

Montana's Forest Products Industry

The Recovery Continues

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2013: Rising U.S. Housing Starts Boost Montana's Forest Industry

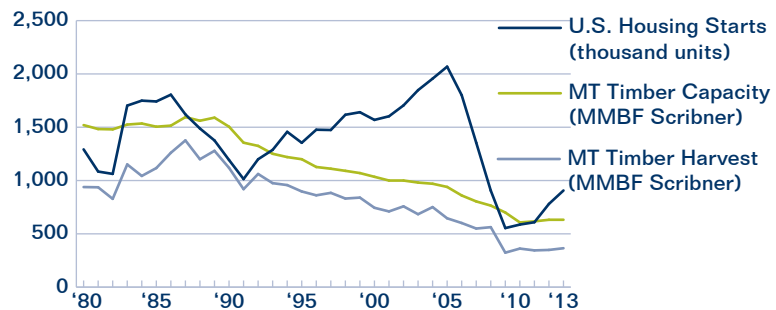
New home starts in the U.S. grew from 780,600 in 2012 to more than 900,000 during 2013 (Figure 1), which was encouraging news for wood products manufacturers. As housing starts increased more than expected in the fourth quarter of 2012 and first quarter of 2013, lumber and structural panel prices responded, reaching five-year highs in March and April 2013. Mills throughout North America increased production by bringing recession-idled capacity back into operation. The additional supply of wood products and a mid-year cooling of the U.S. housing market drove product prices down. Lumber prices climbed steadily from their June 2013 low. For 2013, average lumber and other major wood product prices were the highest they have been since 2005.

For Montana's forest industry, the overall gains in U.S. housing and wood products demand translated into continued improvements and gradual recovery. Lumber production in Montana for 2013 was up about 4 percent compared to 2012 (Figure 2), wages paid to mill production workers were up about 3 percent, and the average number of mill workers increased about 2 percent. Several of the larger wood products mills in Montana went to longer work weeks or more shifts to meet demand and

capitalize on market improvements, 40 percent of wood products firms indicated making a major capital expenditure, Plum Creek re-opened the sawmill in Evergreen, and no major facilities closed during 2013.

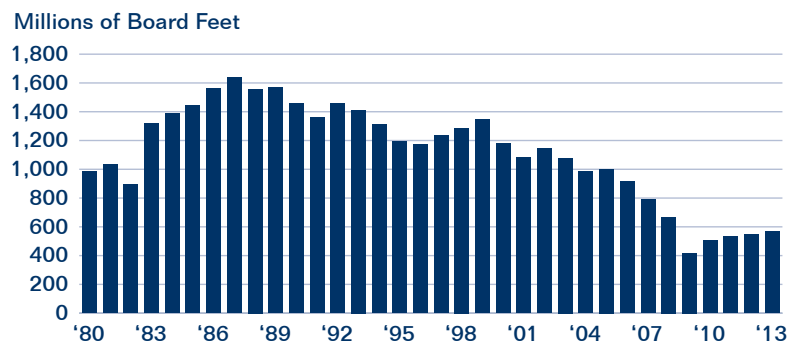
Sales value of Montana's primary wood products during 2013 was estimated to be approximately \$614 million (fob the producing mill), up about \$56 million, or 10 percent, from 2012 (Figure 3). Total forest industry

Figure 1
 New U.S. Home Starts, 1980-2013



Sources: U.S. Census Bureau; USDA Forest Service; Bureau of Business and Economic Research, University of Montana.

Figure 2
 Lumber Production, Montana, 1980-2013



Source: Western Wood Products Association.

FOREST PRODUCTS OUTLOOK

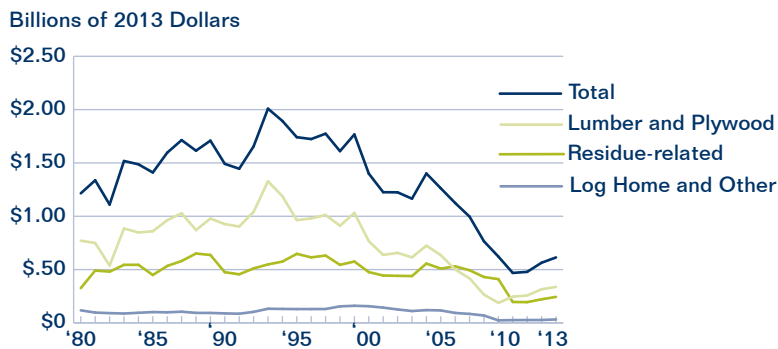
employment during 2013 was about 7,000 workers (including private sector foresters and loggers, primary and secondary wood product manufacturers, and forestry support activities), up a little over 2 percent from 2012 (Figure 4). More than one-third of wood products facilities indicated they increased their workforce during 2013. Labor income in Montana's forest industry was estimated at \$296 million during 2013, about 4 percent higher than 2012.

Montana's timber harvest volume during 2013 was about 365 million board feet (MMBF Scribner), having changed very little from the 2009 low (Figure 5). Montana's forest industry continues to struggle with raw material availability due to very low timber harvest levels. Because more than three-quarters of the non-reserved timber in the state is on federally managed land, timber harvest does not respond to increasing demand for wood products like it does in states with higher

proportions of private or state-managed forestland.

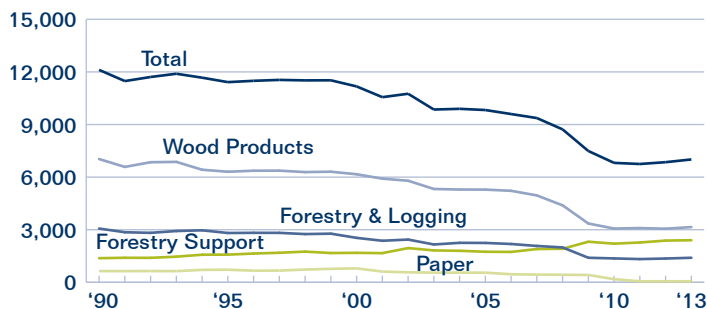
National Forest System timber harvest volumes in Montana during fiscal year 2013 were 10 percent lower than 2012 (Figure 6). The cut volume in fiscal year 2013 was 122.5 MMBF, and 55 percent of that was fuelwood and "non-saw" material. Of the nine National Forest System reporting units in Montana, fuelwood and non-saw material accounted for more than 90 percent of the 2013 cut volume on four of them. In Montana, fuelwood and non-saw material has accounted for half or more of the annual harvest for the past six years. The agency is struggling to deal with widespread mountain pine beetle mortality and ongoing environmental litigation that targets cutting trees whether for timber production, forest restoration, fire hazard reduction, wildlife habitat enhancement, or even public safety (e.g., removing hazard trees along roads and in campgrounds).

Figure 3
Sales Value from Montana
Primary Wood Products Industry
1980-2013



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

Figure 4
Montana Forest Industry Employment
1980-2013



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

"Members of Montana's forest products industry have a positive outlook for the coming year."

FOREST PRODUCTS OUTLOOK

2014: Optimism and Uncertainty in Montana Timber Availability and the U.S. Economy

Wood products markets in 2014 are generally expected to improve. However, questions and concerns about the overall economy, new homebuilding, and Washington, D.C., politics contribute to uncertainty in domestic and international markets. Coupled with considerable unutilized capacity to produce lumber in North America, wood products prices are expected to increase but remain volatile. Continued recovery in U.S. housing starts and rising product prices should benefit Montana's forest industry, further stimulating production, sales, and employment for the state's mills and loggers. Many Montana mills still have unutilized capacity, and timber processors are positioned to increase output as markets improve – provided ample timber is available.

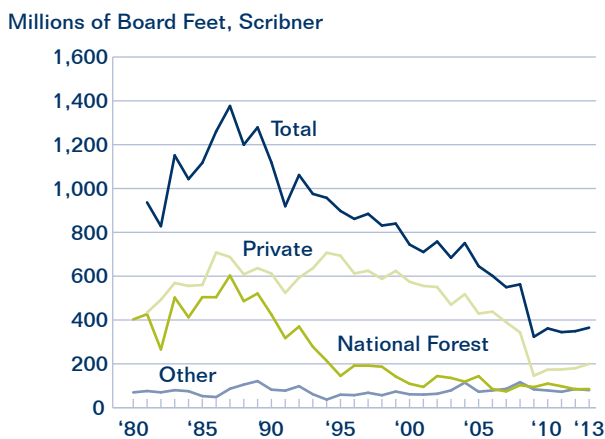
Availability of timber continues to be a major challenge to Montana's forest industry. Without a reliable and affordable supply of timber, mills cannot respond to increasing demand for wood products. Two-thirds of wood products firms responding to the Bureau's annual survey of Montana manufacturers indicated that raw material availability is a very important issue to their firm. Half of the respondents indicated log supply was a major issue that affected their facility in 2013 and will affect them in 2014. One-third of Montana wood products firms indicated availability of timber was the most significant barrier to new businesses or expansion of their existing business.

Members of Montana's forest products industry have a positive outlook for the coming year. Almost 40 percent of wood products manufacturers responding to the Bureau's annual survey believe that

2014 will generally be better than 2013, and just 6 percent expect conditions to be worse. While 80 percent of firms expect employment levels to remain constant, 20 percent expect to increase the number of employees in 2014. However, less than one-quarter of firms expect to make a major capital improvement in 2014, despite more than half of firms expecting product prices and gross sales to increase.

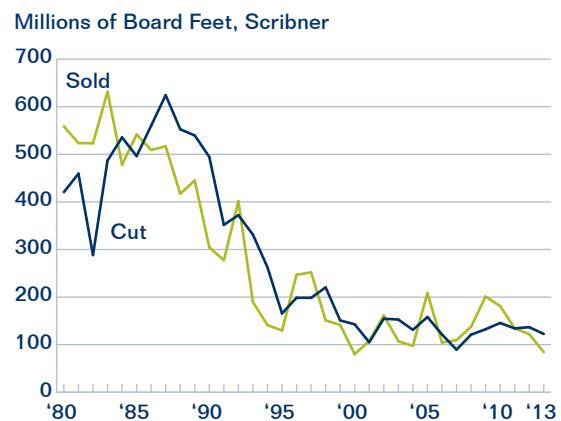
Workers' compensation rates and rules were the most important of eight issues presented to wood products manufacturers for ranking, with 100 percent of firms indicating these as very or somewhat important. Three-quarters of respondents rated health insurance cost as very important and 14 percent rated it as somewhat important. Foreign competition was the least important of the eight issues, with more than half of respondents rating it as somewhat or very unimportant. 14

**Figure 5
Montana Timber Harvest by Ownership Class, 1980-2013**



Sources: USDA Forest Service Northern Region; Bureau of Business and Economic Research, University of Montana.

**Figure 6
National Forest Cut and Sold, Volumes in Montana, 1980-2013**



Source: USDA Forest Service Northern Region.