Montana’s Forest Products Industry  
Current Conditions and 2007 Forecast

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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. Average lumber prices fell by over 20 percent as 2006 progressed (Figure 1). Lower prices coupled with continued constraints on timber harvest caused a decline in sales, production, and employment in Montana’s forest products industry.

Housing starts fell in response to a build up in inventories of unsold homes brought on by higher mortgage rates and very high housing construction in the previous few years, part of which was speculative. 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 2006. Appeals and litigation were the major factors impacting the national forest timber program (Figures 2 and 3). Private timber harvest was down slightly from 2005, indicating declining regional inventories and response to lower prices. Higher energy costs impacted logging costs as well as operating costs at mills.

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**Figure 1**

**Nationwide Composite Lumber Prices**  
Monthly, 1990-2006

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**Figure 2**

**Montana Timber Harvested by Ownership, 1945-2006**

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**Figure 3**

**Montana National Forest Timber Cut and Sold Volumes, 1989-2006**
2006 Sales, Employment, Production

Total sales value of the state’s primary wood and paper products in 2006 decreased by about $100 million (fob the producing mill) from just over $1,170 million in 2005 (Figure 4). Employment during 2006 was about 9,700 workers, off by about 250 workers from 2005. Lumber production in 2006 was an estimated 940 million board feet, down approximately 6 percent from 2005 (Figure 5).

Outlook for 2007

No dramatic improvements are expected in 2007. Weakness in the U.S. housing industry is expected to persist at least through the first half of the year due to high inventories of unsold homes. Additional lumber production in some competing regions could remain high – for example, interior British Columbia is harvesting large volumes of timber to deal with an insect epidemic.

Several factors could cushion negative market influences in 2007:

- expected lower interest rates,
- further weakening of the U.S. dollar,
- a new softwood lumber agreement with Canada which may provide some lumber price support in low markets and reduced price volatility,

The Bureau’s survey of wood products industry executives, conducted as part of the annual economic outlook, indicates that 2006 was substantially worse than expected. In late 2005, only 9 percent expected poorer conditions in 2006. However, when reporting on 2006, one-third indicated decreased sales, production, and profits. After a weak year in 2006, only 30 percent of Montana wood products producers expect 2007 to be better than 2006.