



Station Bulletin 96
January 2010

Idaho Forest, Wildlife and
Range Experiment Station
Moscow, Idaho

Director
William J. McLaughlin

University of Idaho

Idaho's Forest Products Industry: Current Conditions and Forecast 2010

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Produced by

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

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This publication is issued as contribution No. 1045 of the Idaho Forest, Wildlife, and Range Experiment Station, College of Natural Resources, University of Idaho, Moscow, ID 83844-1132.

Idaho's Forest Products Industry: Current Conditions and Forecast, 2010

Operating Conditions

The collapse of the U.S. housing industry and the related global financial crisis had a substantial negative impact on Idaho's forest products industry in 2009. Annual U.S. housing starts peaked in 2005 at just over 2 million and by 2009 had fallen to 550,000 units. With continued weak demand, lumber prices have fallen 13 percent in the last year and approximately 43 percent since 2005 (Figure 1).

Idaho Industry Sales, Employment, and Production for 2009

The University of Montana's Bureau of Business and Economic Research (BBER), in co-operation with the Forest Products Department at the University of Idaho, conducted a survey of Idaho's wood products manufacturers in late November and early December of 2009. The survey had a response rate of just over 70 percent and secured responses from 65 of Idaho's largest wood processing facilities as well as numerous smaller facilities. Results of the survey indicate that major wood products manufacturers in Idaho experienced a substantially poorer year in 2009 versus the already weak operating situation of 2008.

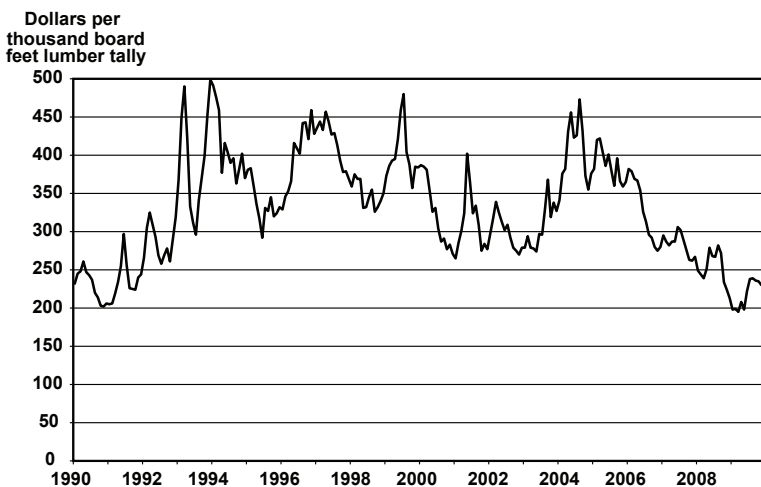
Eighty percent of responding wood and paper product manufacturers indicated a decrease in profits for 2009

relative to 2008, while only 6 percent indicated an increase. Nearly 60 percent of the facilities curtailed production in 2009, and over 80 percent reduced employment. Eighty-two percent of responding manufacturers indicated a decrease in sales, and 83 percent indicated a decrease in production. Furthermore, the number of facilities that reported making major capital expenditures declined to 19 percent in 2009 from 29 percent in 2008.

The estimated sales value of Idaho's primary wood and paper products manufacturers for 2009 was just over \$1.4 billion, down approximately \$120 million (approximately 8 percent) from the revised 2008 sales value of \$1.5 billion (Figure 2). The number of forest industry workers (including the self-employed) was estimated at 10,800 in 2009, down by about 14 percent or 1,800 workers from 2008 (Figure 3). Production of lumber, the largest component of Idaho's forest products industry, fell to an estimated 1.1 billion board feet in 2009 from just over 1.3 billion board feet in 2008 (Figure 4).

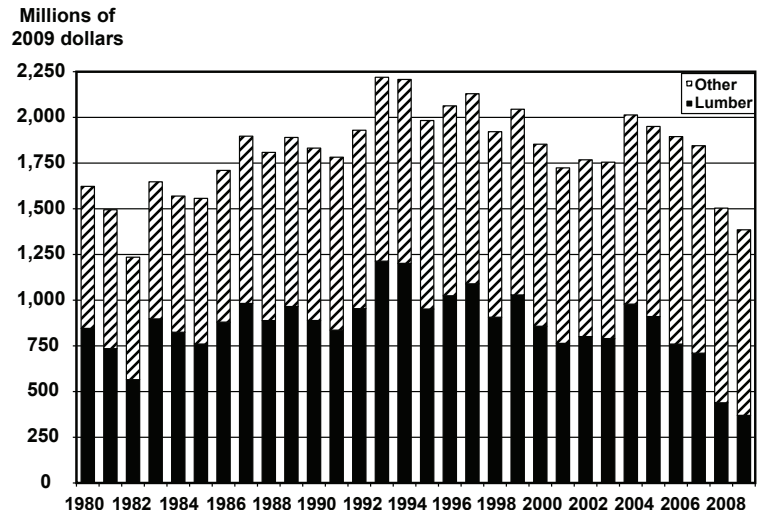
Timber harvest declines were seen across the timber ownership classes (Figures 4 and 5) with lower prices offered by mills being a major factor. Idaho's estimated timber harvest volume during 2009 was just under 800 million board feet, down nearly 15 percent from 900 million board feet in 2008 (Figures 4 and 5). Private land harvest, including industry and non-industrial private lands, was about 20

Figure 1
Nationwide Composite Lumber Prices
Monthly, 1990-2009



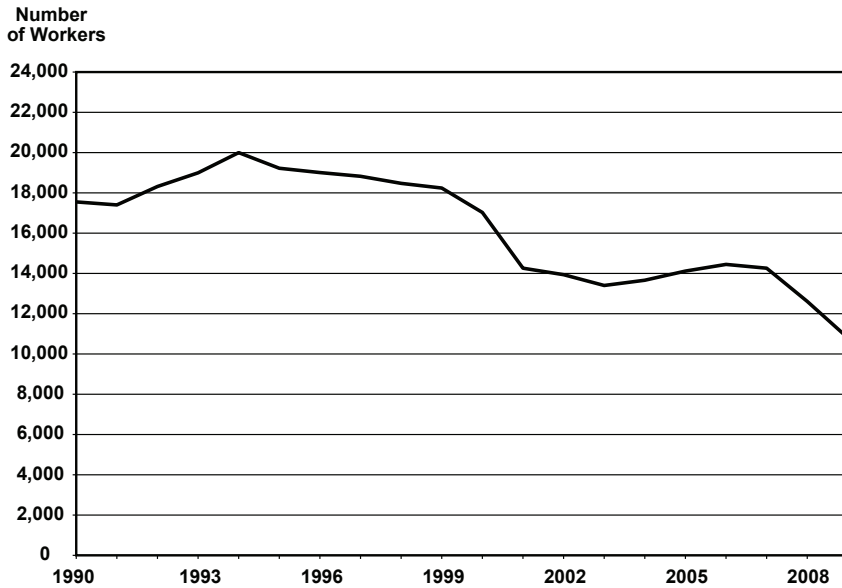
Source: Random Length 1990-2009

Figure 2
Sales Value of Idaho's Primary Wood Products
1980-2009



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

**Figure 3
Employment in Idaho's Forest Products Industry
1969-2009**



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

percent lower than during 2008. The harvest from federal lands was down about 5 percent bringing federal harvest levels near their lowest level since World War II (Figure 5). Harvest from state lands was down about 7 percent from 2008.

Outlook for 2010

National forecasts call for a modest increase in the U.S. economy, housing starts, and consumption of wood and paper products in 2010. Idaho wood products manufacturers have expressed more optimism entering 2010 with 36 percent of the survey respondents expecting operating conditions to get better. However, 52 percent expect 2010 conditions to be about the same as the very poor market conditions experienced in 2009, and 12 percent expect worsening conditions (Figure 6). Twenty-three percent of respondents indicated they expected to increase their number of employees during 2010, and only 17 percent expected to decrease employment.

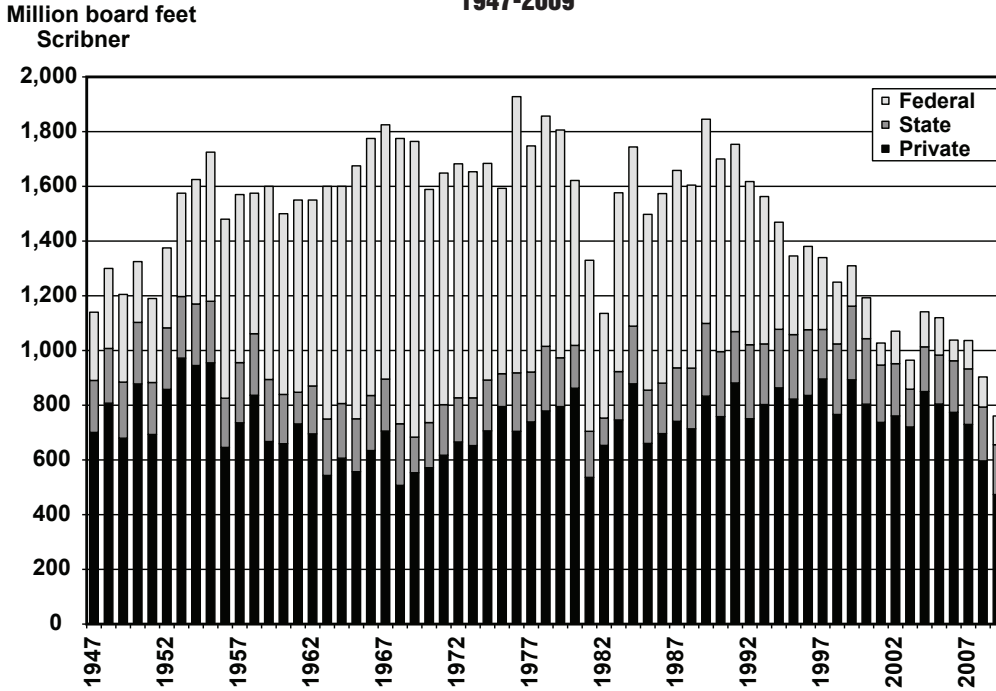
Forty-five percent of the wood products manufacturers stated they expect profits to

**Figure 4
Idaho Timber Harvest and Lumber Production
1947-2009**



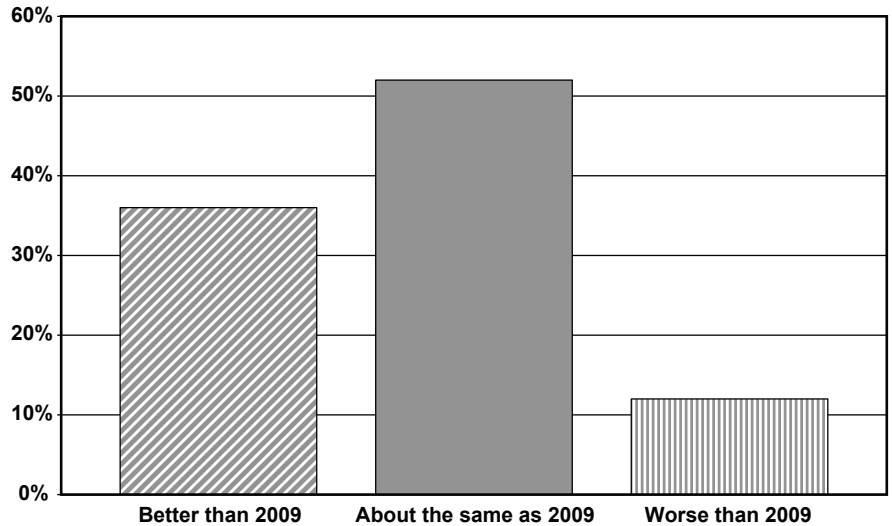
Source: Bureau of Business and Economic Research, The University of Montana-Missoula; USDA Forest Service Region One, Missoula, Montana; Western Wood Products Association.

Figure 5
Idaho Timber Harvest by Ownership
1947-2009



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 CY 2010



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

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increase from 2009 to 2010, while only 14 percent said they expect to see profits decrease. Over 80 percent of the facilities surveyed anticipate production to increase or stay about the same, and 43 percent expect to experience greater sales in 2010. Furthermore, 20 percent stated that they expect to see a price increase on their products, while 60 percent of the respondents expected prices to stay about the same as those in 2009.

Nearly all of the producers mentioned general market conditions and the overall economic condition as the major issues that will affect their operations in 2010. Idaho's wood products producers also mentioned raw material availability and increases in transportation and energy costs as major issues that will continue to impact their operations in 2010.