Great Recession Impacts on the Western Forest Products Industry

Charles E. Keegan¹, Colin B. Sorenson¹, Todd A. Morgan¹, Steven W. Hayes¹, Jean M. Daniels²

¹ The University of Montana Bureau of Business and Economic Research
Forest Industry Research Program
² USDA Forest Service Pacific Northwest Research Station
Goods, Services, and Values Program

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Who we are & what we do

Research branch of The University of Montana School of Business Administration

• Regional economic analysis
• Survey research
• Industry analysis

➤ Forest industry research
Forest Industry Research

1. State-level industry analysis
2. Logging utilization studies
3. Resource Planning Act Assessment & Timber Products Output database
4. Quarterly Montana reporting
5. Outlook Seminars & Other projects
Industry Analysis

- Rocky Mountains & Pacific Coast
- Describe industry structure, capacity, condition, and changes
- Track wood fiber from the forest through primary processing
- Associate key economic indicators
Objectives

• Describe market conditions and some other factors shaping industry in the West

• In particular, the recent decline and its impact on production, harvest, value of output, and the size and structure of the industry
The West
Recent Market Conditions

• 2003-2005
  – Lumber consumption at record levels

• 2006-2009
  – Housing starts tumble...
Recent Market Conditions (cont)

• 2010–2011
  – “Demand for lumber in the U.S. at the lowest level in modern history”
  – “Recession ended in 2009 – who knew?”
  – Dramatic increases in exports to China
  – Modest rebound in housing
Impact on Industry: “Dreadful”

- Curtailments at virtually every major wood products mill in the West and numerous permanent closures
- Forest products industry employment dropped by over 70,000 in the West between 2005 and 2010 (half of the losses in OR/WA/MT/ID)
- Permanent closure of 30 major mills
U.S. Housing Starts

73% drop from 2005 to 2009

Source: U.S. Census Bureau
West-wide and OR/WA/ID/MT Harvest

Million Board Feet (MMBF), Scribner

West-wide
OR/WA/ID/MT

'60 '70 '80 '90 '00 '10

Million Board Feet (MMBF), Scribner
West-wide and NW States Lumber Production

Million Board Feet, Lumber Tally

West-wide
OR/WA/MT/ID

'50 '60 '70 '80 '90 '00 '10
Nationwide Composite Lumber Prices Monthly, 2000-2012

Source: Random Lengths
Western Forest Products Industry, Primary and Secondary Sales Value

<table>
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<th>Year</th>
<th>Secondary</th>
<th>Primary</th>
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Billion US Dollars
OR/WA/ID/MT Forest Products Industry, Primary and Secondary Sales Value

- Secondary
- Primary

Billion US Dollars

Year | Secondary | Primary
--- | --- | ---
2001 | 6.3 | 15.0
2002 | 6.8 | 15.4
2003 | 6.4 | 15.8
2004 | 6.7 | 18.9
2005 | 8.6 | 18.2
2006 | 10.0 | 17.2
2007 | 9.2 | 16.4
2008 | 8.6 | 14.2
2009 | 5.9 | 11.4
2010 | 6.7 | 11.6
Timber-Processing Capacity

- Volume of timber that could be used annually by existing timber processors, assuming firm market demand and sufficient raw material availability.

- Capacity is expressed in common units of timber input; this is estimated based on capacity expressed in units of output and recovery factors.
Western States Timber-Processing Capacity and Timber Use

Western Capacity
Western Use
OR/WA/ID/MT Capacity
OR/WA/ID/MT Use

Million Board Feet (MMBF), Scribner 56%

- 1986: 72%
- 1996: 73%
- 2003: 77%
- 2005: 81%
- 2010: 56%

- 1986: 72%
- 1996: 76%
- 2003: 83%
- 2005: 83%
- 2010: 57%
Western Forest Products Industry Employment and Earnings

Source: Bureau of Economic Analysis; Bureau of Labor Statistics
Western Softwood Log Exports

Million board feet (MMBF) Scribner

- China
- Japan
- Korea
- Canada
- Rest of World

Year: 2000 to 2011
Outlook

• Increased product consumption in 2012-2013 but housing still well below the level of long term demand

• Extended weak market will likely lead to additional permanent closures

• Low capacity utilization - opportunity to increase production quickly when markets improve
Forest Sector Reeling During Economic Downturn

By W. Brad Smith and Richard W. Guldin

Forest products industries in the United States have reacted to changing market situations as economic conditions have changed since 2007. Mill closures and job losses throughout the forest products sector have swept the nation, often with significant local impacts. We have consolidated and analyzed data collected by the US Forest Service's Forest Inventory and Analysis (FIA) program and Forest Products Laboratory (FPL), the US Department of Commerce, and other sources to provide an overview of the recent trends and the current state of the forestry and wood-processing sectors of the US economy. Looking forward to an economic recovery, the future will be different for the forest industry sector and for forest management than prior to 2007. Since the economic downturn began in 2007, there have been two

Figure 1. Forest-industry jobs lost since 2005: about 113,000 in the South, 110,000 in the North, and 71,000 in the West.

Regional Data: US Forest Products Sector Still Reeling

By W. Brad Smith

The recent economic downturn has had a tremendous impact on forestry, forest products, and related activities in the United States. Following is the January 2012 article in The Forestry Source, "Forest Sector Reeling During Economic Downturn." A series of regional profiles is being prepared for an upcoming issue of the Forest Products Journal to explore the issue in more depth and provide more detailed regional analysis of the extent of the downturn, with a particular focus on trends in forest sector economic activity and employment across the United States. (The profiles are available at www.forestjournal.com.) The following examples, based on summaries from the regional papers on preparation, illustrate some of the central issues that will be addressed in more detail in the papers.

Absolute full time job losses since 2005 in all wood sectors (294,000 jobs lost)

- 10,000+ - 22,000 jobs
- 5,000+ - 10,000 jobs
- 3,000+ - 5,000 jobs
- Less than 3,000 jobs

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An Overview of the Forest Products Sector Downturn in the United States

Authors: Woodall, C.W.
USDA Forest Service, Northern Research Station, Forest Inventory and Analysis Program, St. Paul, MN, 55158

Innes, P.J. & Skog, K.E.
USDA Forest Service, Forest Products Laboratory, Madison, WI 53726-2398

Apaloe, F.X.
The School of Natural Resources, 330 Anheuser-Busch Natural Resources Building, University of Missouri, Columbia, MO, 65211

Keegan, C.E. & Sorenson, C.B.
Bureau of Business and Economic Research, Forest Industry Research, University of Montana, Missoula, MT, 59812

An Assessment of the Downturn in the Forest Products Sector in the Northern Region of the United States

Authors: Woodall, C.W. & Pita, R.J.
USDA Forest Service, Northern Research Station, Forest Inventory and Analysis Program, St. Paul, MN, 55158

Keppel, T.G.
National Resource Policy Center, Department of Forestry, Wildlife and Fisheries, University of Tennessee, Knoxville, TN, 37996

Smith, W.L.
USDA Forest Service, Washington Office, Washington, DC, 20250

Impact of the Great Recession and Housing Collapse on the Forest Products Industry in the Western United States

Authors: Keegan, C.E., Sorenson, C.B., Morgan, T.A., and Noyes, S.W.
The University of Montana, Bureau of Business and Economic Research, Missoula, MT, 59812, USA

Daniels, J.M.
USDA Forest Service, Pacific Northwest Research Station, Portland, OR, 97205, USA

Recession Effects on the Forests and Forest Products Industries of the South

Authors: Hodges, D.G.
The University of Tennessee; Department of Forestry, Wildlife and Fisheries; 2341 Johnson St.; 23141 Joe Johnson Drive, Knoxville, TN 37906 USA

Harriett, A.A., Brandelis, C., Brandelis, T.J., and Blythley, J.W.
USDA Forest Service, Southern Research Station, Forest Inventory and Analysis Unit, 4700 Old Kingston Pike, Knoxville, TN 37919-USA
Thank you!

Contact Info

Phone: 406-243-5113
charles.keegan@business.umt.edu
colin.sorenson@business.umt.edu
todd.morgan@business.umt.edu
www.bber.umt.edu/forest