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Idaho's Forest Products Industry Current Conditions and 2013 Forecast

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The Inland Northwest Forest Products Research Consortium,
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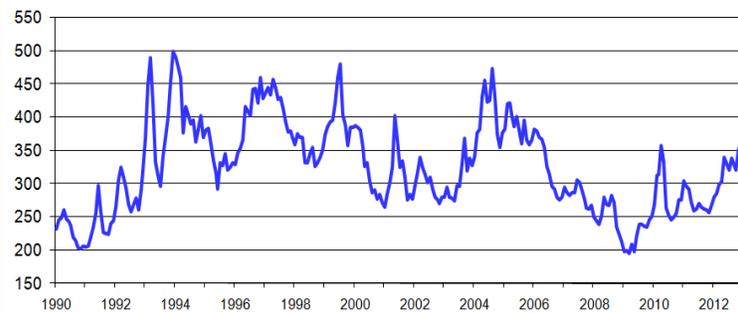
Idaho's Forest Products Industry Current Conditions and 2013 Forecast

Operating Conditions

Market conditions impacting Idaho's forest products industry continued to improve during 2012. New U.S. housing starts—while still well below the long term average—approached 800,000 units, up more than 25 percent from 2011 and up by nearly 40 percent from the 2009 low of 554,000. The significant increases in residential construction and continued increases in other wood uses helped to drive up demand for lumber, plywood, and other wood products. Nationwide lumber prices increased approximately 15 percent from 2011 (**Figure 1**), and structural panel prices were up more than 25 percent. As a result of the increased demand during 2012, Idaho's forest industry production and sales levels were higher than 2011.

Figure 1
Nationwide Composite Lumber Prices
Monthly Weighted Average
1990-2012

Current dollars per thousand board feet, lumber tally



Source: Random Lengths Publications, Inc.

Idaho Forest Industry Sales, Employment, and Production during 2012

The University of Montana's Bureau of Business and Economic Research, in cooperation with the College of Natural Resources at the University of Idaho, conducted a survey of Idaho's wood products manufacturers in November of 2012 as part of the Inland Northwest Forest Products Research Consortium's efforts to quantify and describe the region's forest industries. We attained a survey response rate of 80 percent, with 86 of Idaho's largest wood processing facilities—45 primary and 41 secondary facilities—responding to our questions.

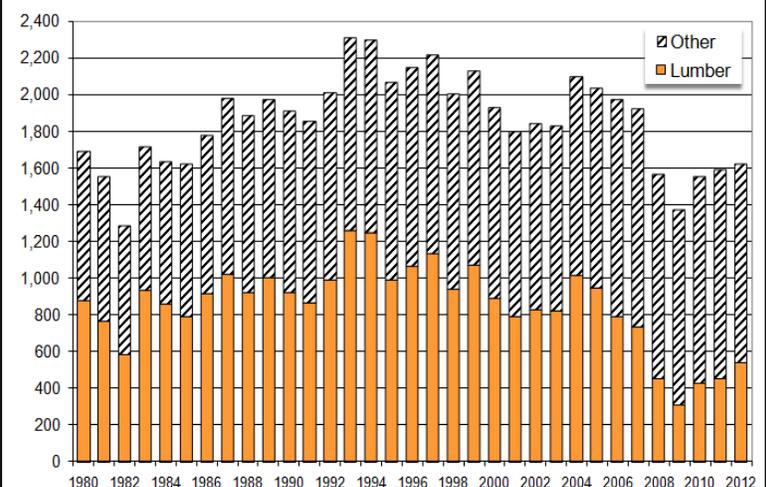
For many of Idaho's major wood products manufacturers, 2012 was better than 2011. According to our survey results, sales and production increased at more than 58 percent of the responding wood-based businesses operating in Idaho during 2012, and profits increased at nearly 56 percent. These results represent a third year of continuing improvement since 2009—the depth of the “Great Recession” and related housing collapse—when more than 80 percent of firms reported decreases in profits, sales, and production and fewer than 10 percent reported increases. In 2012, only 17 percent of Idaho wood products firms reported decreases in sales and production, and 21 percent reported drops in profits over the previous year.

Only 26 percent of the responding firms temporarily curtailed production at some time during 2012, which is about the same as 2011 but a major improvement from 2010 and 2009 when 45 and 60 percent of firms reported curtailed production. One-third of facilities reported making major capital expenditures in 2012, indicating that several of Idaho's wood-based manufacturers are continuing preparation for improved market conditions. Fewer than 20 percent reported capital expenditures during 2009 and 2010. Along with the increased production and reduced curtailments came employment increases among Idaho's wood products facilities. Employment increased at 34 percent of responding firms in 2012, with 24 percent reporting decreases.

Production and sales trends—primary products. Improving conditions indicated in the survey results are confirmed by increases in production volume and sales value. Primary wood product sales for Idaho businesses in 2012 was \$1.65 billion, an improvement from 2011 and 2010, but still lower than pre-recession levels (**Figure 2**).

Figure 2
Sales Value of Idaho's Primary Wood Products
1980-2012

Millions of constant 2011 dollars



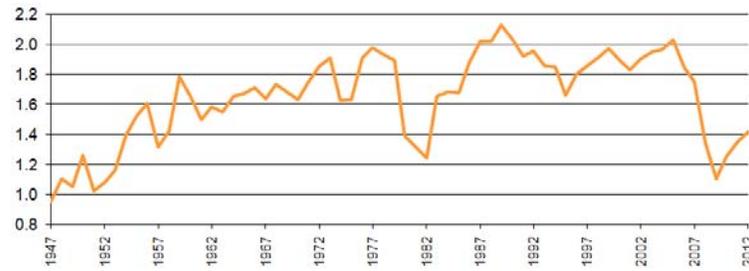
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Western Wood Products Association.

Until the “Great Recession” of 2007-2009, lumber production was the single largest component of Idaho's wood products industry (**Figure 2**). Plywood production joins pulp and paper products as the largest segments comprising the “Other” primary components of Idaho's forest products industry.

In 2012, lumber production remains a large component of the industry and continues to provide the raw materials for pulp and paper production in the form of sawmill residues. In 2012, lumber production increased 5 percent to an estimated 1.42 billion board feet in 2012, up from 1.353 billion board feet in 2011, which was an increase of 7.6 percent from 1.258 billion board feet in 2010. Rock bottom for lumber production occurred in the depths of the 2009 recession, at 1.105 billion board feet (**Figure 3**).

**Figure 3
Idaho Lumber Production
1947-2012**

Billion board feet, lumber tally



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

Production and sales trends—secondary products. Sales from the secondary wood and paper sectors increased to an estimated \$430 million in 2012, up from about \$419 million in 2011 and just \$300 million in 2010. The total value of Idaho’s primary and secondary wood products sales is \$2.081 billion, compared to \$2.011 billion in 2011. Although improving, sales values are still considerably lower than during the strong markets in 2004 and 2005, when sales of Idaho’s primary forest products were nearly \$2 billion and secondary products accounted for another \$1 billion in sales.

Economic impact of sales. Because of linkages to supporting industries each dollar of wood and paper products sold and exported from the state generates, on average, an additional \$0.60 of sales by other industries within the state. About 84 percent of the wood products manufactured in Idaho are exported elsewhere, and we assume nearly all paper products are exported. Using the output multipliers in the IMPLAN model, the total impact in Idaho from converting timber into consumer products is more than \$3.2 billion in sales, of which \$1.1 billion are from industries that support forest products manufacturing, such as forestry, logging, heavy equipment, and trucking.

Employment and timber harvest trends. The close relationship between timber harvest and employment in the forest industry is illustrated in **Figure 4**. Employment in 2012 was estimated at 10,200

which was a 4.2 percent increase from 9,631 workers in 2010. These jobs include private sector foresters and loggers, primary and secondary wood and paper product manufacturers, and forestry support activities. Trucking jobs and income associated with hauling logs and finished wood products are not included in direct forest industry employment. Nevertheless, all these jobs depend upon timber harvest. Idaho timber harvest for 2012 was estimated at 1.1 billion board feet, an increase of 2 percent from 2011, which was a 29 percent increase from harvests of 830 million board feet in 2010 (**Figure 4**).

Economic impact of employment and labor income. Forest industry wages totaled \$383 million in Fiscal Year 2012, up from \$363 million in FY 2011. This is 1.7 percent of all labor wage income in the state. Only three states have a higher dependence on the forest products industry—Maine, Oregon, and Mississippi. In addition, forest products are highly linked to other industries, thus many other businesses benefit from forest products manufacturing by providing goods and services to forest industry businesses.

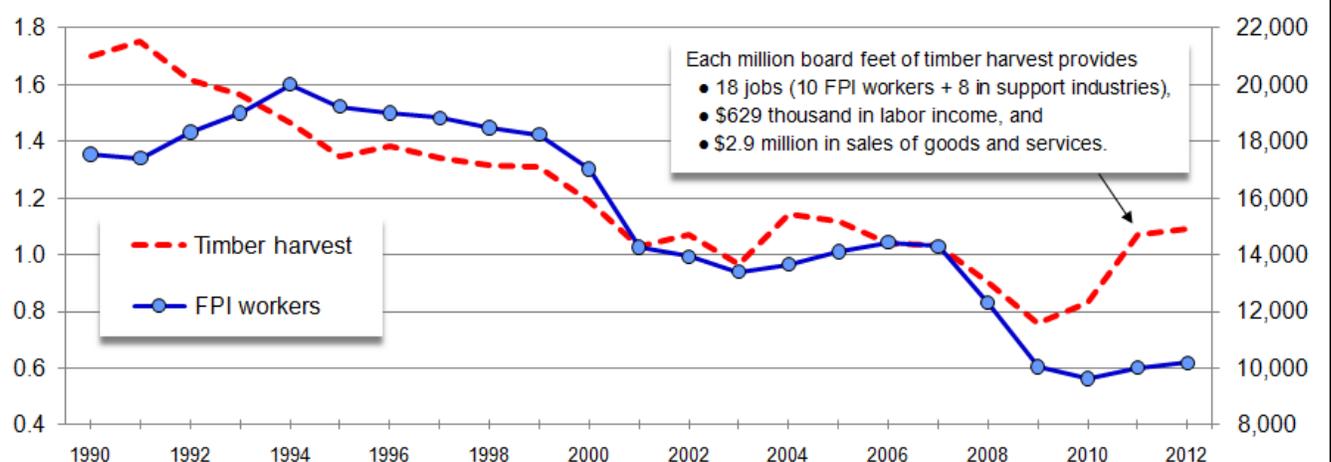
About 5,300 forest industry jobs in Idaho are export-related—defined as sales of manufactured forest products outside the state—and the IMPLAN model estimates that each export-related job is supported by 1.7 jobs in other sectors of Idaho’s economy. This is an additional 9,010 indirect or induced jobs resulting from sales of forest products. To sum up, the multiplier effect from inter-industry linkages results in 19,210 jobs in Idaho from converting timber to useful consumer products. For the labor income wages of \$383 million in FY 2012, the multiplier effect is such that each dollar of labor income in the forest products industry attributable to export sales generated \$1.10 of wages in supporting industries, for a labor income impact of \$686 million.

Economic impact of timber harvest. Timber harvests are closely related to lumber production and employment in the forest products industry. As timber harvest increased from 1.2 billion board feet in 1947 to almost 2 billion in the late 1970s (**Figure 5**), lumber production followed, doubling from 1 billion board feet to 2 billion during the same period (**Figure 3**). As noted prominently in **Figure 4**, each million board feet of timber harvested and processed in the state today provides approximately 18 jobs (10 in the forest products industry plus 8 indirect or induced jobs in supporting industries), \$629 thousand in labor income, and generates more than \$2.9 million in sales of goods and services.

**Figure 4
Idaho Timber Harvest and Employment of Forest Products Industry (FPI) Workers
1990-2012**

Billion board feet, Scribner log scale

FPI workers



Sources: Bureau of Business and Economics Research, The University of Montana-Missoula; U.S. Forest Service, Region One, Missoula, Montana; U.S. Dept. of Commerce, Bureau of Economic Analysis, regional accounts data.

For the past decade or so, Idaho’s forest products industry has been sustained by timber harvests from private and state lands (Figure 5). During 2012, private lands provided more than half (58 percent) of the harvest volume, while state lands provided 33 percent of Idaho’s total harvest. Federal lands provided about 9 percent of the 2012 harvest, as harvest volume from U.S. National Forest System lands was essentially unchanged from 2011.

As Figure 5 illustrates, between 1947 and 1990 federal lands provided 43 percent of the timber harvested in the state. In 1990 federal harvests began a steep decline as a result of several policies, and since 1990 have provided 20 percent of the timber harvest. In the past ten years, federal lands have provided just 10 percent of the harvest. Approximately 39 percent of Idaho’s land (20.4 million acres) is within the U.S. National Forest System—Oregon ranks a distant second at 25 percent. More than three-fourths of Idaho’s timber resources are on federal lands, a total that does not include 4 million acres of federal forest lands in the National Wilderness Preservation System.

Outlook for 2013

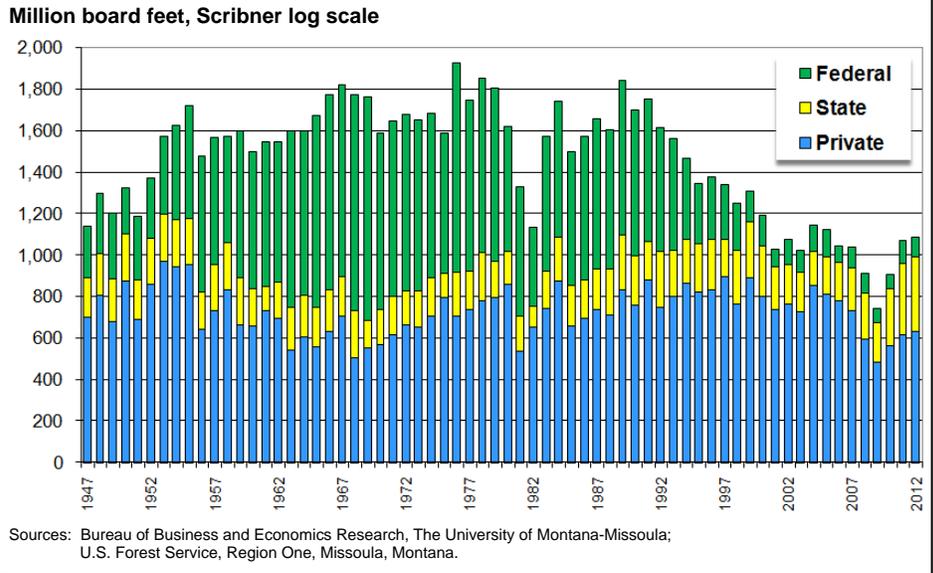
Idaho’s forest industry is recovering from the worst extended wood products market downturn (2007-2011) since World War II. Although 2012 production, sales, and employment remain well below pre-recession levels, improvements in wood and paper products markets and Idaho’s industry are generally expected to continue during 2013. National forecasts call for modest growth in the U.S. economy and consumption of wood and paper products. Housing starts are expected to continue recovering, and home values should continue to increase.

Idaho’s wood products executives responding to our survey expressed guarded optimism about the coming year, with 35 percent of them predicting operating conditions in 2013 to be better than 2012, and 48 percent predicting conditions to be about the same as 2012 (Figure 6). Two-thirds of Idaho wood products executives surveyed expect employment in 2013 to be about the same as 2012, with 19 percent expecting an increase, and 14 percent a decrease.

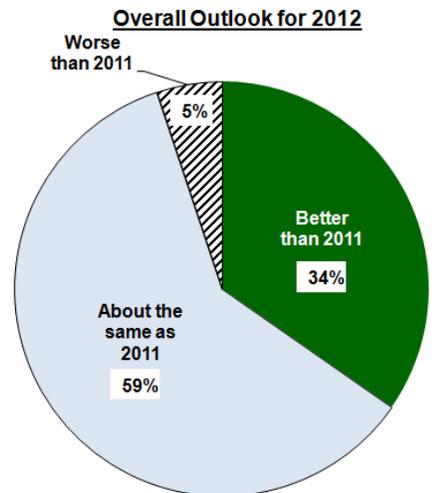
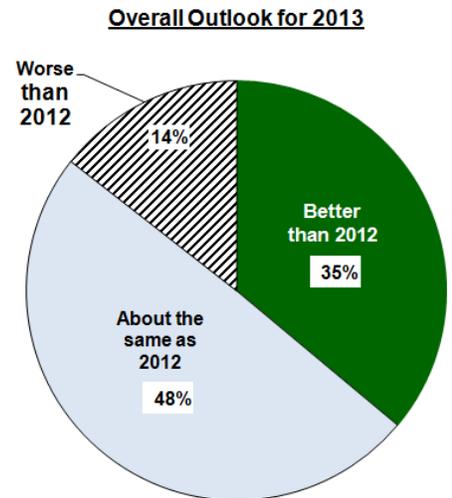
More than half of the survey respondents expect gross sales to increase, and almost half of them expect increases in production and profits during 2013. Only 9 percent of the respondents expect decreases in sales, with 12 and 16 percent predicting declines in production and profit, respectively. About three-fourths of the respondents, however, indicated their facilities would not be making major capital investments during 2013.

Factors constraining industry growth potential. Responding to a pair of open-ended questions, nearly all of Idaho’s primary and secondary wood products industry executives mentioned market conditions, housing starts, and overall economic conditions as the major issues that affected their operations in 2012 and that will continue to affect their operations in 2013. Health insurance costs and raw material availability ranked highest among eight issues of importance to the responding businesses. Energy costs and worker compensation rates also ranked quite high, while foreign competition was the lowest ranking issue. Idaho’s wood industry executives also mentioned excessive environmental regulation and skilled labor shortages as issues that will continue to impact their operations.

**Figure 5
Idaho Timber Harvest by Ownership
1947-2012**



**Figure 6
Idaho Wood and Paper Products Producers’ Overall Outlook for 2013, Compared to Their Outlook for 2012**



Source: Bureau of Business and Economics Research, The University of Montana-Missoula.