

Idaho's Forest Products Industry: Current Conditions and Forecast 2006

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Operating Conditions in Idaho

Prices for most wood products were down slightly in 2005 relative to the high prices in 2004. The yearly average lumber price in 2005 was approximately 4 percent below that of 2004. After starting the year at high levels, lumber prices declined in the first half of 2005, and spiked during the hurricanes in late summer and early fall. Following the initial reactions to the hurricanes, lumber prices fell and then settled down to a modest level by the end of the year (Figure 1). However, even with the slight decrease in lumber prices, the 2005 average remained considerably above the prices seen from 2001 to 2003. There were numerous factors that impacted the wood product prices, sometimes in offsetting ways:

- Domestic lumber consumption was at record levels, with low mortgage rates encouraging high levels of building activity;
- Increased demand for wood products in the Southeastern United States due to the severe hurricane season;
- The value of the dollar saw declines against the Canadian dollar;
- Imports from Canada and other nations continued to increase,

- Energy costs increased substantially, increasing logging, milling, and transportation costs.

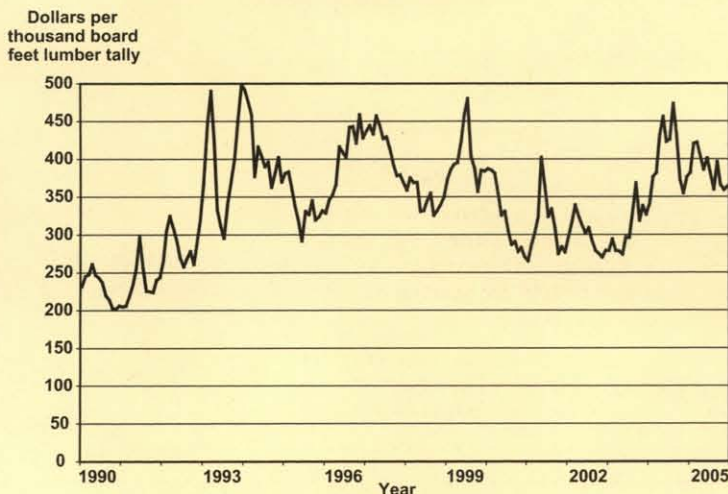
Raw material availability in Idaho continued to constrain Idaho's industry in 2005. Timber harvest declines were seen in the national forests, while on other ownerships, timber harvest levels were about on par with 2004 (Figure 2).

A number of infrastructure changes of note occurred in December of 2005; Stimson Lumber Company's Atlas Mill in Coeur d'Alene permanently shut down its production. Furthermore, a new mill in Grangeville is set to start production and will be replacing a mill that was in Elk City.

Idaho Industry Sales, Employment, and Production for 2005

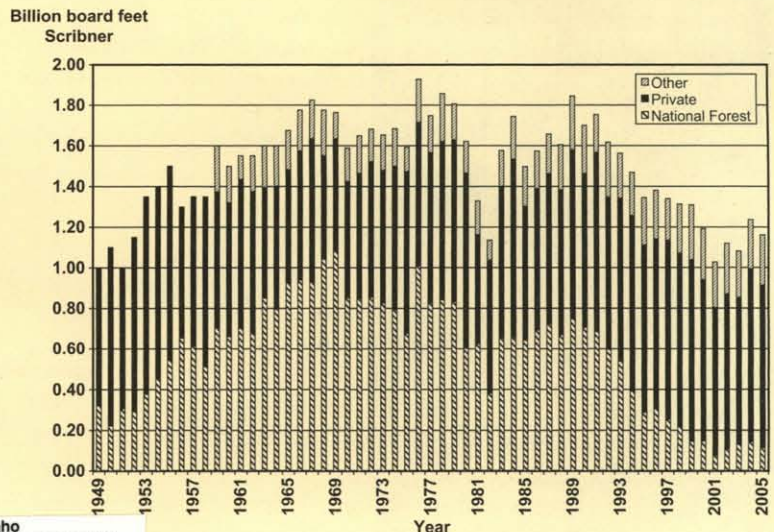
The estimated sales value of Idaho's primary wood and paper products for 2005 was just under \$2 billion, approximately the same as 2004 (Figure 3). The wood and paper products industry in Idaho employed about 15,100 workers in 2005, roughly the same as 2004 (Figure 4). Note that the change from the Standard Industrial Classification (SIC) system to the North American Industry Classification System (NAICS) has made it problematic to provide consistent and continuous time series data for employment and labor income. Numbers for years prior to 2001 are based

Figure 1
Nationwide Composite Lumber Prices
Monthly, 1990-2005



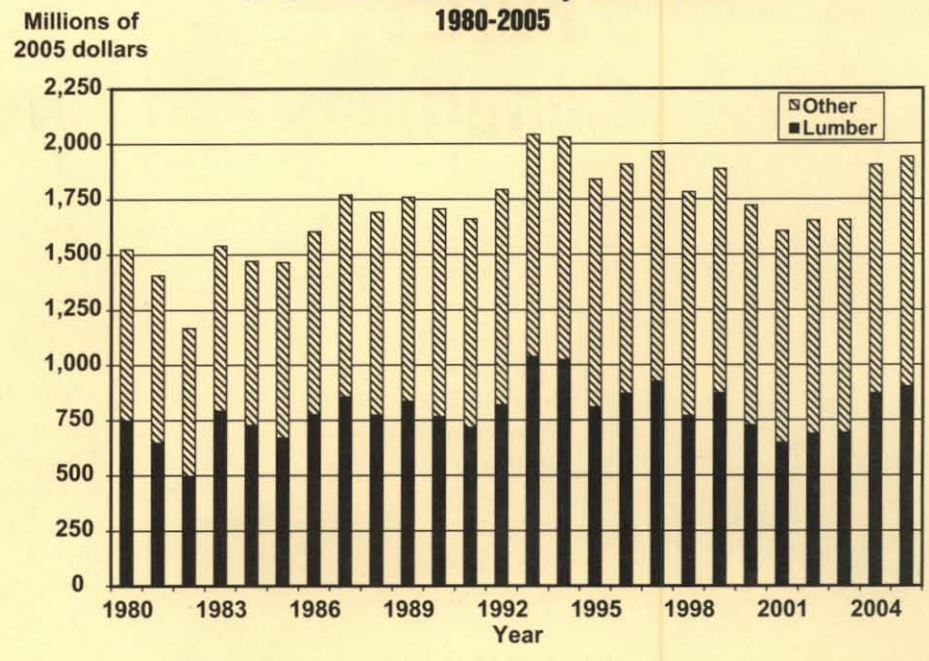
Source: Random Length Publications.

Figure 2
Idaho Timber Harvest by Ownership
1949-2005



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Figure 3
Sales Value of Idaho's Primary Wood Products
1980-2005



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

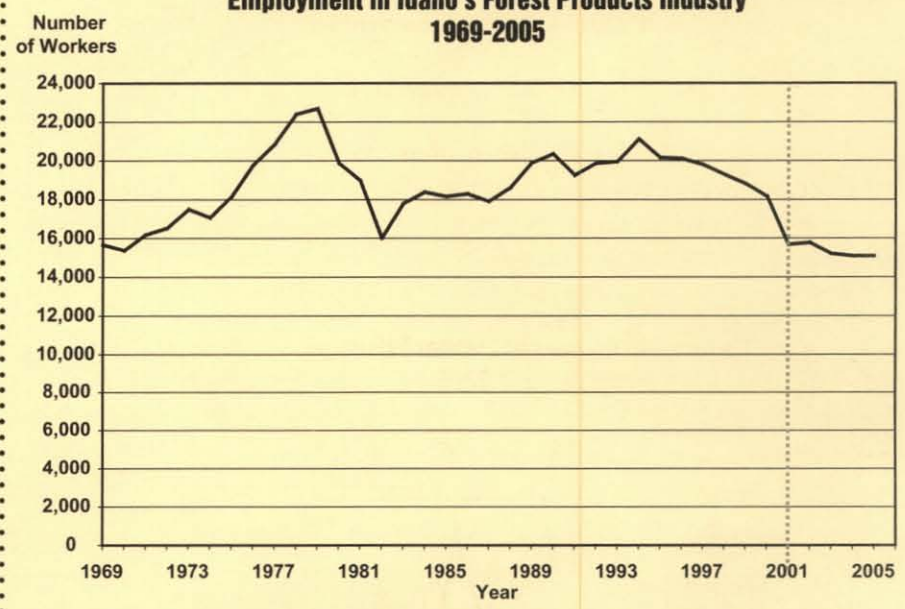
on the old SIC system, while the more recent figures are based on NAICS.

Estimated timber harvest for 2005 was 1.16 billion board feet, which is a decrease of around 6 percent from the 2004 timber harvest of 1.24 billion board feet (Figures 2 and 5). Lumber production in Idaho for 2005 is estimated at 2.0 billion board feet, up about 2 percent from 1.96 billion board feet in 2004 (Figure 5).

Curtailments from other than normal maintenance were down in 2005 to 10 percent from 14 percent in 2004. An increase in gross sales was reported by 54 percent of respondent mills, while increases in production and profits were reported by 62 and 39 percent of the respondents, respectively. Furthermore, the number of plants that made major capital expenditures was up to 68 percent in 2005 from the 63 percent reported in 2004.

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

Figure 4
Employment in Idaho's Forest Products Industry
1969-2005

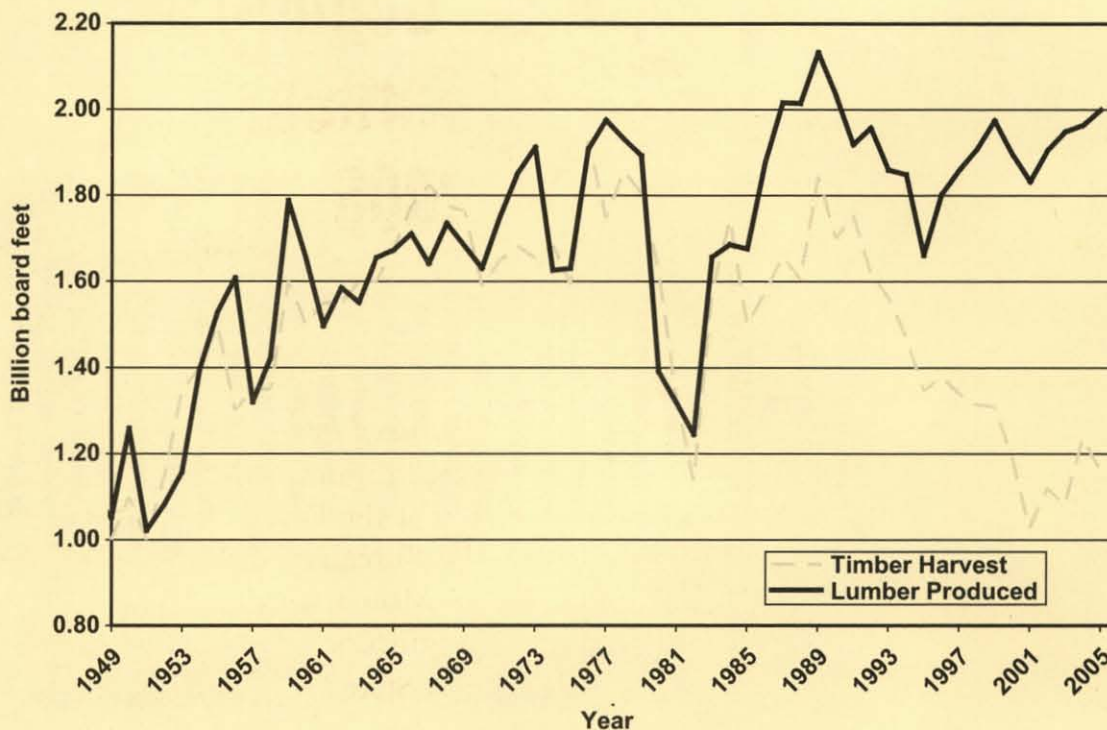


Note: The change from the Standard Industrial Classification (SIC) system to the North American Industry Classification System (NAICS) has made it problematic to provide consistent and continuous time series data for employment and labor income. Numbers for years prior to 2001 are based on the old SIC system, while the more recent figures are based on NAICS.

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

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.

Figure 5
Idaho Timber Harvest and Lumber Production
1949-2005



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

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.

Outlook for 2006

Prices for lumber and other wood products in 2006 may be off somewhat from the levels experienced in 2005. However, the prices are expected to remain well above averages for the several years prior to 2004.

Total U.S. wood products consumption should be down slightly from record levels in 2005. Housing starts are expected to slow slightly due to increasing mortgage rates, while the repair and remodel markets are expected to remain about on par with 2005. Non-residential wood uses in the U.S. are expected to increase. Hurricane recovery activities should increase demand modestly for wood products over the next several years. Substantially lower duties on Canadian softwood lumber may be partially offset by the further weakening of the U.S. dollar.

Information gathered from the annual survey of Idaho producers conducted as part of this outlook echo assessments of slightly weaker markets and concerns over

timber availability for 2006. Overall, 48 percent of the survey respondents expect 2006 to be a better year, while 37 percent expect it to stay about the same as 2004, and 15 percent expect 2006 to be worse.

Nearly 70 percent of the facilities surveyed anticipate an increase in production, while 75 percent expect to experience greater sales from 2005 to 2006. Just over one-half of the facilities surveyed said they expected to see an increase in profits from 2005 to 2006, while only 20 percent expect profits to decrease. Furthermore, 40 percent stated that they expect to see a price increase on their products, while fewer than 20 percent of the respondents expect prices to decrease from those in 2005.

Timber supply remains uncertain going into 2006. Virtually all the surveyed facilities that processed timber stated that limited raw material supply was a major issue in 2005 and stated that they expect it to continue through 2006.

General market conditions were listed by nearly 90 percent of the mill operators as a major issue that will affect their operation in 2006. Other major concerns expressed by mill managers for 2006 include increases in health insurance, transportation costs, energy costs, and the availability of qualified personnel.