



Station Bulletin 81
January 2004

Idaho Forest, Wildlife and
Range Experiment Station
Moscow, Idaho

Director
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Idaho's Forest Products Industry: Current Conditions and Forecast 2004

Produced by

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Materials and Engineering Laboratory
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This publication is issued as contribution No. 989 of the Idaho Forest, Wildlife, and Range Experiment Station, College of Natural Resources, University of Idaho, Moscow, ID 83844-1142.

Idaho's Forest Products Industry: Current Conditions and Forecast, 2004

Operating Conditions in Idaho

Though wood product prices remained historically low for the first six months of 2003, the later half of the year saw substantial increases in lumber and plywood prices (Figure 1). A number of factors contributed to the price increases, including:

- Domestic lumber consumption remained high, and low mortgage rates encouraged both builders and buyers;
- Lumber imports decreased due in part to a weaker U.S. dollar;
- The demand for lumber and wood products increased in a number of other countries, especially Japan;
- Mills in British Columbia curtailed production due to severe forest fires;
- Heavy rain in the southeastern U.S. reduced log availability in that region; and
- The federal government ordered wood products for reconstruction efforts in Afghanistan and Iraq.

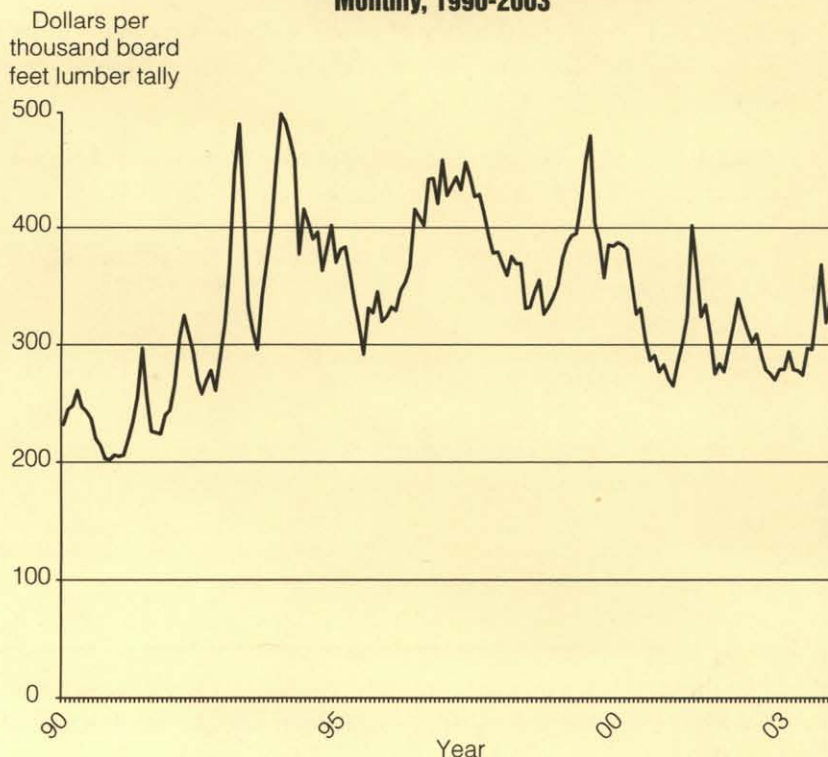
Idaho Industry Sales, Employment, Production for 2003

The estimated sales value of Idaho's primary wood and paper products for 2003 was \$1.69 billion, almost identical to the revised 2002 sales (Figure 2). The wood and paper products industry in Idaho employed about 16,000 workers in 2003, a slight decrease from the 16,400 employed in 2002 (Figure 3).

Estimated lumber production in Idaho for 2003 was approximately 2 billion board feet, up about 5 percent from 1.91 billion board feet in 2002, despite the permanent closure of a major sawmill in April of 2003. This increase in production was due primarily to capital investments, which resulted in increased recovery per unit of log input as well as increased shifts at some mills.

Recently, Louisiana-Pacific Corporation finalized the sale of its Idaho sawmills. Two of the three mills are expected to continue operation, while Louisiana-Pacific Corporation will remove the milling equipment from the third site in Bonner's

Figure 1
Nationwide Composite Lumber Prices
Monthly, 1990-2003

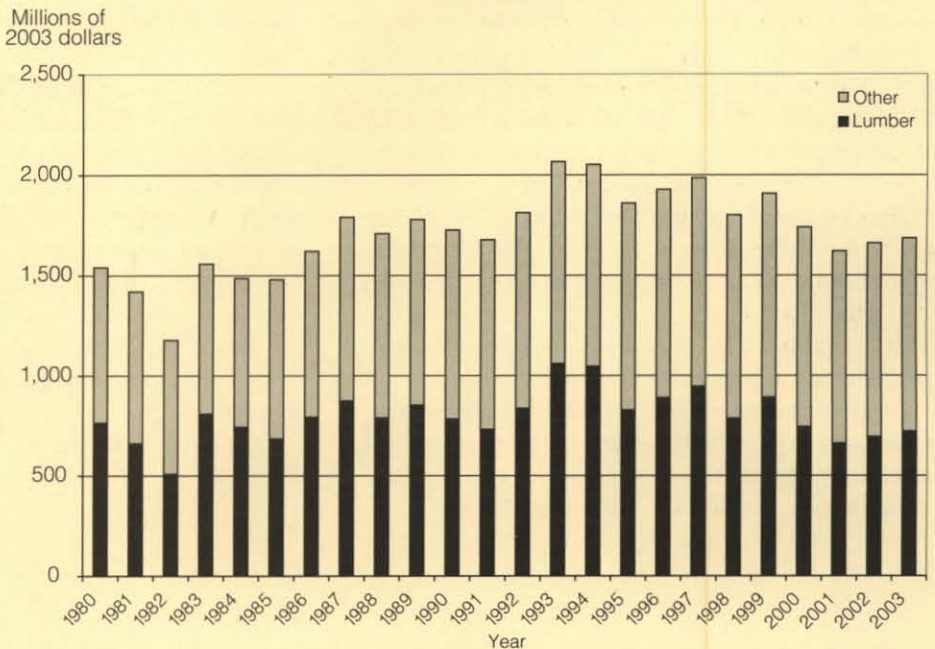


Source: Random Length Publications.

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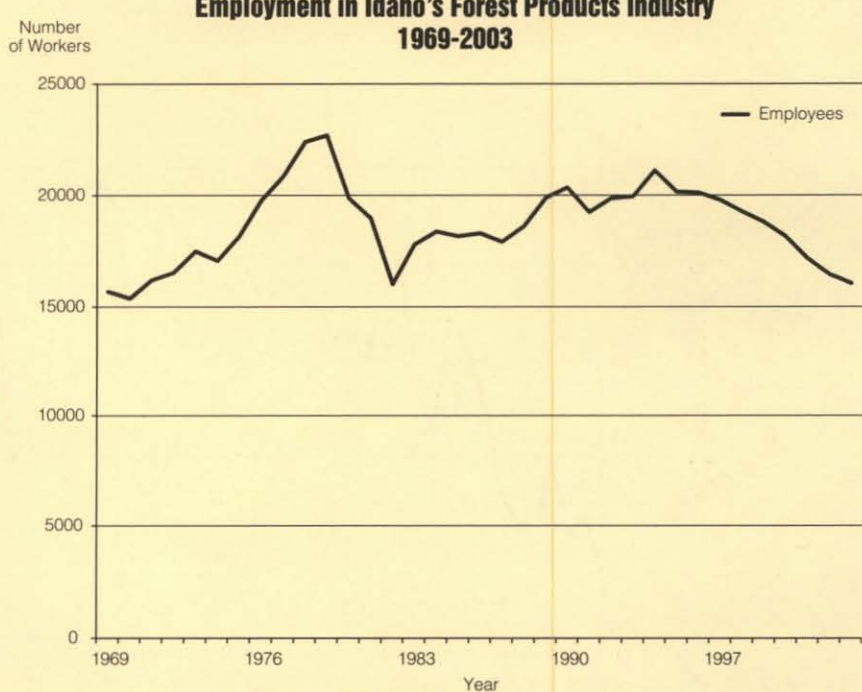
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Figure 2
Sales Value of Idaho's Primary Wood Products
1977-2003



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

Figure 3
Employment in Idaho's Forest Products Industry
1969-2003



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

Ferry. The new owners have indicated that they will examine economic development opportunities for that site.

Results from an annual survey conducted as part of this outlook indicate that only 22 percent of firms reported curtailments in 2003 vs. 40 percent in 2002. The number of plants that invested in major capital expenditures was up to 54 percent in 2003 from the 45 percent reported in 2002.

Figure 4 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.

Outlook for 2004

Prices increased sharply in the first quarter of 2004 and a number of indicators suggest that good lumber prices will continue well into 2004. The domestic consumption of wood products is predicted to remain high, while overseas markets are expected to continue to show modest improvement.

Furthermore, the U.S. dollar is expected to remain weak. A possible agreement with Canada, setting quotas on soft-wood lumber imports is possible. Another item that may have a positive effect on the industry is the signing of the Healthy Forest Restoration Act in December. This could lead to an increase in timber supply from forest management activities by the U.S. Forest Service.

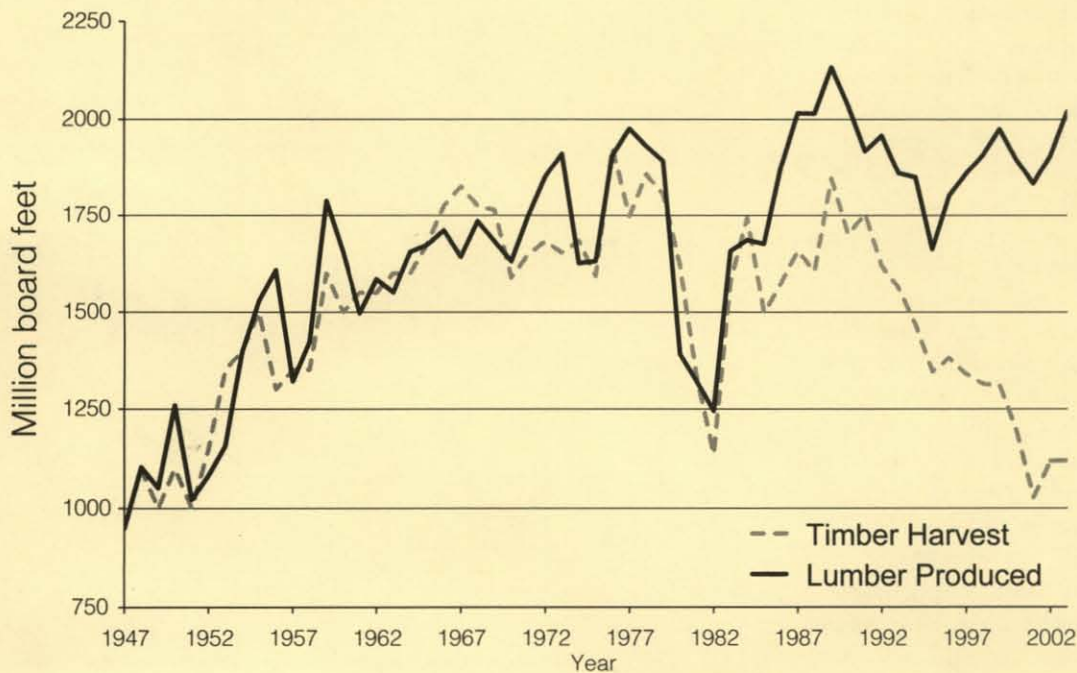
Information gathered from an annual survey of Idaho producers conducted as part of this outlook revealed a somewhat improved forecast for 2004. Overall, 51 percent of survey respondents expect 2004 to be a better year, while 43 percent stated they expect it to stay about the same as 2003, and only 6 percent expect 2004 to be worse.

Just over half of the facilities surveyed foresee an increase in production, while 68 percent expect to experience greater sales from 2003 to 2004. Furthermore, 46 percent of the facilities surveyed said they expect to see an increase in profits from 2003 to 2004. The anticipated increase in profits is likely to come largely from increases in production and related lower per unit costs. Only 27 percent of respondents stated that they expect to see a major price increase on their products, while 65 percent of the respondents expect prices to remain the same as they were in 2003.

Eighty-five percent of the mill operators who responded saw general market conditions as a major issue that will affect operations in 2004. While timber supply and availability was stated as being a major concern by over 40 percent of mill operators.

Other major concerns expressed by Idaho mill managers for 2004 include increasing health insurance and energy costs.

Figure 4
Idaho Timber Harvest and Lumber Production
1947-2003



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