

Idaho's Forest Products Industry: Current Conditions and Forecast 2003

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Idaho's Forest Products Industry: Current Conditions and Forecast, 2003

Operating Conditions

Low prices for lumber and other wood products continued to plague the forest products industry for the third year in a row. After starting 2002 with a mild rally, lumber prices dropped steadily during the year and finished below the lowest levels of 2001 (Figure 1).

Market demand for lumber continued to be strong as mortgage rates dipped below 6 percent and stimulated vigorous residential construction activity. Despite the strong demand for lumber and the imposition of a 27 percent duty on Canadian softwood lumber, excess lumber supply in the U.S. market resulted in continued low prices.

The high volumes of lumber on the U.S. market were due to a number of factors:

- poor economic conditions through much of the world,

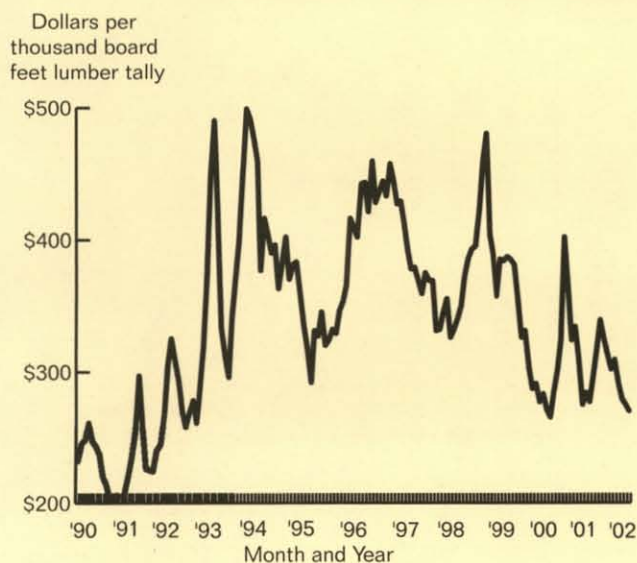
- increased wood products manufacturing capacity worldwide,

- a somewhat weaker, but still relatively high-valued U.S. dollar, and

- increased average mill size and capital intensity with higher fixed costs (and often debt) making managers more reluctant to curtail production in periods of weak markets.

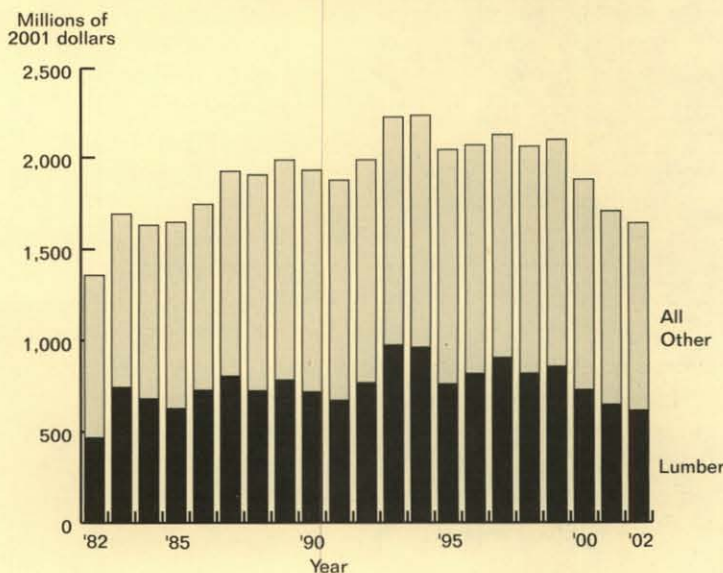
Large volumes of imported lumber in the U.S. market came not only from Canadian producers but also from producers in Europe and South America. It is estimated that non-Canadian imports of softwood lumber in 2002 totaled approximately 1.3 billion board feet, representing an increase of more than 250 percent in just five years. Continuing declines in Canadian and U.S. overseas exports of softwood lumber have compounded the supply problem. U.S. exports in 2002 are estimated to be 500 million board feet, a decline from 1.2 billion board feet in 1997.

Figure 1
Nationwide Composite Lumber Prices
Monthly, 1990-2002



Source: Random Length Publications.

Figure 2
Sales Value of Idaho's Primary Wood Products
1982-2002



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

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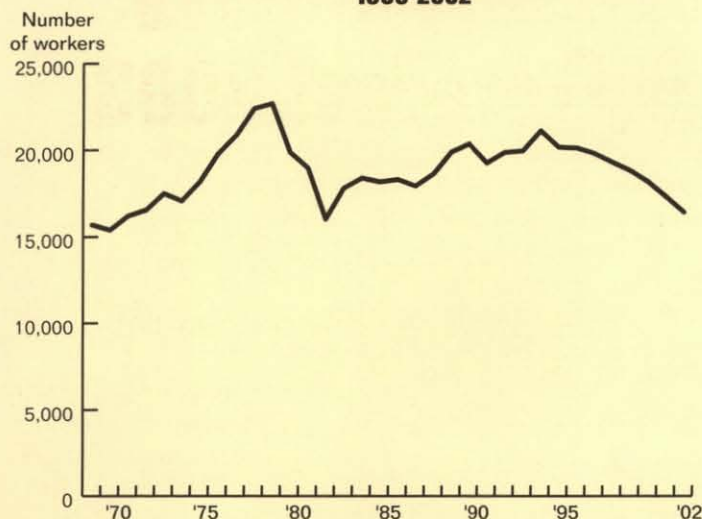


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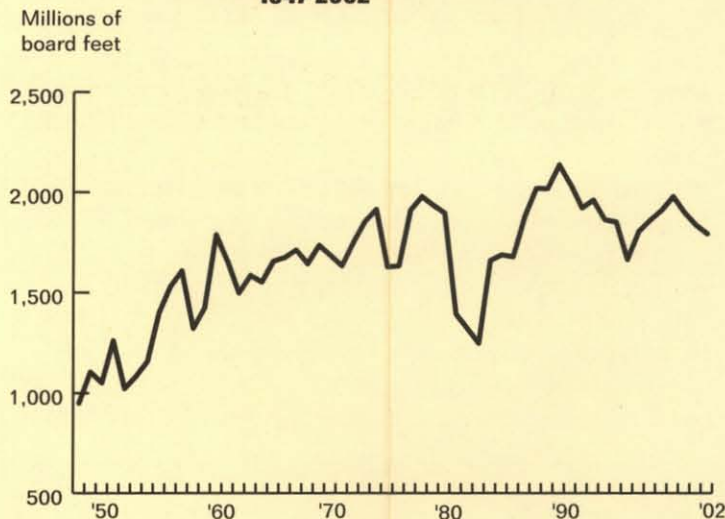
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Figure 3
Employment in Idaho's Forest Products Industry
1969-2002



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

Figure 4
Idaho Lumber Production
1947-2002



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

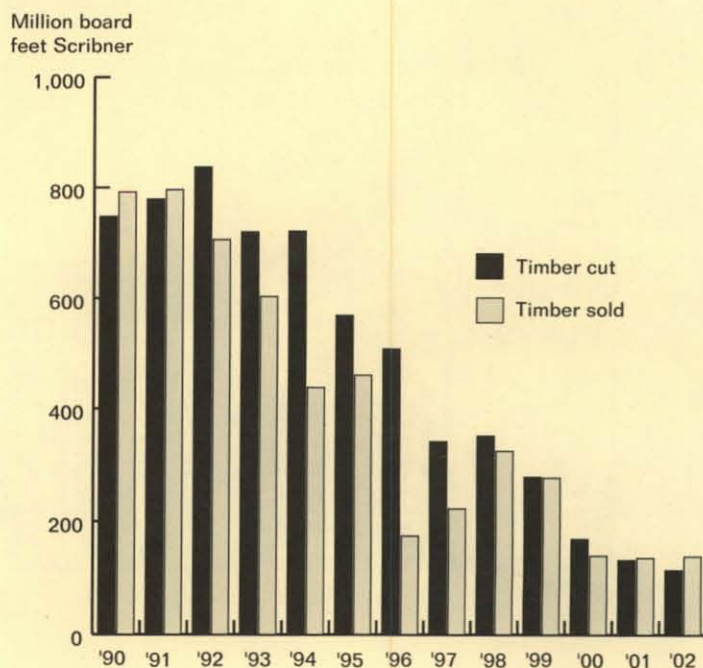
Idaho Industry Sales, Employment, Production

While there were no major mill closures in 2002, the last half of 2001 saw the permanent closure of several major facilities in the state, due to a combination of limited timber availability and market conditions. An annual survey conducted as part of this outlook indicates curtailments occurred at approximately 40 percent of the state's major wood products processing plants in 2002. These were in addition to normal curtailments for maintenance. On the positive side, 45 percent of plants made major capital expenditures to upgrade facilities.

Estimated total sales value of Idaho's primary wood and paper products in 2002 was \$1.65 billion, down from approximately \$1.70 billion in 2001 (Figure 2). Idaho's wood and paper products industry employed about 16,400 workers in 2002 (Figure 3)—a decrease of about 700 workers from 2001 (derived from Idaho Department of Labor 2001 and the Bureau of Economic Analysis, Regional Economic Information System).

Idaho's estimated lumber production in 2002 was just under 1.80 billion board feet, down about 2 percent from 1.83 billion board feet in 2001 (Figure 4). Estimated timber harvest volumes also declined slightly from 2001 to 2002 (Figures 5 and 6).

Figure 5
National Forest Timber Cut and Sold in Idaho
Volumes, Fiscal 1990-2002



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

Outlook

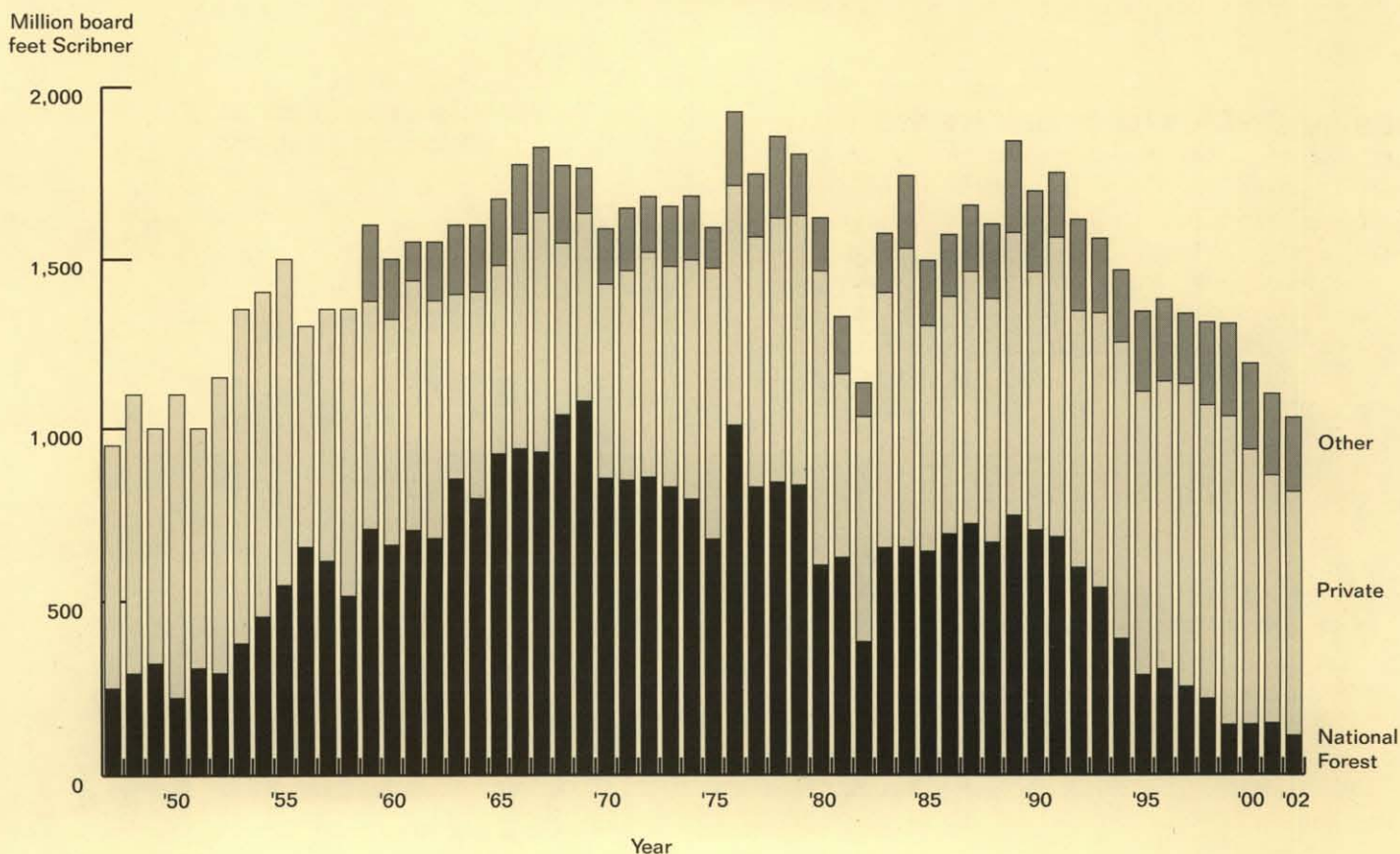
Markets should be slightly better in 2003, with increases in the repair and remodel market expected to offset small declines in housing starts (*Random Lengths*, Yardsticks Volume 12 Issue 11, 2002). There also may be slight improvements in international lumber and housing markets.

Based on a survey of key industry executives done as part of our annual economic outlook, two-thirds of Idaho mill operators expect 2003 to be a better year than 2002, with only 10 percent expecting a worse year in 2003. Fifty-five percent expect increased sales and profits, but fewer than 20 percent expect a major product price increase—about the same number that expect lower finished product prices. Increased profits are expected to come from

increased production (projected by over 60 percent of the respondents) lowering per unit costs. Also, 25 percent of mill operators expect lower raw material costs.

Over 90 percent of mill operators indicate that the general condition of the market will be a major issue affecting their plants in 2003 (Canadian and or international competition was mentioned specifically by 75 percent of respondents). Approximately 50 percent list limited timber availability as a future issue; with two managers indicating expected increased availability of timber. Other issues facing mill managers in 2003 include increased fixed costs, health insurance costs, lack of qualified workers, and the phasing out of CCA chemicals for use in preservatives.

Figure 6
Idaho Timber Harvest by Ownership
1947-2002



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