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Idaho's Forest Products Industry: Current Conditions and Forecast 2005

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Idaho's Forest Products Industry: Current Conditions and Forecast, 2005

Operating Conditions in Idaho

Prices for most wood and paper products were up considerably in 2004 relative to 2003. Lumber prices moved from near historic lows in early 2003 to near record highs in the third quarter of 2004 (Figure 1). Yearly average lumber prices in 2004 were approximately 30 percent above those in 2003. High wood product prices were caused by several factors:

- Domestic lumber consumption was at record levels, with low mortgage rates encouraging high levels of building activity;
- The value of the dollar saw sharp declines against a number of major currencies which increased the price of imported wood products;
- A number of other countries had increased demand for lumber and wood products;
- Wood products orders by the federal government increased for reconstruction in Afghanistan and Iraq;
- Demand for wood products in the Southeastern United States also increased due to the severe hurricane season.

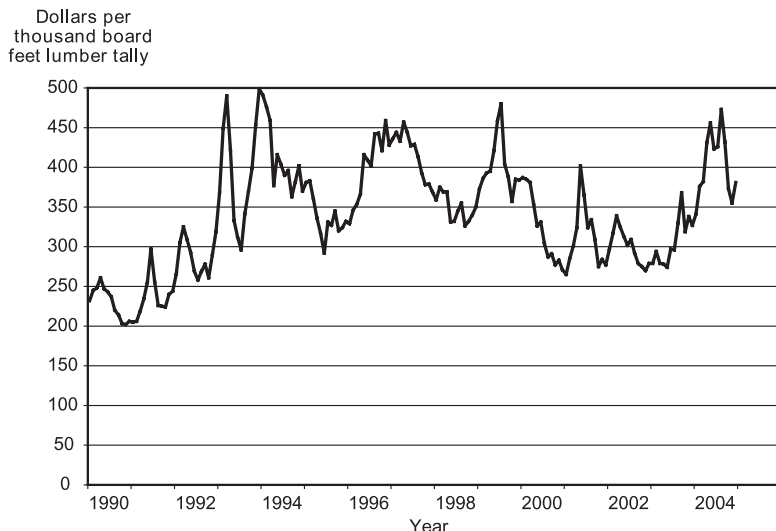
Timber availability in Idaho improved slightly during 2004. This was in part due to higher sawtimber prices which encouraged private land owners to sell timber. Private land owners, the State of Idaho, and the National Forests all showed increased harvest (Figure 2).

Idaho Industry Sales, Employment, Production for 2004

The estimated sales value of Idaho's primary wood and paper products for 2004 was \$1.99 billion, almost 20 percent higher than the revised 2003 sales value (Figure 3). The wood and paper products industry in Idaho employed about 16,200 workers in 2004, a slight increase from the 16,000 in 2003 (Figure 4).

Estimated timber harvest for 2004 was 1.17 billion board feet, which is an increase of slightly more than 8 percent from the 2003 timber harvest of 1.08 billion board feet (Figures 2 and 5). Estimated lumber production in Idaho for 2004 was a new record high of 2.14 billion board feet, up about 10 percent from 1.95 billion board feet in 2003 (Figure 5).

Figure 1
Nationwide Composite Lumber Prices
Monthly, 1990-2004



Source: Random Length Publications.

Figure 2
Idaho Timber Harvest by Ownership
1947-2004

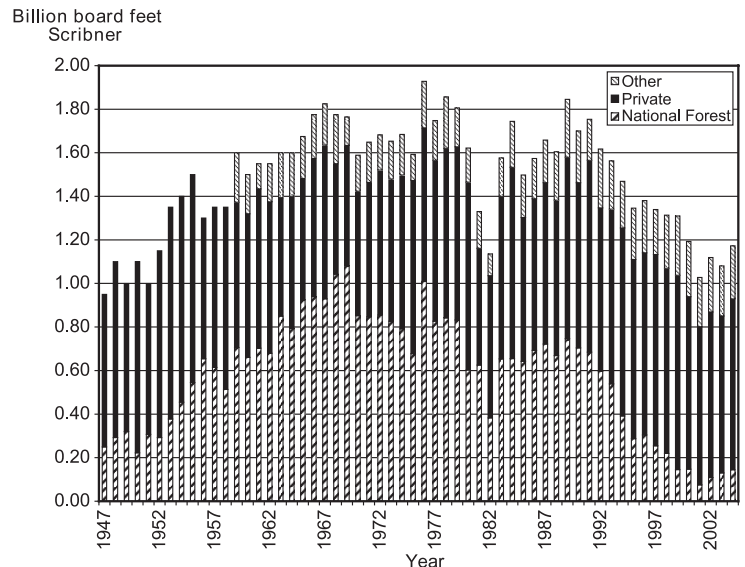
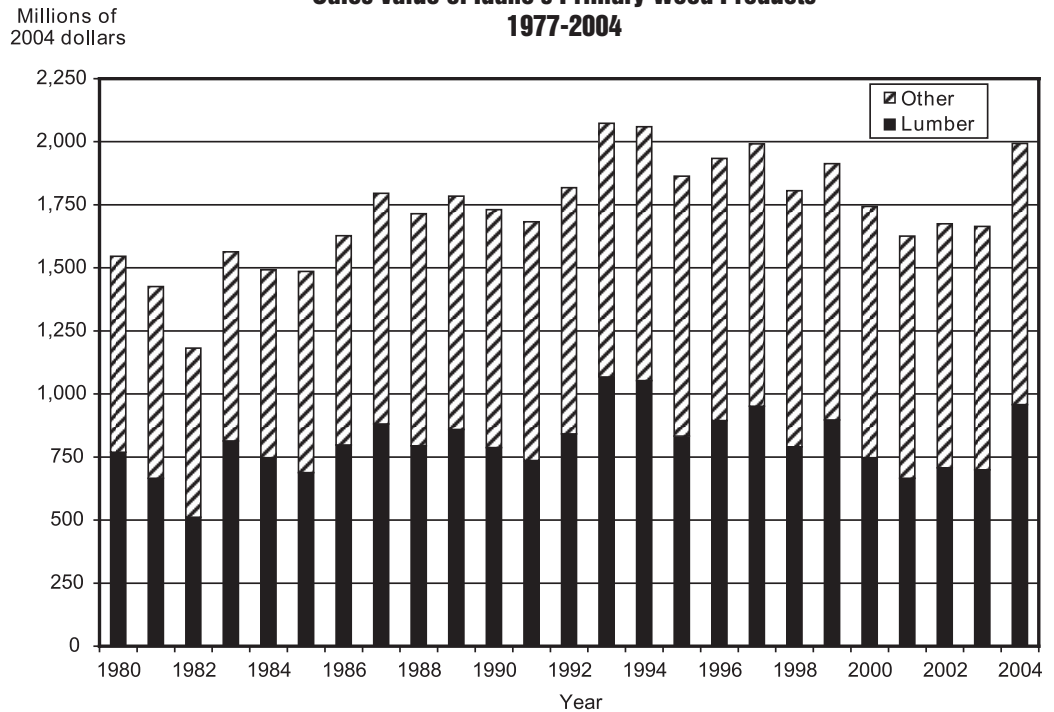
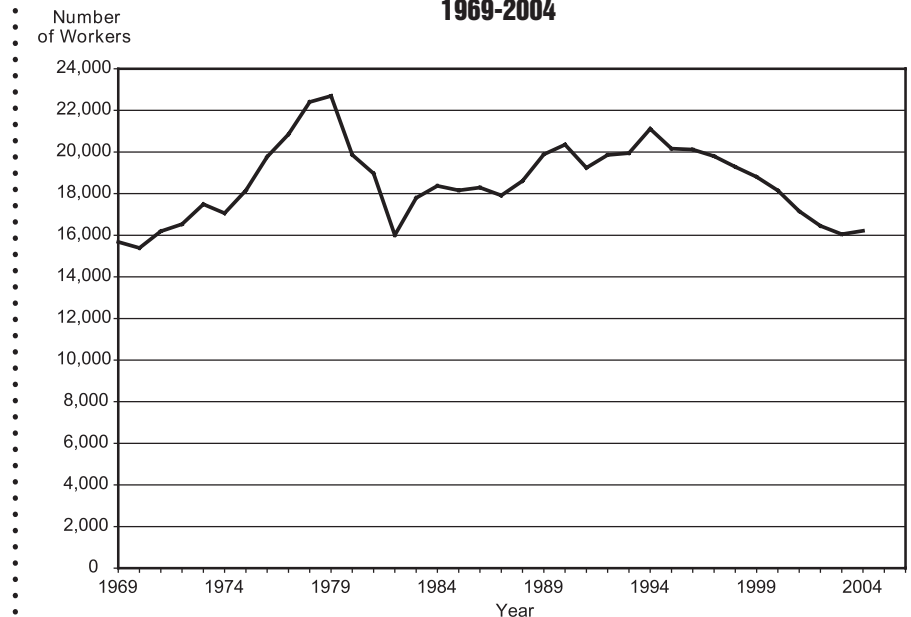


Figure 3
Sales Value of Idaho's Primary Wood Products
1977-2004



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

Figure 4
Employment in Idaho's Forest Products Industry
1969-2004



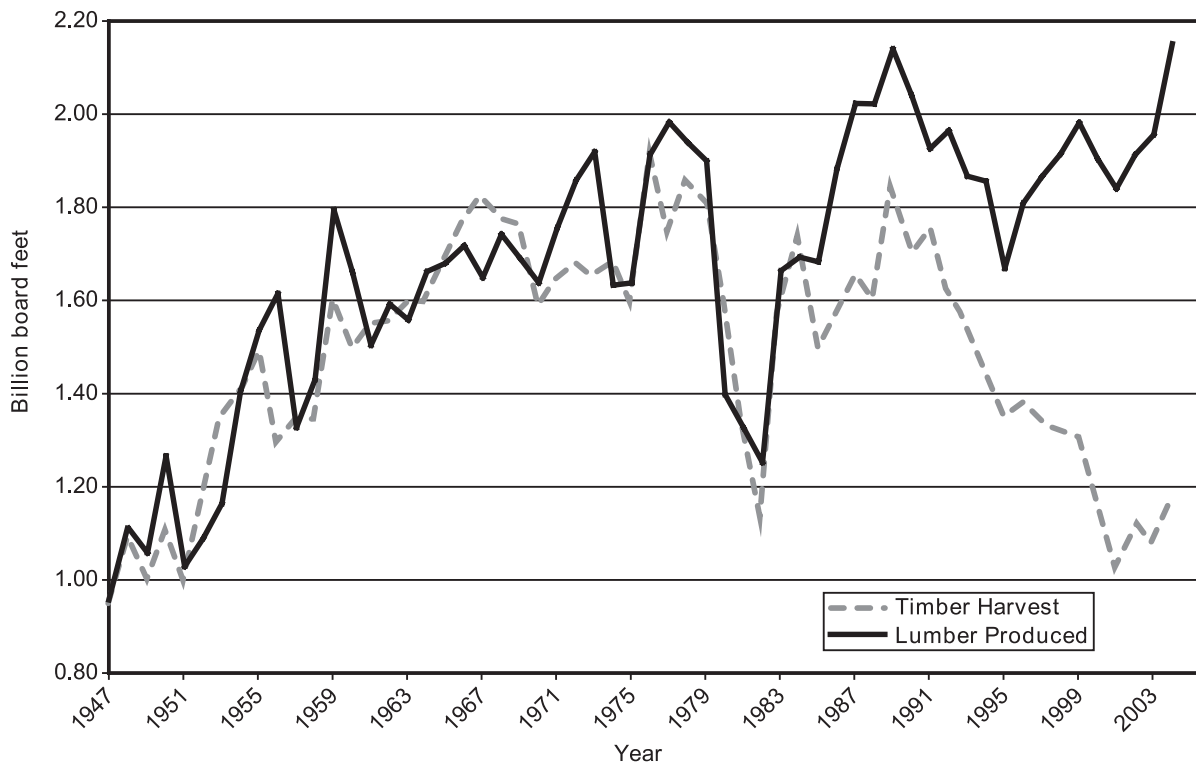
Source: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Curtailments from other than normal maintenance were down in 2004 to 14 percent from 22 percent in 2003. An increase in gross sales was reported by 82 percent of respondent mills, while increases in production and profits were reported by 71 percent of the respondents. Furthermore, the number of plants that made major capital expenditures was up to 63 percent in 2004 from the 54 percent reported in 2003.

Figure 5 shows that timber harvest (bf Scribner scale) and lumber production (bf mill tally) were roughly equal from 1947 to 1983. After that time, timber harvest began to decline while lumber production continued to increase. This was likely due to several factors. One factor was improvement in sawmill efficiency. In the mid 1980's, Idaho's sawmills started to incorporate quality control and size-control practices, improved sawblade technology, and computerized process control. A second factor was that Idaho's plywood industry began to decline, and a higher proportion of harvested timber made its way to Idaho sawmills. Both of these factors led to real declines in the demand for timber. In addition to these real factors, a third artificial factor was also introduced. Many Idaho sawmills began to re-tool during

the 1980's to handle smaller-diameter logs. By 2003, nearly 60% of all logs processed in Idaho were less than 10" in diameter (measured at the small end). This exposed a weakness in the Scribner log scale that resulted in under scaling of these small-diameter logs and the appearance that timber harvest declined.

Figure 5
Idaho Timber Harvest and Lumber Production
1947-2004



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

Outlook for 2005

Lumber prices have dropped substantially from the near record-high levels experienced in the third quarter of 2004. However, at year-end they were still at relatively high levels when compared to the averages of the last several years and are expected to hold at or near these levels well into 2005. The domestic consumption of wood products is predicted to slow slightly due to increasing mortgage interest rates. This will lead to a slight drop in housing starts and may cause small declines in the repair and remodel market as well. These declines in the residential markets may be offset by increases in non-residential uses. An on-going source of uncertainty is the continuing dispute between Canada and the U.S. concerning tariffs and penalties on softwood lumber imports.

Timber supply remains uncertain going into 2005. Even with a modest increase in 2004, both National Forest harvest and volume sold were near fifty year lows (Figure 2). Harvests on other public lands may increase slightly, and if prices do not drop sharply the volume of private harvest should be about on par with 2004. National Forest harvest increases are likely to be associated with fire hazard reduction or ecosystem restoration treatments but are dependent on budgets and other social factors. Projects that produce commercial timber

products from federal lands are frequently targeted for appeals and litigation.

Information gathered from the annual survey of Idaho producers echo assessments of slightly weaker markets and concerns over timber availability for 2005. Overall, 43 percent of the survey respondents expect 2005 to be a better year than 2004, while 37 percent expect 2005 to stay about the same, and 20 percent expect 2005 to be worse.

Just over half of the producers surveyed anticipate an increase in production, while 45 percent expect to experience greater sales for 2005. Only 39 percent of the facilities surveyed said they expected to see an increase in profits for 2005, while 41 percent expect profits to decrease. Furthermore, 26 percent expect to see price increases on their products, while 41 percent expect prices to decrease.

General market conditions were listed by 70 percent of the mill operators as a major issue that will affect their operation in 2005, while timber supply and availability were stated as being major concerns by over 65 percent of the mill operators. Other major concerns expressed for 2005 included increased costs for health insurance, transportation, and energy.