Montana’s Forest Products Industry
Current Conditions and 2011 Forecast

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Operating Conditions
The dreadful economic conditions experienced by the country’s forest products industry in 2009 improved somewhat during 2010. Lumber consumption in the United States remained at historically low levels, although softwood lumber exports increased by more than 50 percent. Annual U.S. housing starts, which fell to 554,000 units during 2009 – their lowest level in more than six decades – rebounded about 10 percent to just over 600,000 units in 2010. In response to rising exports and a slight uptick in housing starts, lumber prices were approximately 27 percent higher during 2009 (Figure 1).

Montana’s sawmills, plywood, and reconstituted board facilities showed modest increases in output during 2010 from very low levels in 2009. However, the January 2010 closure of the Smurfit-Stone Container linerboard facility in Frenchtown cost the state’s forest products industry its largest single employer and largest user of wood fiber. Permanent closures also continued to impact the state’s log home industry. Logging employment was relatively stable from 2009 to 2010 after sharp declines from 2008 to 2009. Additionally, several hundred Montana forest industry workers were kept active conducting much needed road and trail restoration, forest health protection, and hazardous fuels reduction, aided by more than $70 million in federal stimulus funds and a variety of federal, state, and private lands projects.

2010 Sales, Employment, and Production
Total sales value of Montana’s primary wood and paper products was approximately $325 million (fob the producing mill) during 2010. Sales were down about $225 million or 40 percent from 2009, and were about $850 million lower than 2005, when sales were just under $1.2 billion (Figure 2). Total forest industry employment during 2010 was about 6,840 workers (including the self-employed), down by about 3 percent from the revised 2009 estimate of 7,060 workers. Labor income in Montana’s forest industry was estimated to be less than $265 million during 2010, about 7 percent lower than 2009. Among Montana’s remaining sawmills, lumber production in 2010 actually increased from 2009 levels to an estimated 480 million board feet lumber tally. Production was still down more than 50 percent from 2005 levels and almost 30 percent lower than 2008 (Figure 3).
Despite the numerous stimulus-supported activities, which included little commercial timber harvest, Montana’s timber harvest volume during 2010 was an estimated 321 million board feet (Scribner), about 12 percent higher than 2009. This is the second lowest timber harvest on record since 1945, the lowest being in 2009 (Figure 4). The harvest from private lands increased somewhat, but was still only 50 percent of the 2008 harvest and just 40 percent of the 2005 harvest. National forest timber harvest during fiscal year 2010 (Figure 5) was reported to be about 10 percent higher than 2009, marking a third consecutive year of increases from the record low of 2007. National forest cut volumes, however, include considerable amounts (nearly 50 percent by volume) of residential firewood and non-sawlog material.

**Outlook for 2011**

National forecasts once again call for a modest uptick in the U.S. economy, housing starts, and consumption of wood and paper products in 2011, with larger improvements in 2012. Some optimism is also reflected in the outlook of Montana’s remaining wood products industry executives, with 46 percent expecting 2011 to be better than 2010 and 35 percent expecting conditions to be about the same as 2010.

About 40 percent of executives anticipate that production and prices for their products will increase, and 50 percent expect gross sales to increase in 2011. Almost 50 percent expect the cost of inputs to be higher than in 2010, while more than 48 percent indicated that raw material availability is still very important to their business. Health insurance costs, workers’ compensation rates, and workers’ compensation rules continued to be very important concerns for the majority of Montana’s wood products manufacturers.

As a whole, Montana’s forest industry faces a high degree of uncertainty in the near-term. The purchaser and fate of the Smurfit-Stone mill are still unknown. Attempts to locally develop a woody biomass energy industry are being hampered by a confusing and often contradictory mix of federal laws, incentives, and agency policies. Continued increases in domestic housing and foreign demand for lumber could benefit Montana’s forest industry by improving markets for wood products, provided mills in the state can overcome the chronic shortage of available timber. Continued increases in activity on federal timber lands, however, are not expected, as most of the pipeline of shovel-ready projects was depleted with 2009 and 2010 stimulus activities and federal budget cuts expected. Despite these uncertainties, many in Montana’s forest industry remain optimistic and eager to capitalize on new opportunities.