

Montana's Forest Products Industry

Still Looking for the "Real" Homebuilding Recovery

TODD A. MORGAN, STEVEN W. HAYES, COLIN B. SORENSON, AND CHARLES E. KEEGAN III
 Forest Products and Manufacturing, Bureau of Business and Economic Research

While new home starts in the U.S. continued their gradual increases, from 924,900 in 2013 to just about 1 million for 2014 (Figure 1), the gains were less than anticipated. New home starts got off to a slow start in the first half of 2014, with only April showing a seasonally adjusted annual rate of more than 1 million starts. That took some of the momentum out of the forest products industry's advances of the past four years. Lumber and structural panel production in the U.S. and Canada were only somewhat higher in 2014 than 2013. Neither the lumber nor panel price indices reached the post-recession highs seen in early 2013, but both were solidly above their 2009 lows. Prices during 2014 were less volatile overall, with average prices for lumber on par with 2013, plywood prices higher, and composite panel (particleboard and medium-density fiberboard) prices somewhat lower than 2013.

For Montana's forest products industry, 2014 brought mixed results. Half of the Montana wood products firms surveyed annually by BBER indicated increased production in 2014, but 16 percent reported decreased output. Lumber production was estimated to be about 5 percent higher in 2014 than 2013, marking the fifth consecutive year of production increases from the post-World War II record low during 2009 (Figure 2). Several log home manufacturers also indicated increased orders and production. Production levels of panel products (plywood, particleboard,

and medium-density fiberboard) were estimated to be down from 2013, with the June fire at the Plum Creek medium-density fiberboard plant, upgrades at the Missoula's Roseburg particleboard plant, and tight supplies of veneer logs.

Total sales value from Montana's forest products industry increased very slightly from 2013, with gains in lumber and log homes. While 54 percent of surveyed firms indicated higher sales for 2014, 16 percent indicated lower sales. Total sales value of Montana's primary wood products during 2014 was about \$600 million

(fob the producing mill), up about \$8 million in constant dollars or just 1 percent from the revised 2013 estimate of \$592 million (Figure 3).

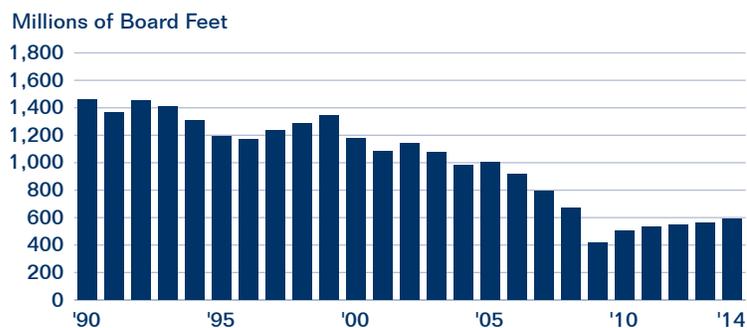
Worker earnings in Montana's forest industry were slightly under \$335 million during 2014, about 5 percent higher than the revised 2013 estimate of \$319 million. Wages paid to mill workers were more than 10 percent higher than in 2013, but income among forest workers was estimated to be down slightly. Total forest industry employment in Montana during 2014 was about 7,660 workers (including private

Figure 1
New U.S. Home Starts, 1990-2014



Sources: U.S. Census Bureau; USDA Forest Service; BBER, University of Montana.

Figure 2
Lumber Production, Montana, 1990-2014



Source: Western Wood Products Association.

sector foresters and loggers, primary and secondary wood product manufacturers, and workers engaged in forestry support activities), increasing less than 1 percent from 2013 (Figure 4). The number of production workers at Montana wood products facilities increased about 4 percent during 2014, with almost 40 percent of wood products facilities

“Continued increases in U.S. housing starts are projected, although getting back to the long-term average of 1.4 million to 1.5 million new home starts annually is still anticipated to be two or more years away.”

indicating they increased their workforce during 2014 but nearly one-quarter indicating a reduced number of employees. Montana’s in-woods employment levels were down slightly from 2013 due in large part to a decline in timber harvest.

Montana’s total timber harvest volume during 2014 was about 348

million board feet (MMBF) Scribner, having dropped about 8 percent from 2013 and just 7.5 percent above the 2009 low of 323 MMBF (Figure 5). Harvest was estimated to have declined across all the public owners (state, BLM, and Forest Service) and tribal lands, while private lands harvest was estimated to have increased somewhat. National forests in Montana reported cutting 6 percent less timber during fiscal year (FY) 2014 than FY 2013 (Figure 6). The cut volume in FY 2014 was 113 MMBF, of which 49 percent was sawlogs, 28 percent was firewood, and the remainder was a combination of posts and non-saw material. The Northern Region of the Forest Service, which includes Montana, northern Idaho, and North Dakota, reported a major accomplishment in its timber program. Region-wide, the agency offered and sold nearly 280 MMBF Scribner during FY 2014, thus achieving its annual timber sale target for the first time in more than a decade. It may be two years or more until timber from those sales is cut, and several of the sales are being (or will be) litigated, but the additional timber supply that those sales represent is welcome news for

**Figure 4
Montana Forest
Employment 1990-2014**



Source: U.S. Department of Commerce, Bureau of Economic Analysis and UM, BBER.

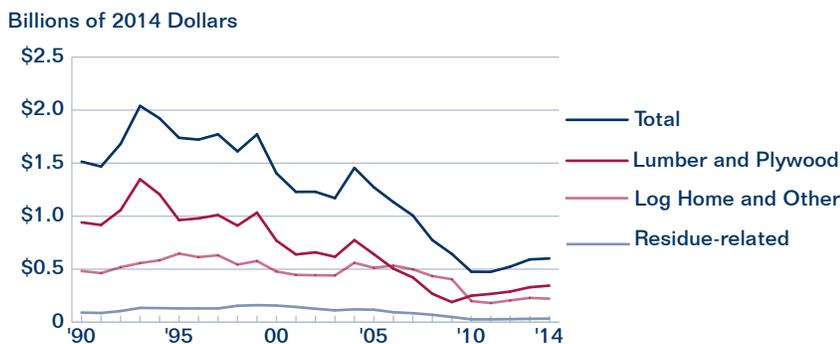
Montana’s wood products industry.

As wood product prices and the volume of products being demanded have increased over the past four years, Montana’s forest industry has been challenged by raw material availability. Delivered log prices in Montana have been increasing, rising almost 50 percent since 2011, as mills have tried to procure more timber to capitalize on the stronger product markets. Current log markets are good for Montana forest owners that want to sell timber.

2015: Modest Gains Expected

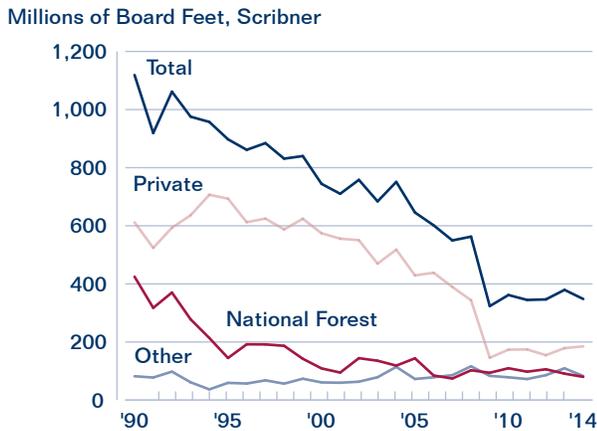
Looking forward, wood products markets in 2015 are expected to improve. Continued increases in U.S. housing starts are projected, although getting back to the long-term average of 1.4 million to 1.5 million new home starts annually is still anticipated to be two or more years away. Housing experts point out several factors related to demographics, slow job and wage growth, rising interest rates, and strict lending that could continue to constrain new home construction and purchases, while also indicating there is significant pent up demand from years of below average construction.

**Figure 3
Sales Value from Montana Primary Wood Products Industry
1990-2014**



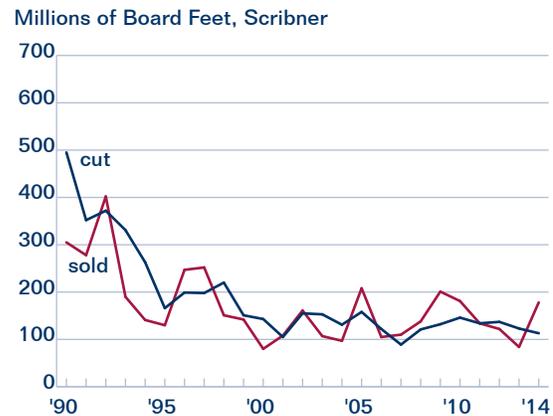
Sources: BBER, University of Montana; Western Wood Products Association.

Figure 5
Montana Timber Harvest by Ownership Class, 1990-2014



Sources: USDA Forest Service Northern Region; Bureau of Business and Economic Research, University of Montana.

Figure 6
National Forest Cut and Sold, Volumes in Montana, FY 1990-2014



Source: USDA Forest Service Northern Region.

In addition to housing, several factors are expected to benefit domestic wood product manufacturers in the coming year: reduced timber harvest and lumber production in western Canada resulting from the mountain pine beetle epidemic; continued overseas demand for logs, lumber, wood pellets, and other products; increasing public recognition that wood products are sustainable, renewable, and have significant carbon benefits relative to many other materials; and a U.S. Congress favoring increased use of domestic natural resources.

All these factors should benefit Montana’s forest industry, further stimulating production, sales, and employment for the state’s mills and loggers. Most Montana mills are operating at less than full capacity and, with an adequate supply of timber, can increase production to meet market demand. As in previous years, availability of timber continues to be a major challenge to Montana’s forest industry. Most of the timber-processing facilities in Montana have indicated that raw material availability

– log supply – was a major issue that affected their plant in 2014 and will impact them in 2015. Three-quarters of wood products firms responding to the Bureau’s annual survey of Montana manufacturers indicated that raw material availability is a very important issue to their firm, with another 20 percent indicating it as somewhat important.

The vast majority (90 percent) of Montana’s forest products industry expect 2015 to be the same as or better than 2014 for their business. Half of wood products manufacturers responding to the Bureau’s annual survey believe that production in 2015 will be about the same as 2014, with another third predicting increased production. Almost three-quarters of firms expect employment levels to remain constant, and less than 10 percent expect to lay off employees in 2015. About half of wood product firms expect gross sales, product prices, and profits to increase in 2015, however, only one-quarter expect to make major capital improvements in 2015.

In keeping with the annual

Outlook Seminar’s energy-related theme, Montana wood product manufacturers were asked several questions related to the impacts of energy development on their business. Most of the wood product firms indicated that energy development in Montana had little or no impact on their business. Several indicated that energy development has been or could be positive for their business, while several mentioned that energy development has made it difficult to find workers. Three-quarters of respondents indicated their energy costs have increased over the past three years, and 62 percent anticipate their energy costs will increase in 2015. Slightly less than half of surveyed wood products firms in Montana indicated they have had an energy audit or assessment of energy use or efficiency at their facility in the past three years. Many of the wood product firms in Montana produce energy or products used by the energy industry, including wood pellets, firewood, other forms of biomass, or electricity. ¹⁵