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Idaho's Forest Products Industry Current Conditions and 2011 Forecast

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

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Operating Conditions

The awful economic conditions experienced by the forest products industry in 2009 improved only slightly during 2010, as lumber consumption in the United States remained at historically low levels. On a more optimistic note, softwood lumber exports increased by more than 50 percent. Annual U.S. housing starts, after bottoming out at 554,000 units during 2009—their lowest level in more than six decades— rebounded about 10 percent to just under 600,000 units for 2010. By comparison, as recently as 2005 housing starts exceeded 2 million units per year. The depressed housing market was accompanied by curtailed lumber production at mills throughout North America. Nevertheless, due to increased exports and a slight uptick in housing starts, the average U.S. lumber price during 2010 was approximately 27 percent higher than during 2009 (Figure 1).

Idaho Industry Sales, Employment, and Production during 2010

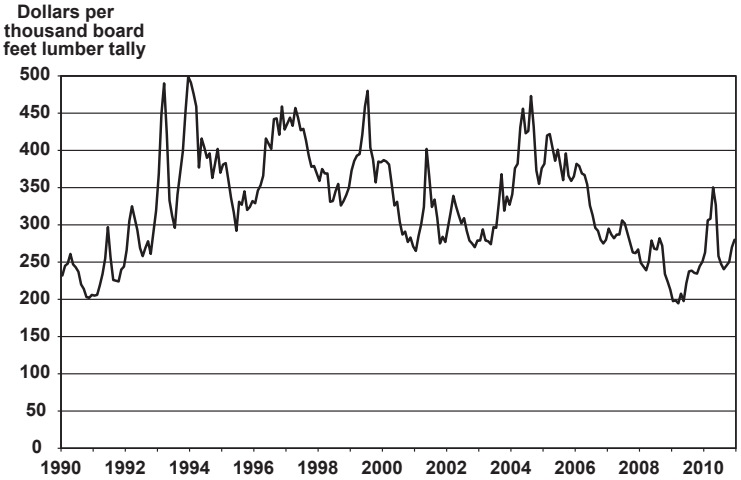
The University of Montana's Bureau of Business and Economic Research (BBER), in cooperation with the College of Natural Resources at the University of Idaho, conducted a survey of Idaho's wood products manufacturers in December of 2010 as part of the Inland Northwest Forest Products Research Consortium's ongoing efforts to quantify and describe the region's forest industries. The survey had a response rate of 69 percent, with 88 of Idaho's largest primary and secondary wood processing facilities replying to our questions. Results of the survey indicate that for Idaho's major wood products manufacturers, 2010 was only marginally better than 2009.

Sales and production by wood-based businesses operating in Idaho increased at 30 percent of the responding firms. However, 45 percent reported decreases in sales, and 48 percent decreased production. This is an improvement from 2009, when more than 80 percent of respondents indicated decreases in profits, sales, and production, and fewer than 10 percent reported increases.

The proportion of wood and paper products manufacturers temporarily curtailing production during the year remained high but dropped from 60 percent in 2009 to 45 percent in 2010. The number of facilities that reported making major capital expenditures fell from 19 percent in 2009 to 15 percent in 2010 indicating continued concerns about economic recovery among Idaho wood-based manufacturers. Profitability continued to suffer with 53 percent of respondents indicating decreased profits for 2010 and 23 percent indicating increased profits.

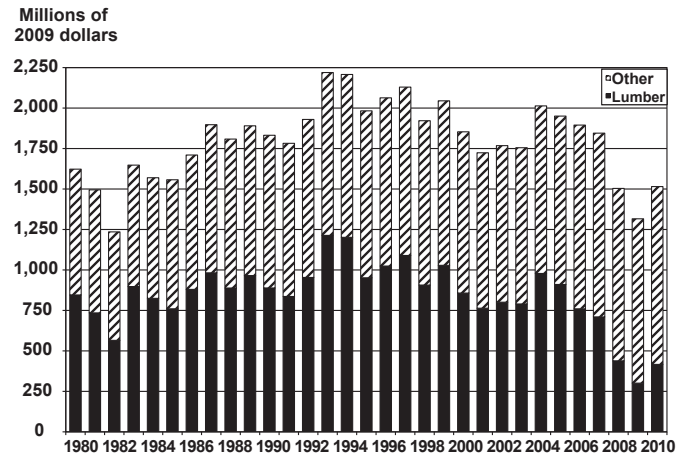
Sales value of Idaho's primary wood and paper products manufacturers for 2010 was estimated at just over $1.5 billion up $170 million (approximately 12 percent) from the revised 2009 sales value of $1.32 billion (Figure 2). The sales increase was due primarily to higher lumber prices and

Figure 1
Nationwide Composite Lumber Prices
Monthly, 1990-2010



Source: Random Length 1990-2010.

Figure 2
Sales Value of Idaho's Primary Wood Products
1980-2010

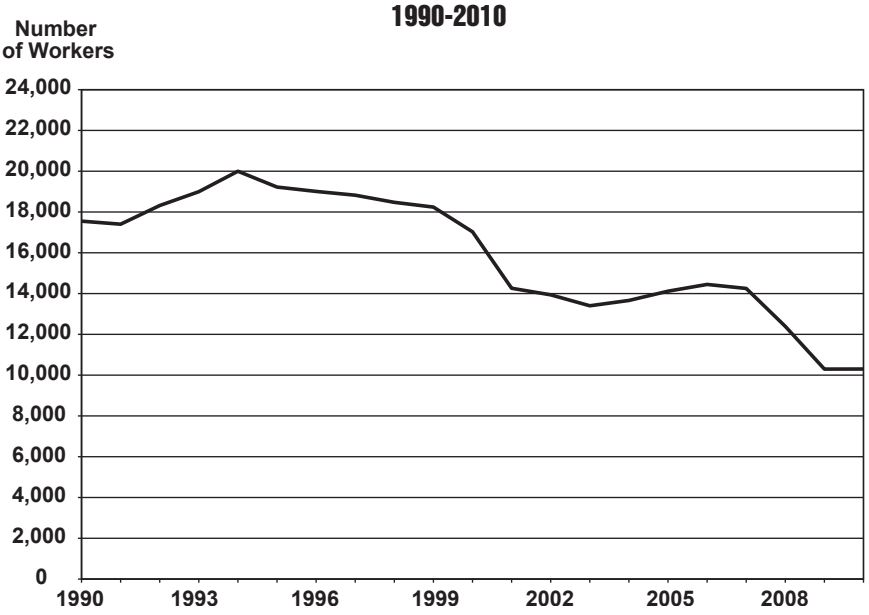


Source: Bureau of Business and Economic Research, The University of Montana-Missoula; Western Wood Products Association.

slightly higher production. Estimated value of secondary wood products produced from the further processing of primary products declined to less than $300 million in 2010 down from approximately $330 million in 2009. By comparison, during the strong markets in 2004 and 2005 primary sales were nearly $2 billion with an additional $1 billion in secondary wood product sales. The number of forest industry workers (including those self-employed) was an estimated 10,300 for 2010 which was unchanged from 2009 but down by 2,100 workers from 2008 and 4,100 from 2006 (Figure 3), the last good business year before the recent economic recession and subsequent slow recovery from it.

Lumber production, the largest component of Idaho's forest products industry, increased to an estimated 1.2 billion board feet lumber tally in 2010 which was up 9 percent from 2009 (Figure 4). Timber harvest volume in Idaho during 2010 was estimated at 830 million board feet (Scribner log scale) or up 10 percent from 2009. These are the lowest timber harvest volumes since the Second World War (Figure 5). Timber harvest from private lands accounted for more than 60 percent of the volume and was up slightly in 2010 over 2009. State lands provided just under one-third of Idaho's total harvest which was up about 40 percent from 2009. Federal lands provided about 10 percent of the 2010 harvest, and volume declined about 10 percent from 2009 (Figure 5).

Figure 3
Employment in Idaho's Forest Products Industry
1990-2010

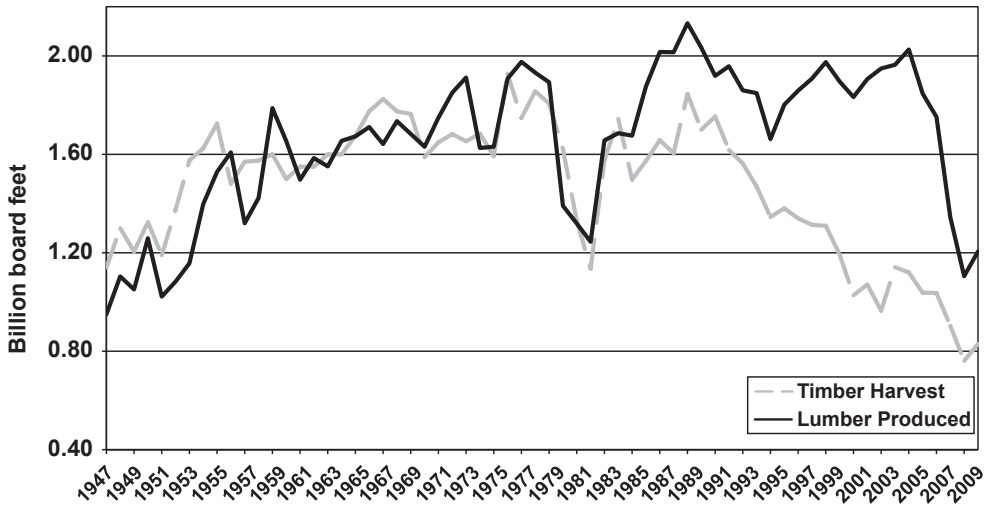


Source: U.S. Department of Commerce, Bureau of Economic Analysis. Regional accounts data; Bureau of Business and Economic Research, The University of Montana-Missoula.

Outlook for 2011

National forecasts for 2011 call for a modest uptick in the U.S. economy, housing starts, and consumption of wood and paper products, with larger improvements to follow in 2012. Idaho's wood products industry executives expressed some optimism about

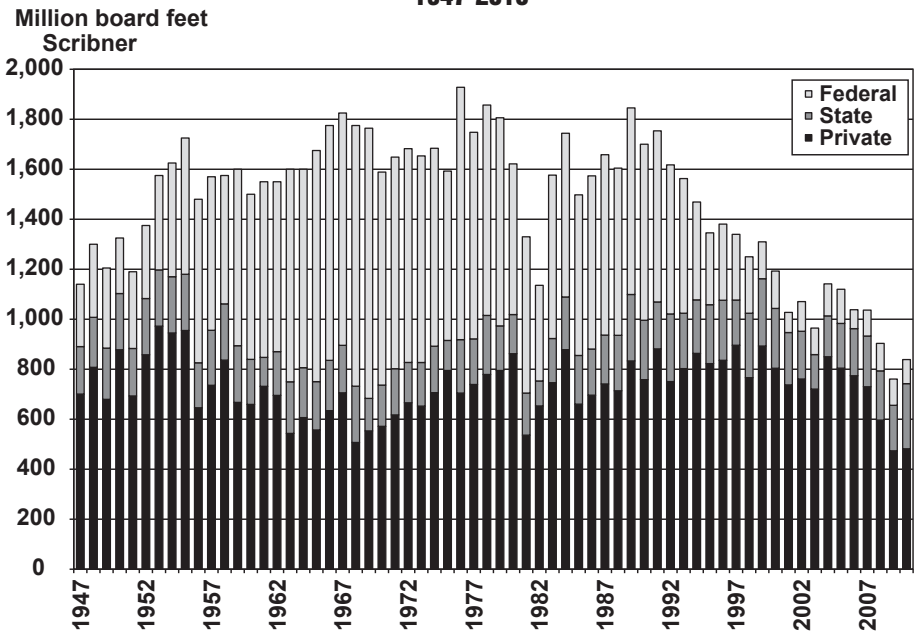
Figure 4
Idaho Timber Harvest and Lumber Production
1947-2010



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

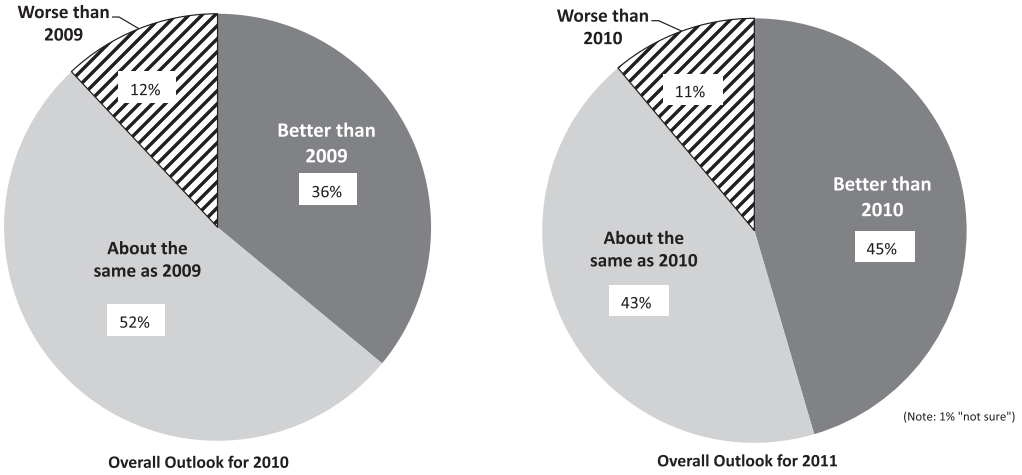
Volume of timber harvested, expressed in board foot Scribner, and lumber production, expressed in board foot lumber tally, were roughly equal from 1947 to 1983 (Figure 5). After that time, timber harvest began to decline while lumber production continued to increase. Several factors contributed to this 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 able to be produced from a small-diameter log is under-estimated by the Scribner scale.

Figure 5
Idaho Timber Harvest by Ownership
1947-2010



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 2011
Compared with Previous Outlook for 2010



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

the future with 45 percent expecting operating conditions in 2011 to be better than 2010 and 43 percent expecting conditions to be about the same as 2010, a more optimistic outlook than last year (Figure 6).

More than half of the respondents (54 percent) expect profits to increase from 2010 to 2011, whereas 10 percent said they expect to see profits decrease. Slightly less than one-half (48 and 43 percent) of Idaho wood manufacturers expect increased sales and production, with 10 percent expecting decreases. Furthermore, 28 percent expect increased prices for their products, but 56 percent of the respondents expect prices to stay about the same as during 2010.

Nearly all of Idaho's wood products industry executives mentioned general market conditions and the overall economic condition as the major issues that affected their operations in 2010, and that will continue to affect their operations in 2011. They also mentioned raw material availability, health insurance costs, legislation and increases in transportation and energy costs as major issues that will continue to impact their operations.