

# Montana's Forest Products Industry Improved Conditions but Low Expectations

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## Gains in U.S. Housing Lift Montana's Forest Industry

New housing starts in the U.S. increased more than expected during 2012, helping to buoy the nation's hard-hit forest products industry. Approaching 800,000 units, housing starts were up about 30 percent from 2011 and up by nearly 45 percent from the 2009 50-year low of 554,000. The significant increases in residential construction helped to drive up demand for lumber, plywood, and other wood products. Nationwide lumber prices increased, up approximately 18 percent from 2011, and Montana's sawmills, plywood, and reconstituted board facilities reported 2012 production and sales levels that were higher than 2011. Along with improved markets, there were no major wood products facility closures during 2012, and many facilities reported increased employment and payroll.

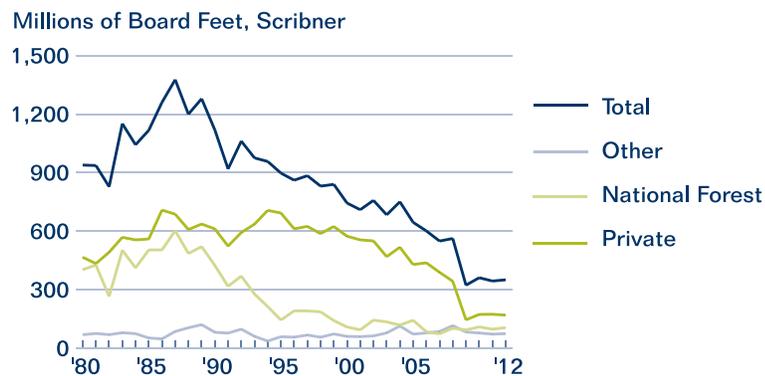
Sales value of Montana's primary wood and paper products during 2012 was estimated to be \$580 million (fob the producing mill), up about \$114 million, or 25 percent, from 2011. Primary sales were still about \$400 million lower than pre-recession 2006, when sales were just under \$1 billion (Figure 1). Sales value of Montana's secondary wood products industry was approximately \$300 million in 2012. The secondary industry includes window, door, and other wood products manufacturers that use outputs from the primary industry.

**Figure 1**  
**Sales Value from Montana Primary Wood Products Industry, 1980-2012**



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

**Figure 2**  
**Montana Timber Harvest by Ownership Class, 1980-2012**



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

Total forest industry employment during 2012 was estimated to be 6,650 workers (including private sector foresters and loggers, primary and secondary wood product manufacturers, and forestry support activities), up by almost 3 percent from 2011. Earnings in Montana's forest industry were

nearly \$295 million during 2012, about 10 percent higher than the updated 2011 figure of \$268 million. Among Montana's sawmills, lumber production for 2012 increased almost 10 percent to an estimated 584 million board feet lumber tally.

## FOREST PRODUCTS OUTLOOK

Montana's timber harvest volume during 2012 was an estimated 351 million board feet (Scribner), up about 2 percent from the revised 2011 estimate of 345 million board feet. Timber harvest levels in Montana have rebounded very little from their 2009 record low, and the remaining industry is still struggling with harvest levels that have been in decline since the early 1990s (Figure 2).

National forest timber harvest during fiscal year 2012 (Figure 3) was 136.8 million board feet Scribner, about 2 percent higher than FY 2011. National forest cut and sold volumes include considerable amounts (54 percent by volume in 2012) of fuelwood and non-sawlog material that result from salvaging dead timber and fuel reduction treatments. With the reductions in private lands timber harvesting during the recession and low housing markets, Montana mills currently rely on Forest Service timber for one-quarter to one-third of their timber inputs.

### Outlook: Demand-Driven, Supply-Constrained Growth in 2013

Significant challenges and opportunities face Montana's forest industry. Improving wood products markets associated with a recovery in U.S. homebuilding represent the greatest opportunity for Montana firms, with national forecasts predicting continued growth in the U.S. economy and consumption of wood products. Substantial recovery in U.S. housing starts during 2013 and beyond would benefit Montana's forest industry, stimulating production, sales, and employment for many of the state's mills and loggers that supply the mills.

### Forest Industry Concerned About Health Care Costs

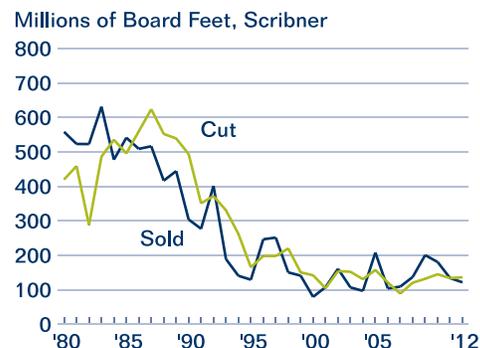
Health insurance costs are a major concern for many Montanans, and they were the most important of eight issues presented to wood products manufacturers for ranking in the Bureau's annual survey. Eighty-three percent of respondents rated health insurance costs very important, and 17 percent rated them as somewhat important.

Other highly ranked issues included worker compensation rates and raw material availability, with more than 63 percent of respondents rating these as very important and one-quarter to one-third rating them as somewhat important.

With many Montana mills currently running well below normal operating levels, timber processors are positioned to increase output as markets improve – provided timber is available.

Availability of timber remains one of the most important challenges to the industry. Without consistently reliable and affordable timber, mills will have difficulty responding to improved market conditions. Factors that influence cost and quantity of timber supply include forest health, land ownership differences, availability of loggers, and fuel prices. Tree mortality associated with the mountain pine beetle has been impacting Montana forests for about a decade. Federal lands, which account for more than 75 percent of the non-reserved timber in the state, are subject

**Figure 3**  
National Forest Cut & Sold Volumes in Montana, 1980-2012



Source: U.S. Forest Service.

to a complex political and legal process causing uncertainty and delays in timber harvest. Montana's logging workforce has undergone major contractions over the past decade, and volatile fuel prices continue to impact operators in the forest and hauling logs to mills.

Members of Montana's forest products industry have a guarded outlook for the coming year. While 33 percent of wood products manufacturers responding to the Bureau's annual survey believe that 2013 will generally be better than 2012, 14 percent expect conditions to be worse. Likewise, 45 percent of respondents expect profits will increase, and 24 percent expect profits to decrease in 2013.

Slightly less than 60 percent expect the costs of inputs to increase, and 74 percent do not expect to make major capital expenditures during 2013. Despite overall reluctance to make capital investments, development within Montana's wood-using industries continues with the recent installation of a permanent chipper at the mill site in Bonner, Montana. This investment substantially increases the capability to process lower-value timber. <sup>13</sup>