 percent of executives responding to the Bureau's annual survey indicated their firm did benefit from the stimulus program. Most firms that reported a benefit said they received a low-interest loan from the government, while only a few indicated having more work as a result of stimulus activities.

2009 Sales, Employment, and Production

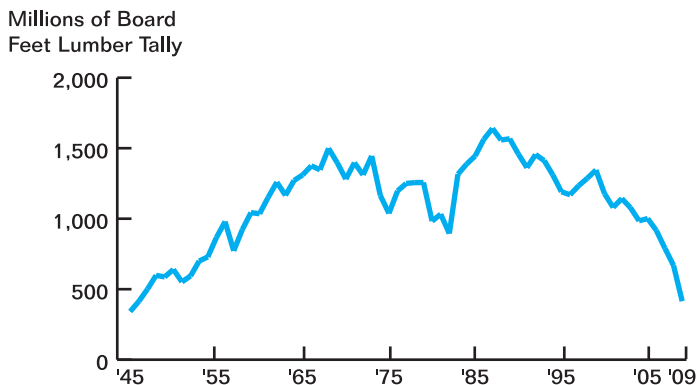
In response to the market conditions of 2009, every sector of Montana's forest products industry was negatively impacted and virtually every major mill and most small mills in the state closed or curtailed operations. This caused substantial drops in sales, production, employment, and labor income from 2008's already low levels.

Total sales value of Montana's primary wood and paper products was approximately \$550 million (fob the producing mill) in 2009. Sales were down about \$160 million, or almost 25 percent from 2008, and were about \$625 million lower than 2005, when sales were just under \$1.2 billion (Figure 2). Total forest industry employment during 2009 was about 7,070 workers (including the self-employed), down by about 20 percent from the revised 2008 estimate of 8,840 workers. Labor income in Montana's forest industry was less than \$275 million during 2009, about 30 percent lower than 2008.

Lumber production in 2009 fell to an estimated 415 million board feet lumber tally. Production was down almost 60 percent from the 2005 level, more than 35 percent lower than 2008, and was at the lowest level in more than five decades (Figure 3, page 32).

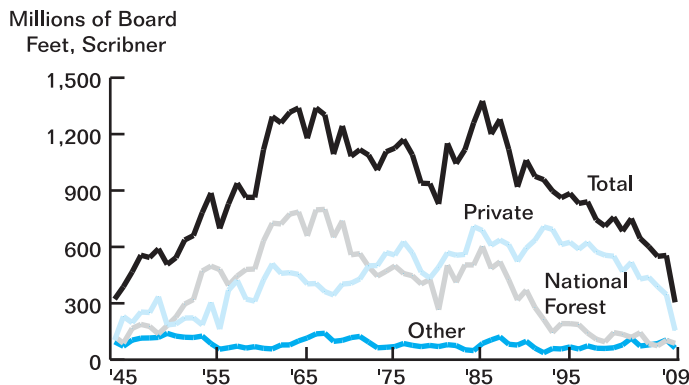
Montana's timber harvest volume during 2009 was an estimated 305 million board feet (Scribner), the lowest timber

Figure 3
Montana Lumber Production, 1945-2009



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

Figure 4
Montana Timber Harvested by Ownership, 1945-2009



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

harvest on record since 1945 (Figure 4). The harvest from private lands fell more than 50 percent from 2008, in large part because of extremely weak markets for wood products. National forest timber harvest during fiscal year 2009 (Figure 5) was reported to be about 9 percent higher than 2008, but those volumes include considerable amounts (more than 40 percent) of residential firewood and non-sawlog material.

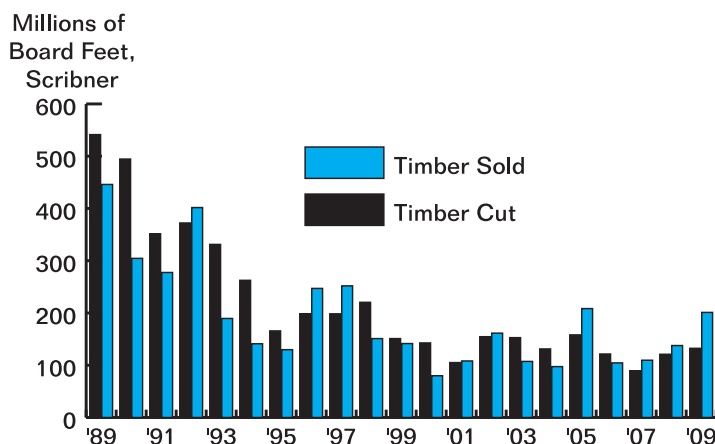
Outlook for 2010

National forecasts call for a modest uptick in the U.S. economy, housing starts, and consumption of wood and paper products in 2010 from the extremely low levels of 2009. There was a sharp jump in lumber prices (Figure 1) in early 2010 with a small uptick in demand. With large scale mill curtailments and closures throughout North America and low inventories on hand, a modest increase in wood products consumption led to large price increases. This increase will likely moderate as mills come back on line, but with the large scale losses in capacity that occurred in 2009 the ability of the North American industry to respond to increased demand is more limited than previous recessions.

Some optimism is also reflected in the outlook of Montana's wood products industry executives, with 51 percent expecting 2010 to be better than 2009, and 28 percent expecting conditions to be about the same as 2009.

More than 30 percent of executives anticipate that production, prices for their products, and sales will increase in 2010. Thirty-five percent expect the cost of inputs to be higher than in 2009, while 40 percent indicated that raw material availability is still very important to their business despite the poor market conditions for finished products. Health insurance costs, workers' compensation rates, and workers' compensation rules were also indicated as very important concerns for the majority of Montana's wood products industry.

Figure 5
Montana National Forest Timber Cut and Sold Volumes, 1989-2009



Source: USDA Forest Service Region One, Missoula, MT.

Three factors, however, are expected to have lingering impacts on sawmills, logging, and wood products related trucking in the state, including:

- weakened financial underpinnings of many Montana forest industry firms due to limited timber availability during the previous two decades;
- the extended housing downturn and four consecutive years of weak wood products markets;
- the closure of Frenchtown's Smurfit-Stone Container linerboard plant.

Because of these issues, continued losses are expected in all of Montana's forest industry sectors during the coming year. □

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