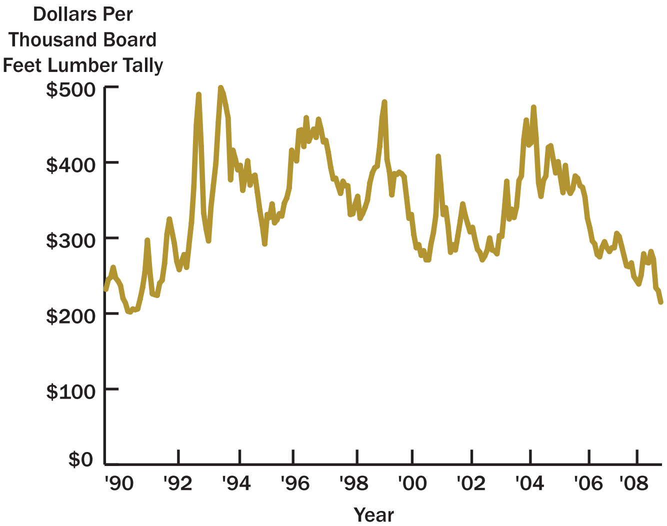
Montana's Forest Products Industry
Current Conditions and 2009 Forecast

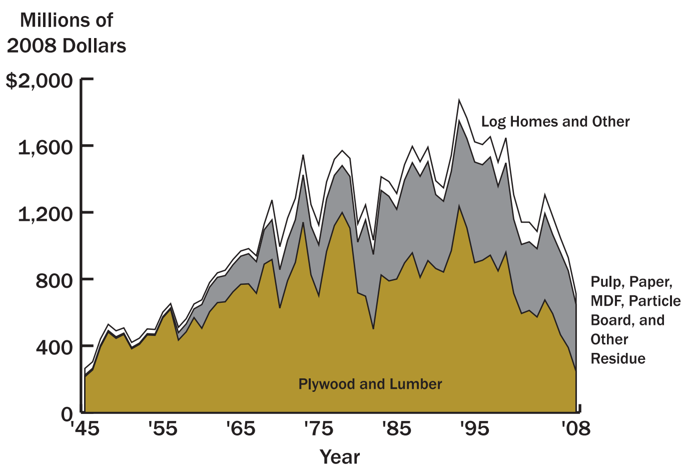
by Todd A. Morgan and Charles E. Keegan III

Figure 1
Nationwide Composite Lumber Prices Monthly, 1990-2008



Source: Random Lengths Publications.

Figure 2
Sales Value of Montana's Wood and Paper Products, 1945-2008



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

2008 Conditions

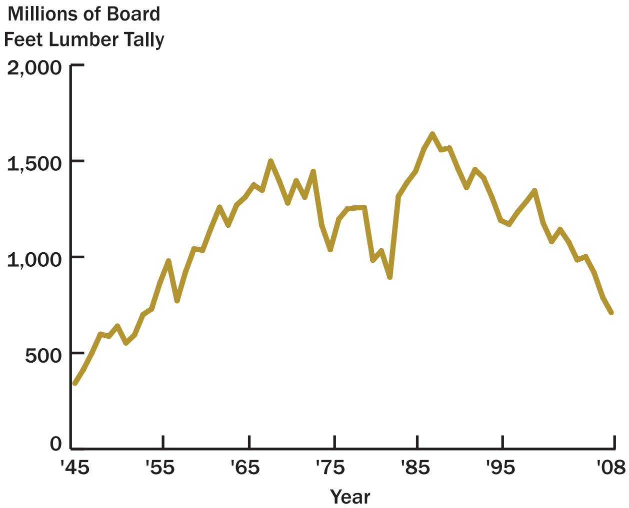
During 2008, Montana's forest products industry was negatively impacted not only by a third weak year in the U.S. housing industry but by the deepening financial crisis which has spurred a global economic downturn. Annual U.S. housing starts peaked at just over 2 million in 2005. There were 906,000 housing starts in the United States during 2008 – the lowest level in more than five decades. In response to ongoing declines in housing and generally weakening demand, lumber prices dropped about 35 percent from 2005 to 2008 (Figure 1).

Total sales value of Montana's primary wood and paper products in 2008 was estimated to be about $710 million (fob the producing mill). Sales decreased by about $215 million from 2007 and were about $460 million lower than 2005 sales (Figure 2). Total wood products employment – including forestry, logging, forestry support activities, solid wood products, and paper manufacturing – was about 9,070 workers, down by about 9 percent from the revised 2007 estimate of 9,927 workers. In-state lumber production was about 684 million board feet, down approximately 13 percent from 2007, and 32 percent from the peak housing year of 2005 (Figure 3).

Partially in response to diminished demand for wood products, Montana's total timber harvest volume during 2008 was estimated to be less than 450 million board feet Scribner, down about 16 percent from 2007, and the lowest timber harvest since 1946 – when statewide harvest was below 400 million board feet (Figure 4). Timber harvest from private lands was estimated to be about 20 percent lower than 2007. The fiscal year 2008 harvest reported by national forests in Montana was up from 2007 (Figure 5) to around 100 million board feet Scribner. However, more than half the volume reported cut from national forests in Montana was classified as "fuelwood" or "non-sawlog" material. Harvest volumes from other owners, including tribal, state, and Bureau of Land Management lands, were estimated to be about 14 percent higher than in 2007 due to salvage logging activity.

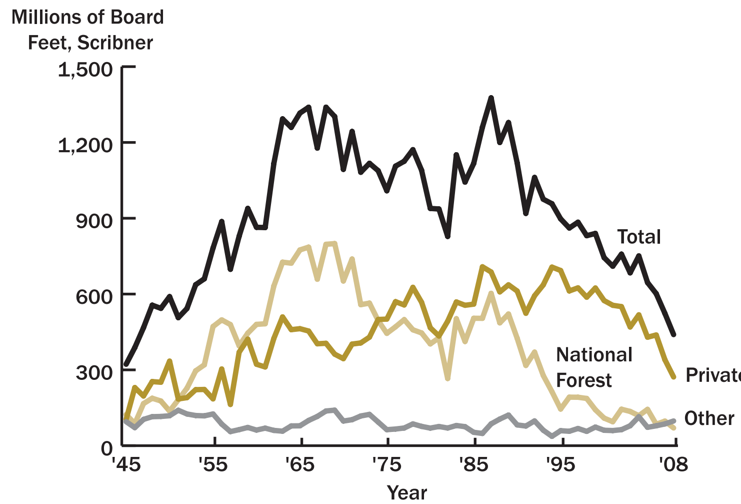
The Bureau's survey of Montana forest products industry executives indicated that 2008 was worse than expected. In late 2007, 35 percent expected 2008 conditions to be worse than 2007. About two-thirds of executives indicated that 2008 production, sales, and profits had decreased from 2007, while less than 20 percent indicated 2008 was about the same.

Figure 3
Montana Lumber Production, 1945-2008



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

Figure 4
Montana Timber Harvested by Ownership, 1945-2008



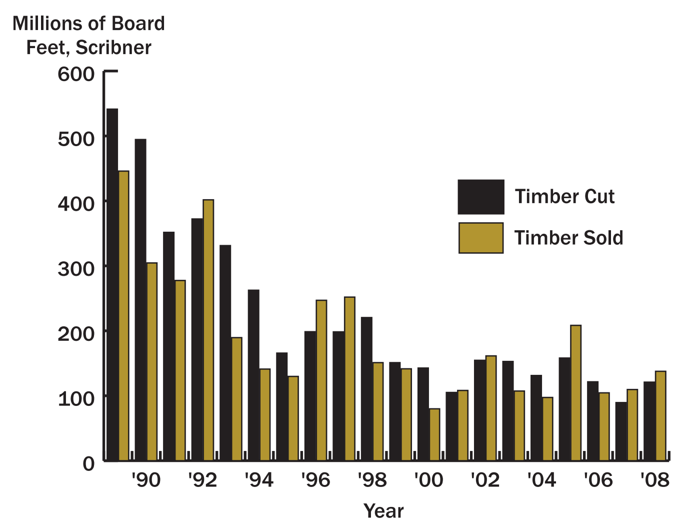
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; USDA Forest Service Region One, Missoula, Montana.

Outlook for 2009

Most of Montana's forest products industry executives are pessimistic about 2009. Roughly one-half of executives anticipate that production, prices for their products, and sales will be about the same in 2009 as 2008, and more than 90 percent expect 2009 to be about the same or worse than 2008. Only 26 percent expect the cost of inputs to be higher in 2009, and 55 percent indicated that raw material availability is still very important to their business despite the poor market conditions for finished products. Workers' compensation rates, health insurance costs, costs of energy, and the general economic situation were also indicated as major concerns for most of Montana's forest products industry.

Weak wood products markets and mill curtailments are expected through 2009, with housing starts for 2009 expected to be even lower than 2008 levels. Whether or not Montana's forest products industry can once again thrive depends on two key factors: its ability to ride out the current situation and local timber availability when market conditions eventually improve. Many private forest landowners are postponing timber management activities until market conditions improve and prices offered for logs increase. However, not all wood products markets move together, and local demand for timber by individual mills may still provide public and private landowners with opportunities to generate some revenue from conducting essential fuel reduction and restoration treatments in the near-term.❑

Figure 5
Montana National Forest Timber Cut and Sold Volumes, 1989-2008



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

Todd A. Morgan is the Bureau's director of forest industry research. Charles E. Keegan III is the retired director of forest industry research and a research professor.