

# Montana's Forest Products Industry

## Current Conditions and 2006 Forecast

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### Operating Conditions

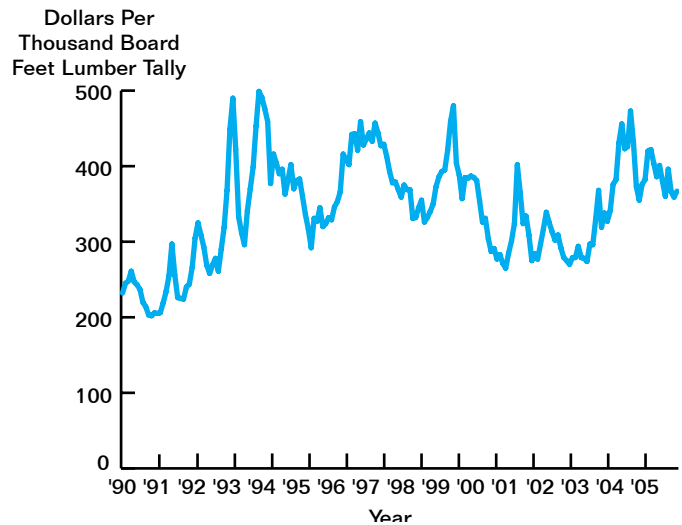
Prices for most wood products were down slightly in 2005 relative to the high prices in 2004. After starting the year at high levels, lumber prices declined in the first half of 2005, then spiked during the hurricanes in late summer and early fall. Following the initial reactions to the hurricanes, lumber prices fell and then settled down to a modest level by the end of the year. (Figure 1) However, even with the slight decrease in lumber prices, the 2005 average remained considerably above prices seen from 2001 to 2003. The yearly average lumber price in 2005 was approximately 4 percent below that of 2004.

Numerous factors impacted prices, sometimes in offsetting ways. Some factors include:

- Mortgage rates remained low, contributing to record high lumber consumption in the United States.
- A severe hurricane season led to a spike in demand.
- The Canadian dollar continued to gain strength against the U.S. dollar, assisting U.S. producers.
- Imports of softwood lumber from Canada and other nations reached new high volumes.
- High energy prices increased logging, milling, and transportation costs.

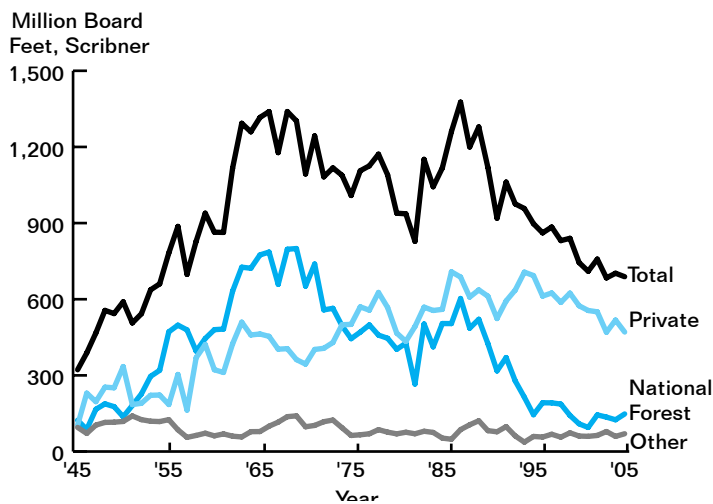
Raw material availability continued to constrain Montana's forest products industry with virtually every timber processing facility listing raw material availability and cost as a major concern during 2005. Estimated timber harvest from all ownerships was

**Figure 1**  
Nationwide Composite Lumber Prices  
Monthly, 1990-2005



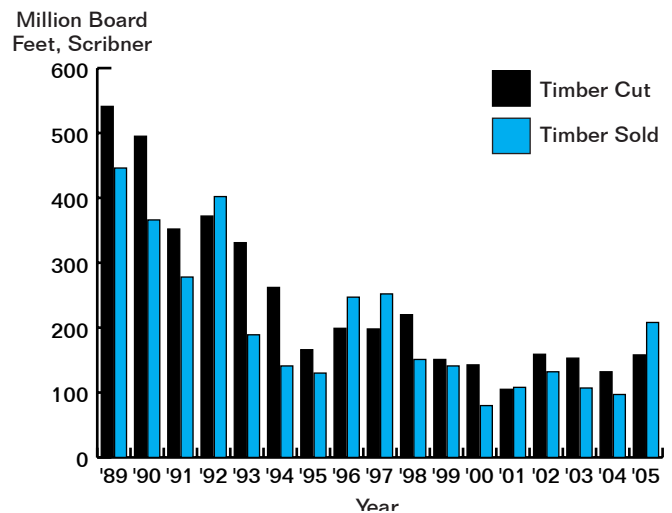
Source: Random Lengths Publications.

**Figure 2**  
Montana Timber Harvested by Ownership,  
1945-2005



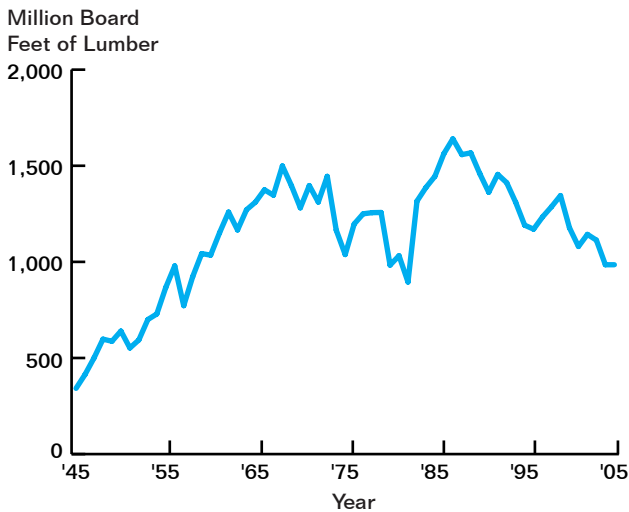
Source: Bureau of Business and Economic Research, The University of Montana-Missoula; USDA Forest Service Region One, Missoula, Montana.

**Figure 3**  
Montana National Forest Timber  
Cut and Sold Volumes, 1989-2005



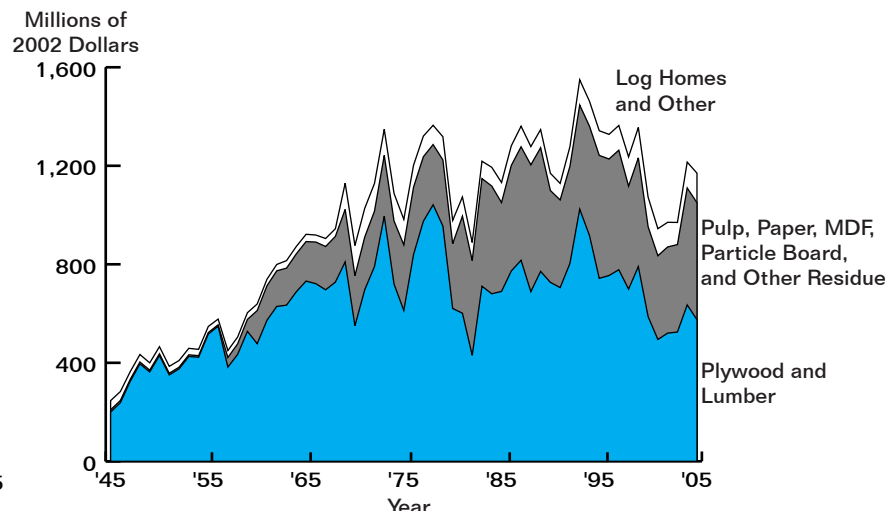
Source: USDA Forest Service Region One, Missoula, Montana.

**Figure 4**  
**Montana Lumber Production, 1945-2005**



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

**Figure 5**  
**Sales Value of Montana's Wood and Paper Products, 1945-2005**



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

down slightly from 2004 levels. (Figure 2) National forest harvest and timber sales were actually up in fiscal 2005, which ended in October. (Figure 3) Private timber harvest was down from 2004, indicating that perhaps inventory levels are constraining timber harvest on private timberlands. Lower harvest levels in Northern Idaho increased regional competition for Montana timber.

## Sales, Employment, Production

Lumber production in 2005 was just under 1 billion board feet, about equal to 2004. (Figure 4) As in 2004, Montana 2005 lumber production was disappointing and lower than during the poor market years of 2001-2003. Limited timber availability led to the closure of the Owens & Hurst sawmill in Eureka in the last half of the year. A slight increase in production at other sawmills nearly offset the output from that mill closure. Long-term market conditions caused the Stimson plant in Bonner to discontinue their commodity plywood line.

The output of other major components of Montana's wood and paper products industry was generally higher in 2005. (Figure 5) Due in large part to slightly lower lumber prices, total sales value of the state's primary wood and paper products in 2005 decreased to about \$1.17 billion (fob the producing mill) from just over \$1.20 billion in 2004. Employment during 2005 was about 9,700 workers, off by about 100 workers from 2004.

## Outlook for 2006

In 2006, prices for lumber and other wood products may be off somewhat from 2004 and 2005 levels, but prices are expected to remain well above the average for the years 2000 through 2003.

Total U.S. wood products consumption is expected to decline slightly from record levels in 2005. Increasing mortgage rates should cause housing starts in the United States to slow slightly,

while repair and remodel markets should be strong and on par with 2005. The nation's non-residential wood use is expected to increase. Increased demand from hurricane recovery should be spread over several years and increase demand modestly. Further, weakening of the U.S. dollar may partly offset substantially lower duties on Canadian softwood lumber.

The Bureau's survey of wood products industry executives, conducted as part of the annual economic outlook, indicates that 55 percent of Montana mill operators expect 2006 to be better than 2005, while just 9 percent expect it to be worse. Roughly 61 percent expect production to be up, and 58 percent expect prices to be higher in 2006. Nearly 64 percent of those surveyed expect profits to be higher in 2006. Twenty-four percent expect their employment to increase from 2006 levels, while 12 percent expect employment to decrease.

Virtually all of the of the mill operators surveyed expect raw material availability and timber cost from both public and private lands to be a major issue affecting their operations during 2006. Uncertainty over log supply involves public and private lands as well as log flows. As indicated earlier, inventory may be limiting output from private lands. Harvest and sales from public lands increased in 2005 in particular on the national forests. (Figures 2 and 3) National forest harvest, however, remains very uncertain. Litigation, conflicting court decisions, and budget uncertainty make predicting federal harvest levels imprecise.

Further, for virtually every year in the last two decades, Montana has imported 5 to 10 percent of the timber processed in the state - mostly from Idaho. During 2005, more timber flowed out of Montana and into adjacent states than came into the state. Changes in land ownership patterns and changing long-term agreements between land owners and mill operators indicate that this shift may become the norm for the foreseeable future.