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Idaho's Forest Products Industry

Current Conditions and 2016 Forecast

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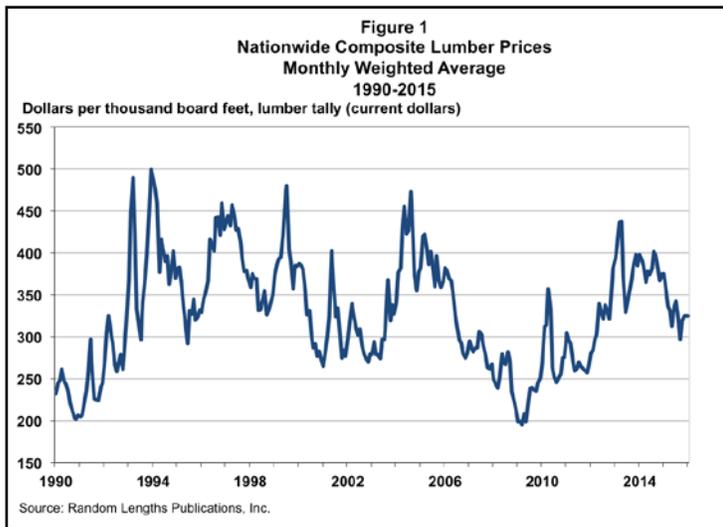
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Operating Conditions

In 2015, wood product markets struggled due to multiple factors. While U.S. housing starts grew about 10 percent from 1.00 million in 2014 to 1.10 million in 2015,* growth was about 38 percent less than the 1.16 million that had been forecast at the beginning of 2015. The slowdown in the Chinese economy reduced exports of logs, lumber, and other wood products from U.S. and Canadian producers to Asia. The U.S. Dollar gained against most currencies, particularly China's and Canada's, making the U.S. a prime destination for wood products and challenging domestic producers' abilities to sell into weakening domestic and foreign markets. The Softwood Lumber Agreement between Canada and the U.S. expired in October 2015, causing uncertainty for at least the next year about Canadian mills selling into the already over-supplied U.S. market.



While 2015 lumber prices in the U.S. were about 13 percent lower than 2014 (**Figure 1**), and panel prices were down about 3 percent, average delivered sawlog prices (through the third quarter) in Idaho were up slightly from 2014. However, sawlog prices for most species in Idaho declined overall during 2015, following lumber prices down during the second and third quarters. The exception was western redcedar prices, which continued rising throughout 2015.

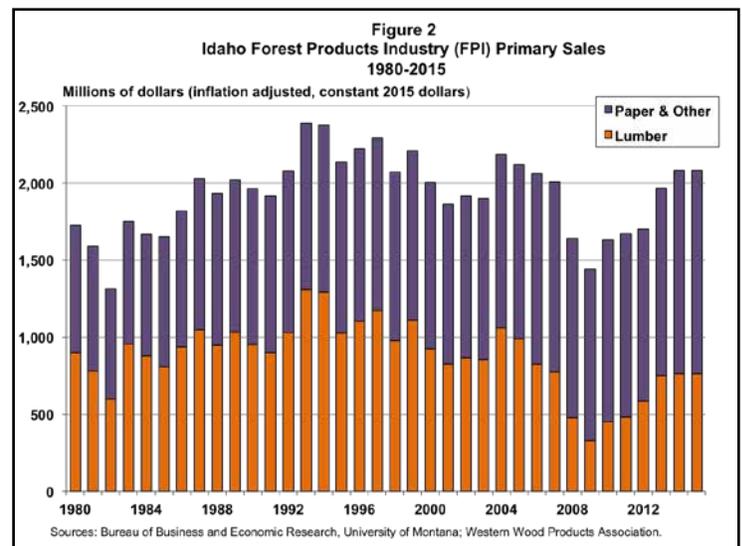
* All values for calendar year 2015 in this report are estimates based on information available through mid-November 2015.

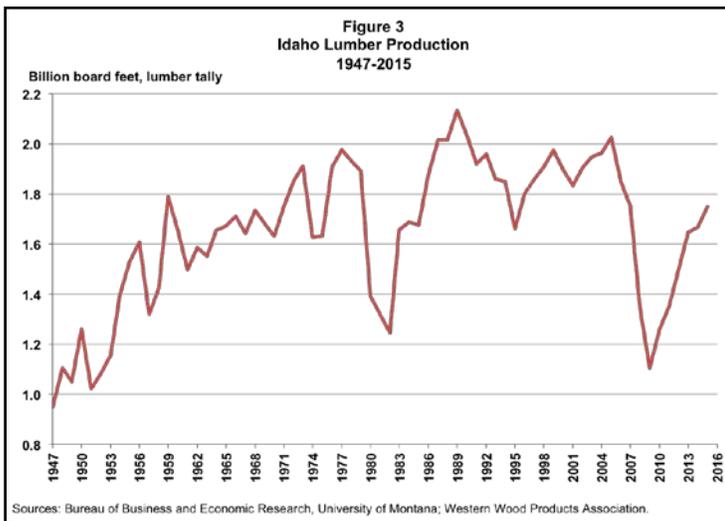
Idaho Forest Products Industry Sales, Production, and Employment during 2015

A sample of larger primary wood products firms in Idaho was surveyed during November 2015 to provide a general assessment of 2015 compared to 2014. Most firms indicated a steady to positive year in 2015, relative to 2014, with production, sales, profits, and employment on par or modestly above 2014 levels. None of the firms reported having reduced capacity during 2015, and a few indicated making major capital improvements during the year. One firm indicated a possible curtailment during 2015.

Sales trend by industry segment. Total sales of forest products manufactured in Idaho were estimated to be \$2.72 billion in 2015, the same as in 2014. Sales of primary forest products manufactured in Idaho during 2015 were \$2.08 billion in constant 2015 dollars, the same as in 2014 (**Figure 2**). Lumber sales in 2015 were estimated at \$761 million, down slightly from \$762 million in 2014. Paper and other primary product sales (including plywood) were estimated to be \$1.32 billion, the same as in 2014. Secondary forest product sales were estimated to be \$642 million in 2015, down slightly from \$646 million in 2014.

Economic impact of sales (multiplier effect). Because of linkages to supporting industries, each dollar of wood and paper products sold and exported from the state generates, on average, an additional \$0.75 of sales by other industries within the state. About 90 percent of primary wood products and 65 percent of primary paper products are exported out of the state; 65 percent of





secondary products are assumed to be exported. Using the output multiplier from the IMPLAN model, the total impact in Idaho from converting timber into consumer products is \$4.19 billion in sales, of which \$1.46 billion is from industries that support forest products manufacturing, including heavy equipment, trucking and other transportation-related services as well as many wholesale, retail, and service sectors of the economy.

Lumber production trend. Despite lower national average lumber prices, Idaho's 2015 lumber production was estimated to be up 5 percent from 1.67 billion board feet (lumber tally) in 2014 to 1.75 billion board feet in 2015 (**Figure 3**). Unlike neighboring Montana, none of Idaho's larger mills announced cut-backs or layoffs during 2015, and many indicated steady or increased production from 2014 levels. Since the Great Recession of 2007-2009, most Idaho sawmills have increased operating levels from around 60 percent to 75 percent or more of capacity utilization. This is due in part to slowly increased demand from housing starts and several years of rising lumber prices.

Employment and worker earnings. Forest products industry employment in 2015 was estimated at 11,980 jobs, the same as in 2014 (**Figure 4**). Estimates of employment in Idaho's wood and paper products manufacturing sectors were relatively unchanged from 2014. Employment in the forestry and logging sector was estimated to be down slightly because of lower harvest levels. However, employment in the forestry support sector was estimated to be up slightly due to the busy firefighting season in Idaho during 2015.

Worker earnings in the forest products industry totaled about \$678 million in 2015, up from \$672 million in 2014. This is 1.7 percent of all worker earnings in the state. Average worker earnings in the forest products industry were \$56,600 per job, which is about 39 percent higher than the Idaho average of \$40,600 for all jobs.

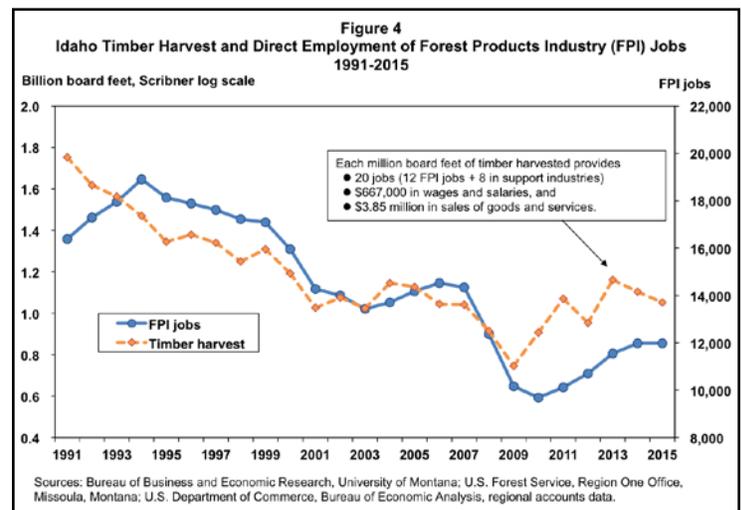
Economic impact of employment (multiplier effect). The IMPLAN model estimated 8,300 jobs in the industry were due to exports of manufactured forest products outside the state. The IMPLAN model also estimated that each export-related job supported 1.65 jobs in other sectors of Idaho's economy. The result was an additional 13,700 indirect or induced jobs in businesses that support the forest products industry. In total, the multiplier effect from inter-industry linkages resulted in a total of 22,000 jobs in Idaho from converting timber to consumer products.

Value-added by forest products manufacturing.

Gross Domestic Product (GDP) is the sum of all value added from economic activity in the state. Based on the most recent data available from the U.S. Department of Commerce, wood and paper products manufacturing was 0.9 percent of all industry GDP in Idaho or 6.8 percent of manufacturing GDP. GDP per job in wood and paper products manufacturing was \$64,650, about 4 percent higher than average GDP per job across all industries in Idaho, indicating that wood and paper products manufacturing jobs add relatively more value to the state economy than many other sectors.

Idaho Timber Harvest and its Impact

Forest products industry jobs and worker income depend upon the harvesting of timber. During 2015 timber harvest volume in Idaho was estimated to be about 1.05 billion board feet (Scribner log scale), a decrease of about 5 percent from 2014, but a 40 percent increase from the recession-induced level of 746 million board feet in 2009 (**Figure 4**). Harvest volume from private lands was estimated to have decreased about 9 percent from 2014 to 2015, while harvest from state lands increased about 5 percent and harvest from federal lands increased about 1 percent (**Figure 5**).



As noted in **Figure 4**, today each million board feet of timber harvested and processed in the state provides approximately 20 jobs (12 in the forest products industry plus 8 indirect or induced jobs in supporting industries), \$667,000 in wages and salaries, and generates \$3.85 million in sales of goods and services.

Since the mid-1990's, Idaho's forest products industry has been sustained primarily by timber harvests from private and state lands (**Figure 5**). During 2015, private lands provided 62 percent of Idaho's timber harvest volume, while state lands provided 27 percent. About 11 percent of the timber harvest volume came from U.S. National Forest System lands.

Approximately 39 percent of Idaho's land (20.4 million acres) is within the U.S. National Forest System. More than three-fourths of Idaho's timber resources are on federal lands, a total that does not include 4 million acres of federal forest lands in the National Wilderness Preservation System. As **Figure 5** illustrates, between 1947 and 1990 federal lands provided, on average, 43 percent of the timber harvested in the state. In 1990, federal timber harvests began a system-wide decline. In the past 10 years, federal lands within Idaho have provided about 10 percent of the harvest.

Outlook for 2016

General economic outlook. General economic conditions in the U.S. influence wood products markets. The consensus view from the *Survey of Professional Forecasters* (Federal Reserve Bank of Philadelphia, November 2015) is that the U.S. economy will grow modestly in 2016. Real GDP is forecast to grow 2.6 percent in 2016, compared to 2.4 percent in 2015. Unemployment is forecast to fall to 4.8 percent in 2016 from an average of 5.3 percent in 2015. In 2016, average monthly non-farm employment is predicted to grow at a rate 1.7 percent above the 2015 rate. Inflation is expected to remain low in 2015 at 2.0 percent.

General wood products outlook. In general, domestic wood products markets in 2016 are expected to remain similar to 2015. Idaho wood products markets are highly correlated with U.S. housing starts, which are expected to increase slightly to 1.23 million units in 2016. Since 1994, more than 90 percent of the variance in the level of Idaho lumber production can be explained by U.S. housing starts. Although the Federal Reserve is expected to raise interest rates that will drive mortgage rates higher in 2016, mortgage rates are expected to remain near historically low levels. Low mortgage rates coupled with lending standards that have eased over the past year may stabilize or increase the home ownership rate. Many Idaho mills continue to have underutilized capacity, and timber processors are positioned to increase output in response to improved markets.

Foreign export markets for wood products are predicted to remain challenging in 2016. On the positive side, the U.S. dollar is expected to weaken; however, economic growth in China and other emerging markets is expected to continue to slow. In terms of imports, Canadian lumber may increase as a result of the expired softwood lumber agreement. Although both the U.S. and Canada have expressed interest in negotiating a new trade agreement that could retroactively establish price assurances, the fate of negotiations on Canadian lumber imports into the U.S. is unknown.

Idaho manufacturer's outlook. In the survey of large Idaho forest product manufacturers conducted in November 2015, 3 topics consistently emerged pertaining to major factors affecting business in 2016:

- Market demand for lumber with good pricing—as outlined above, U.S. housing markets and international trade issues affect demand for Idaho lumber.
- Skilled workforce—finding and retaining skilled workers is increasingly challenging for the Idaho forest products industry. Variable wages, the high cost of entry for purchasing logging and trucking equipment, and especially the aging workforce are growing concerns.
- Timber supply—with 80 percent of the state's growing-stock volume on timberlands under federal management, availability of timber is a challenge to Idaho's forest industry. Without a reliable and affordable supply of timber, mills have difficulty responding to increasing demand for wood products. Progress is expected to continue in 2016 to implement "Good Neighbor Authority" which allows the Idaho Department of Lands to conduct forest restoration activities on national forest lands pursuant to the federal Agricultural Act of 2014 (Farm Bill). Under the authority, the state could retain timber receipts to support implementation of the program in an effort to increase the supply of timber from federal lands.

