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Idaho's Wood Products Industry: Current Conditions and Forecast

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The Inland Northwest Forest Products Research Consortium, a research co-operative centered at the Forest Products Department at the University of Idaho, the Bureau of Business and Economic Research at the University of Montana-Missoula, and the Wood Materials and Engineering Laboratory at Washington State University

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Idaho's Wood Products Industry

Global Conditions

The expanding Asian financial crisis and continuing reductions in federal timber availability negatively impacted Idaho's wood products industry in 1997 and 1998.

The impacts of the worsening Asian financial crisis, which caused a sharp drop in lumber prices in the last half of 1997, caused prices to weaken further in 1998 despite record levels of U.S. consumption (Figure 1).

Reduced global demand has caused worldwide producers to target U.S. markets. In 1998 U.S. exports of wood products decreased sharply and imports increased, leading to large volumes on the U.S. market and lower prices.

The Asian financial problems also further weakened the Canadian dollar, which enhanced the competitive position of Canadian producers.

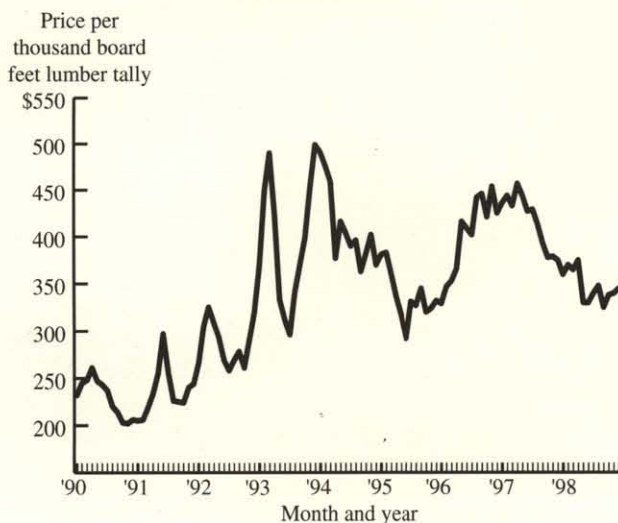
1998 Employment and Production

Idaho's estimated forest industry employment for 1998 was about 19,500 workers, a decrease of several hundred workers from 1997 (Figure 2). The decrease was due to both deteriorating market conditions and continued declines in federal timber offerings which resulted in mill closures, curtailments, and industry restructuring. Idaho's sales value of primary wood and paper products in 1998 was an estimated \$1.56 billion, down from \$1.63 billion in 1997 (Figure 3). Lumber production should be down slightly from 1,859 MMBF in 1997 to about 1,800 MMBF in 1998 (Figure 4).

Outlook

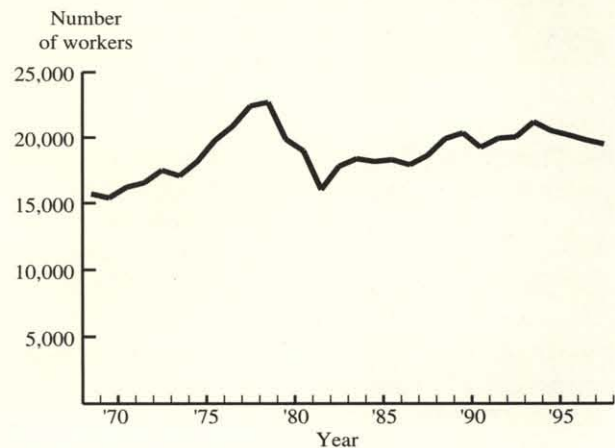
The last half of 1998 brought a number of announced mill closures. This, combined with expected market conditions and uncertainty over

Figure 1
Nationwide Composite Lumber Prices
Monthly, 1990-1998



Source: Random Length Publications.

Figure 2
Employment in Idaho's Wood Products Industry
1969-1998

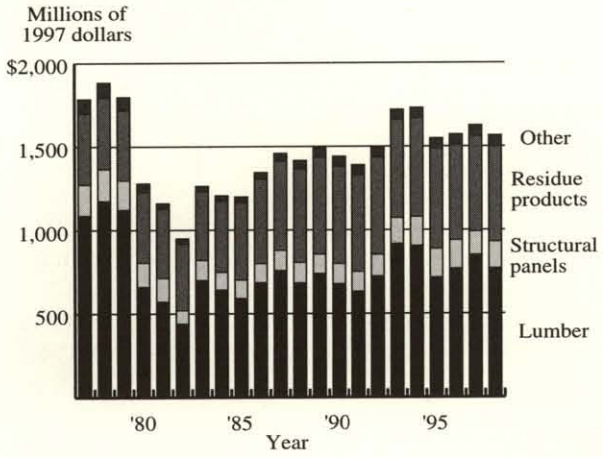


Source: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.



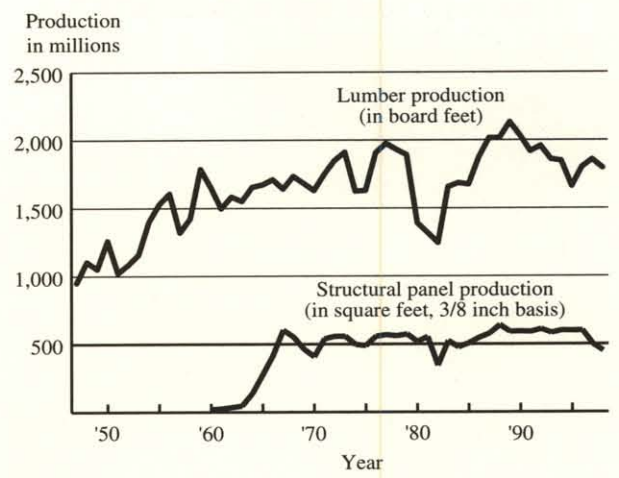
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Figure 3
Sales Value of Idaho's Primary Wood Products
1977-1998



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

Figure 4
Idaho Lumber and Structural Panels Production
1947-1998



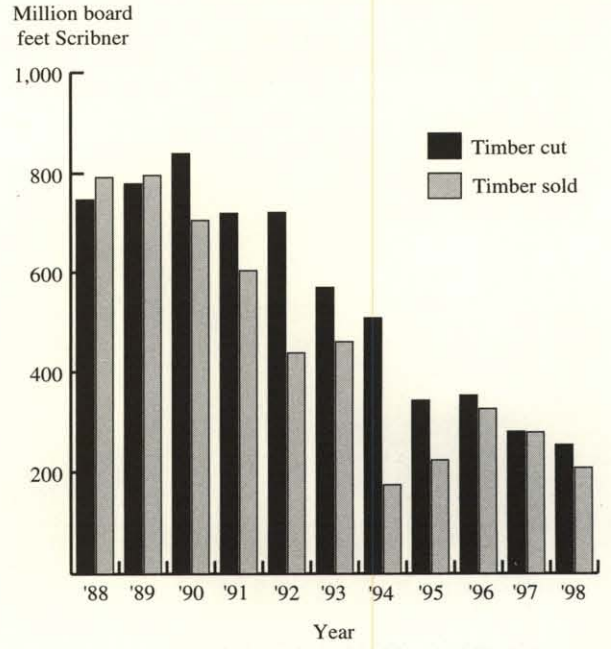
Source: American Plywood Association; Bureau of Business and Economic Research, The University of Montana-Missoula; Western Wood Products Association.

federal timber offerings, indicates reduced output and employment are likely in 1999 even though there have been major upgrades and expansions at a number of facilities.

The U.S. economy is expected to slow in 1999, especially housing construction, which is expected to decrease from the very high levels of 1998. However, consumption should remain high by historic standards. The Asian economic problems have lasted longer than expected, but many experts believe these problems may be coming to a close. With the baseline forecast of gradually improving global economies, product prices should begin to slowly increase.

The global situation does pose some significant risks for Idaho producers. According to WEFA - Inc., one of the nation's leading economic forecasting groups, there is a significant chance—30 percent—that a global recession will occur. This would put the United States into a recession, with a 5 percent chance that the recession would be severe. This could set up a situation for the forest products industry similar to the 1980-1982 recession when mills faced low prices and had timber under contract that they could not afford to harvest. Severe recession conditions idled 40 percent of milling capacity in Idaho in 1982.

Figure 5
National Forest Timber Cut and Sold
Volumes, Fiscal 1989-1998



Source: USDA Forest Service Regions One and Four, Missoula, Montana and Ogden, Utah.

When the global economy recovers, we expect a return to historically high product prices. Timber availability remains a key long-term concern; with the expiration of the salvage rider and weaker markets, the national forest sale program in 1998 dropped by 25 percent from 1996 and 1997 levels (Figures 5). Low national forest timber sales during 1998 will almost certainly mean continued decreases in harvest levels during 1999 and 2000. Nonfederal timberlands are being harvested at near or above long-term sustainable levels and large increases cannot be expected. The level of harvest from federal lands will be an important determinant of the size of Idaho's forest products industry.

During the first half of the 1990s, Idaho's federal timber sale program declined by about 70 percent, from about 710 million board feet per year in the last years of the 1980s to under 200 million board feet in 1994 (Figure 5). The 1996 sale program rose to approximately 325 million board feet under the now expired salvage rider. The fiscal 1998 sale has fallen to 207 MMBF.

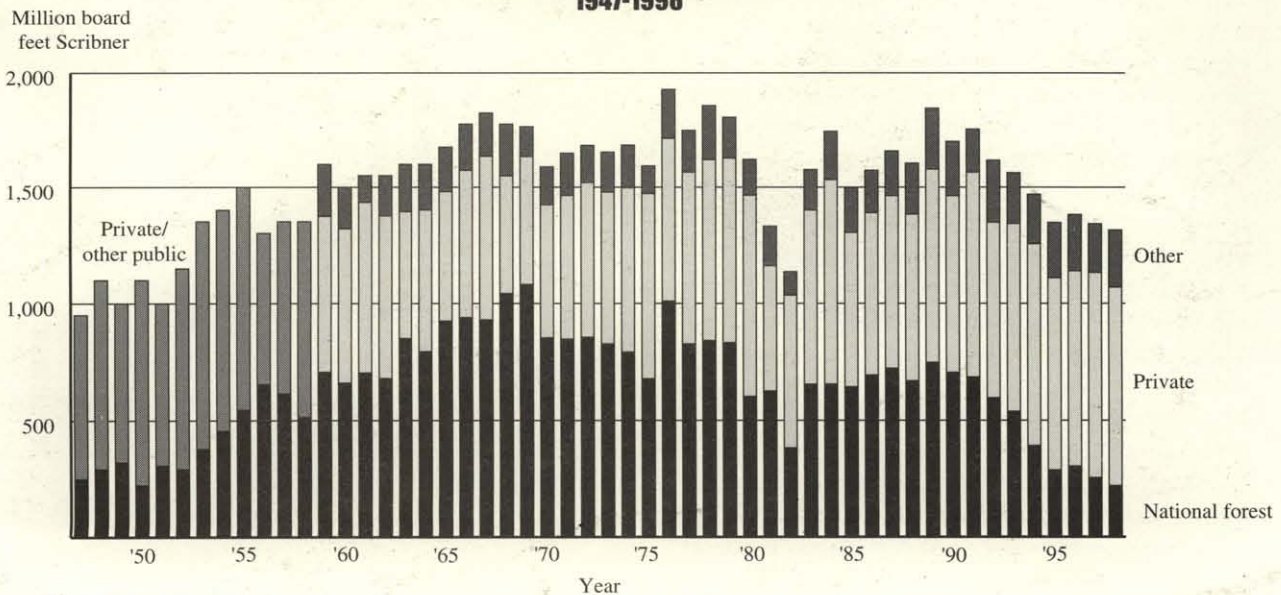
The estimated 1998 harvest of 220 MMBF from national forests in Idaho would be the lowest in 50 years (Figure 6). Future availability of federal timber is very uncertain, and without timber from the national forests, Idaho's forest products industry could decline by 15-20 percent.

As we look to the future it is by no means certain that the federal harvest will continue to

decline. Threatened and endangered species and other resource considerations, a cumbersome legal and administrative framework, unclear and sometimes conflicting directions from the political arena and the public have and will tend to lower federal timber harvest. However, the need to undertake active management to improve forest ecosystem health, reduce the threat of catastrophic fire, and restore forest stands to historic stocking levels and species composition could lead to increased timber harvest.

One thing is certain however. The direct outcome of any continuing decline in federal harvests will be higher log and lumber prices, greater price volatility, and a declining quality of the overall raw material mix. The general market response to these factors will be an increase in the use of substitute products for solid wood. For example, composite wood products, light-steel framing, and petroleum-based products such as vinyl siding and windows have all experienced increased market share relative to solid wood products in the residential construction market. Further growth in these markets can be expected as federal timberland availability declines. Idaho wood products companies that have traditionally relied on federal timberlands as their raw material source will therefore have to make strategic choices regarding changes in their product mix, capital expenditures, and marketing strategies as they adapt to supply constraint.

Figure 6
Idaho Timber Harvest by Ownership
1947-1998



Source: Bureau of Business and Economic Research, The University of Montana-Missoula; USDA Forest Service Region One, Missoula, Montana.