Idaho's Forest Products Industry: Current Conditions and Forecast 2007

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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Operating Conditions

In response to dramatically lower U.S. housing starts, prices for most wood products were down sharply in 2006 relative to 2005. After starting the year at moderate levels, lumber prices declined by over 20 percent as 2006 progressed (Figure 1).

Housing starts fell in response to a build up in inventories of unsold homes. This was brought on by higher mortgage rates and very high housing construction in the previous few years, part of which was speculative construction.

The availability of raw material continued to constrain the Idaho forest products industry in 2006. Timber harvest declines were seen in virtually all timber-ownership classes (Figure 2). This was likely due in part to lower stumpage prices and very limited volumes of federal timber on the market.

Idaho Industry Sales, Employment, and Production for 2006

The estimated sales value of Idaho’s primary wood and paper products for 2006 was just under $1.8 billion, down approximately $100 million (5 percent) from 2005 (Figure 3). Estimated wood and paper products industry employment in 2006 was an estimated 15,400 workers, which is very close to 2005 levels (Figure 4). Employment in the primary timber harvesting and processing sectors was down by approximately 300 workers with secondary wood processing up by several hundred workers.

Estimated timber harvest for 2006 was just under 1.06 billion board feet (bf) Scribner scale, which is a decrease of 9 percent from the 2005 timber harvest of 1.16 billion bf Scribner scale (Figures 2 and 5). Lumber production in Idaho for 2006 is estimated at 1.95 billion bf lumber tally, down slightly from 2.0 billion board feet in 2005 (Figure 5).

Note that timber harvest (bf Scribner Scale) and lumber production (bf 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. This was likely due to several factors. One factor was improvements in sawmill efficiency. In the mid 1980’s, 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 1980’s, and a higher proportion of harvested timber made its way to Idaho sawmills. In addition to these real factors, a third artificial factor was also introduced. Many sawmills began to re-tool during the 1980’s to handle smaller-diameter logs.
By 2003, nearly 60% of all logs processed in Idaho were less than 10" in diameter (measured at the small end), and some mills were processing very small-diameter logs (less than 6" in diameter). This exposed a weakness in the Scribner log scale that resulted in under scaling of these small-diameter logs.

**Outlook for 2007**

Business conditions in the forest products sector in 2007 are unlikely to improve over 2006. This is largely due to continued weakness in the U.S. residential construction sector, which is expected to persist at least through the first half of 2007. Prices for lumber and other wood products in 2007 will likely remain low early in the year. The new softwood lumber agreement with Canada in effect as of October 2006 could provide some price support for lumber in low markets and reduce price volatility.

Information gathered from the annual survey of Idaho producers conducted as part of this outlook indicates that they perceive a continuation of weak markets in 2007. Overall, only 29 percent of the survey respondents expect 2007 to be a better year, while 40 percent expect it to stay about the same as 2006, and 29 percent expect 2007 to be worse than 2006 (Figure 6).
Only 39 percent of mill operators surveyed anticipate an increase in production, while 50 percent expect to experience greater sales during 2007. Just less than one-half of mill operators surveyed said they expect to see an increase in profits for 2007, while nearly 34 percent stated they expect profits to decrease. Furthermore, 40 percent expect to see price increases on their products, while 24 percent of the respondents expect prices to decrease.

Timber supply remains uncertain going into 2007. Virtually all surveyed facilities that processed timber stated that limited raw material supply was a major issue in 2006 and that they expected it to continue through 2007. General market conditions and availability of raw materials were listed by a majority of mill operators as a major issue that will affect their operation in 2007. Other major concerns expressed by mill managers for 2007 included increases in health insurance, transportation costs, energy costs, and the availability of qualified personnel.