Outlook 1999

Montana’s Forest Products Industry: Production Declined In Late 1998

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Global Impacts
In 1998, Montana’s forest products industry performed somewhat better than expected given the expanding Asian financial crisis. 1998 production and employment slightly exceeded 1997 levels, but much of the increase was due to mild weather, which allowed higher than normal levels of logging and temporarily increased log supplies.

The impacts of the worsening Asian financial crisis, which caused a sharp drop in prices in the last half of 1997, prevented product prices from increasing even with record levels of lumber consumption in the United States (Figure 1).

The economic crisis also further weakened the Canadian dollar, thereby enhancing the competitive position of Canadian producers.

1998 Employment and Production
Estimated forest industry employment for 1998 was 11,100, unchanged from 1997 (Figure 2).

Lumber production in 1998 was up slightly to 1240 MMBF from 1211 MMBF in 1997. Plywood production increased by about 5 percent in 1998 (Figure 3).

In the last quarter of 1998, we have seen market-related curtailments and closures, and the outlook for 1999 is uncertain.

Outlook
The U.S. economy is expected to slow in 1999, causing housing to drop off from very high levels of 1998. However, consumption should remain high.

The Asian economic problems have lasted longer than expected, though global economies are gradually improving and wood product prices should begin to increase.

The global situation does pose some significant risks for Montana producers. There is about a 30 percent chance that a global recession will cause a U.S. recession, with a 5 percent chance that it will be severe. This could set up a situation for the forest products industry similar to the 1980-1982 recession, when mills faced low prices and had timber under contract that they could not afford to harvest. Severe recession conditions idled half of the state’s milling capacity in 1982.

When the global economy recovers, we can expect a return to historically high product prices.

Timber availability remains a key long-term concern. The expiration of the salvage rider and weaker markets have caused the 1998 national forest sale program to drop by 30 percent from 1996 and 1997 levels (Figures 5 and 6).
**Figure 3**

Montana Lumber and Plywood Production, 1945-1998

![Graph showing lumber and plywood production](image)

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

**Figure 4**


![Graph showing sales value](image)

**Figure 5**


![Graph showing timber cut and sold](image)

Source: USDA Forest Service Region One, Missoula, Montana.

**Figure 6**

Montana Timber Harvest by Ownership, 1945-1998

![Graph showing timber harvest](image)

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