Idaho's Forest Products Industry
Current Conditions and 2008 Forecast

Presented to the
Joint Economic Outlook and Revenue Assessment Committee
Idaho State Legislature
2nd Session

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VP Idaho Affairs
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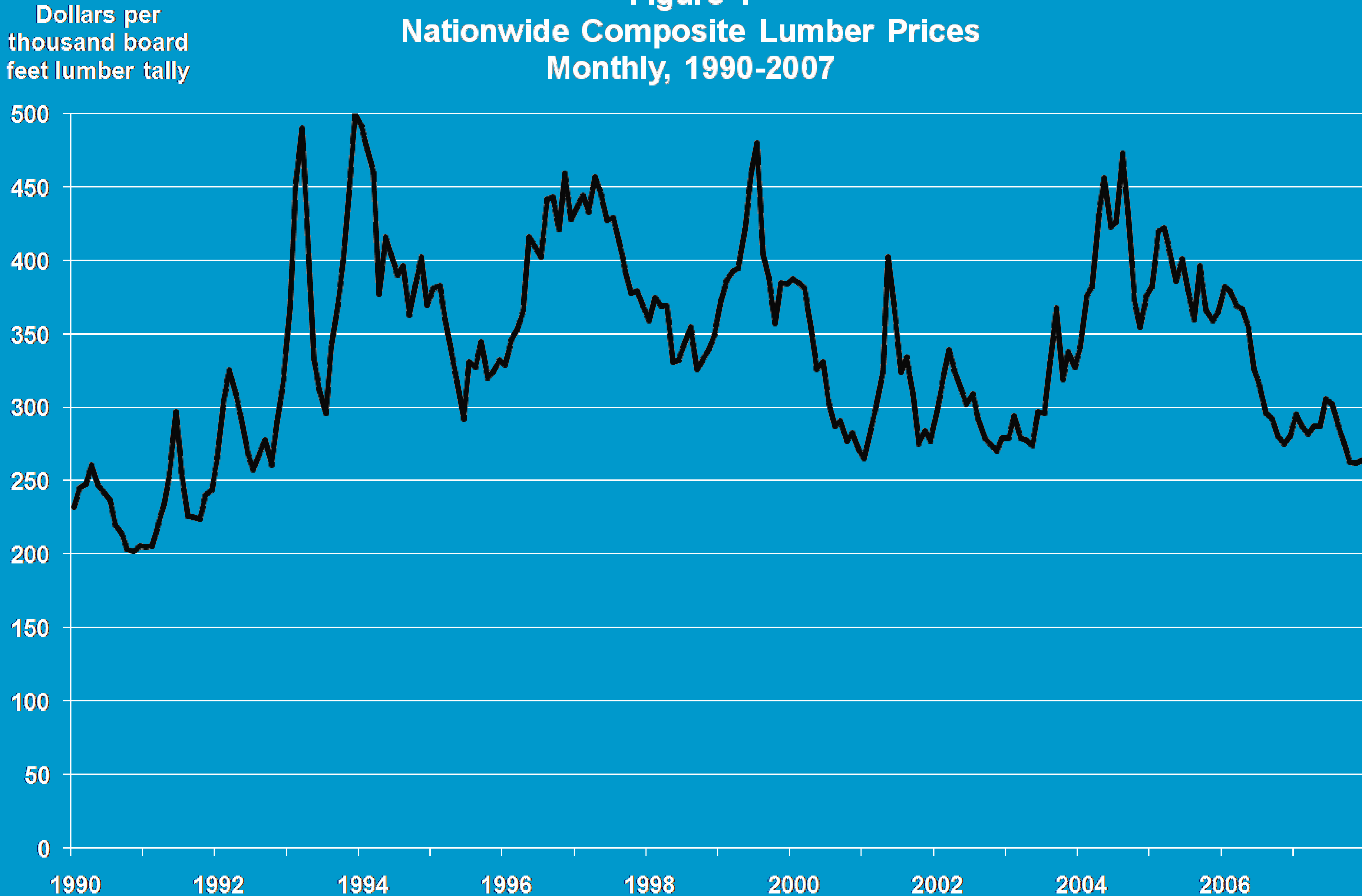
2007 Review

Operating Conditions

- **A second weak year in the U.S. housing industry continued to negatively impact Idaho's forest products business sector in 2007;**
- **U.S. housing starts peaked in 2005;**
- **Year End 2007, housing starts were down about a third from that peak and at their lowest levels in the past 10 years;**
- **Inventory of unsold homes, number of foreclosures, and interest rates on mortgages increased;**
- **In response, lumber prices fell about 30 percent from 2005 to 2007 (Figure 1).**

Figure 1
Nationwide Composite Lumber Prices
Monthly, 1990-2007



Sales Value of Idaho's Primary Wood and Paper Products

- **The estimated sales value of Idaho's primary wood and paper products manufacturers for 2007 was just under $1.7 billion, down approximately $140 million (approximately 7 percent) from 2006**
- **See Figure 2.**

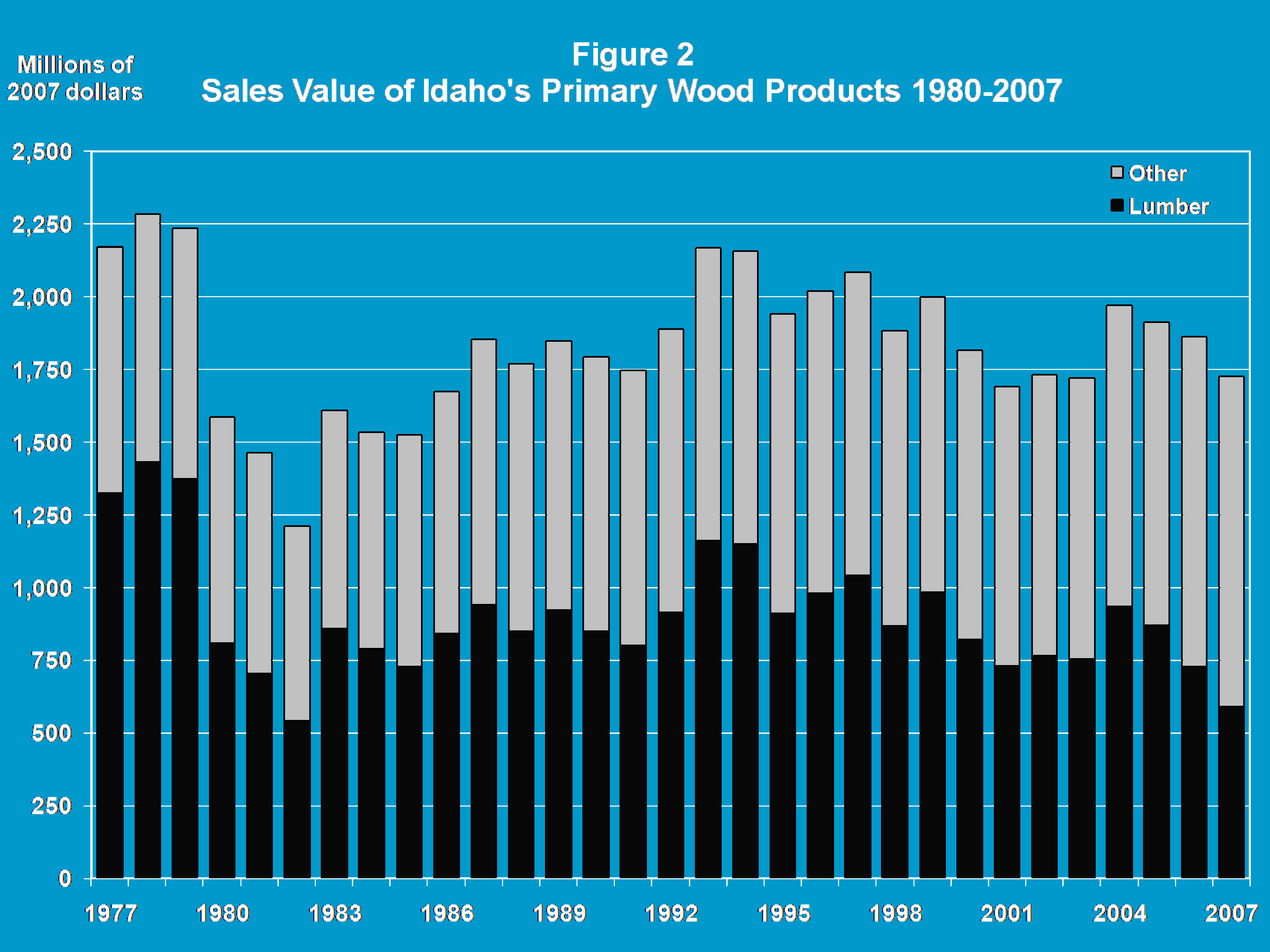
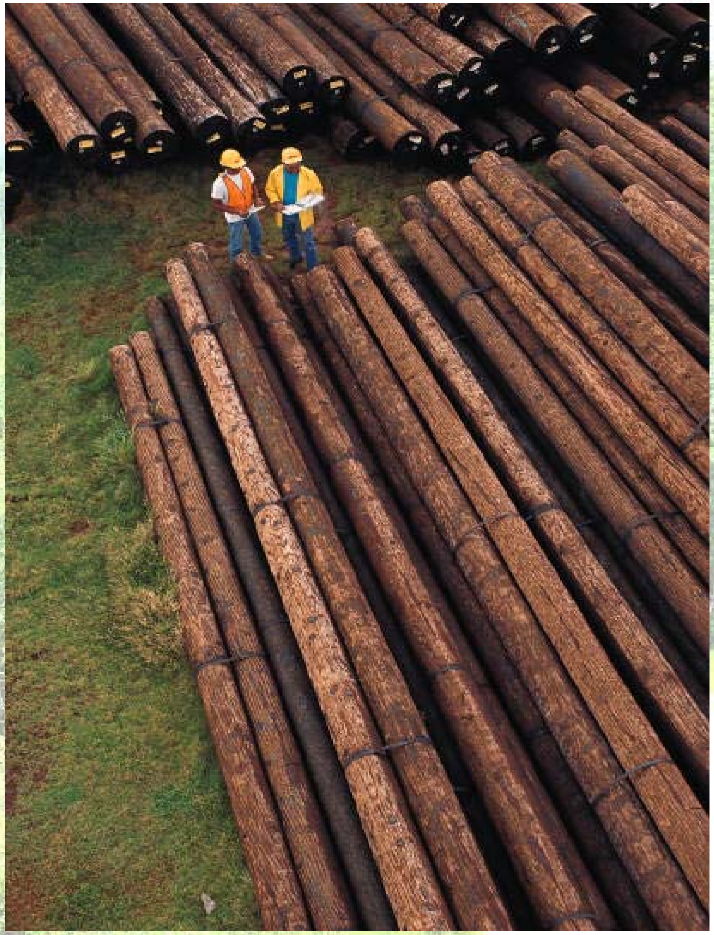


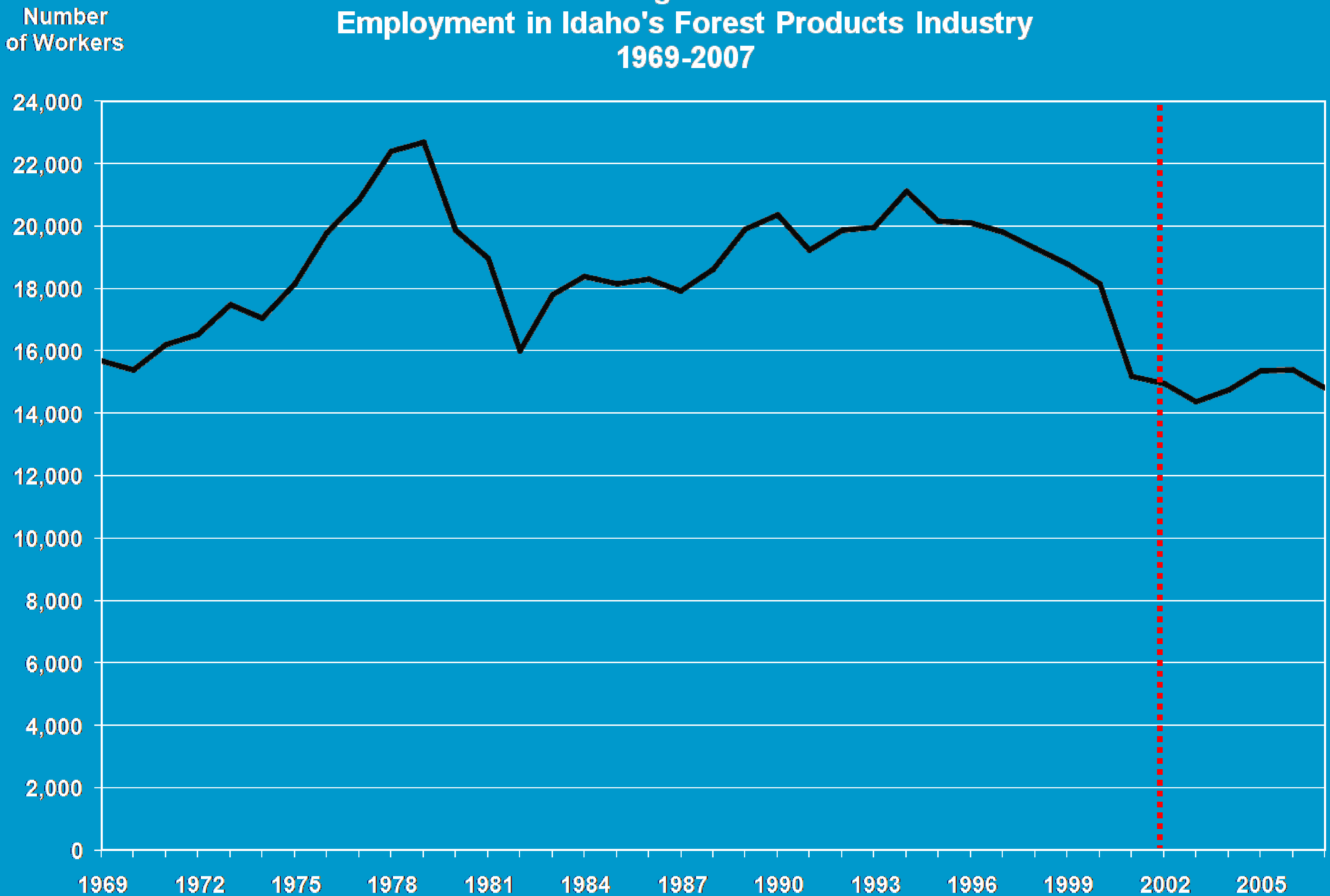
Figure 2
Sales Value of Idaho's Primary Wood Products 1980-2007
Millions of 2007 dollars
2,500
2,250
2,000
1,750
1,500
1,250
1,000
750
500
250
0
Other
Lumber
1977
1980
1983
1986
1989
1992
1995
1998
2001
2004
2007

Number of Forest Business Sector Workers



- **The number of forest business sector workers (including the self-employed) was an estimated 14,800 in 2007,**
- **Down by about 600 workers from 2006**
- **See Figure 3.**

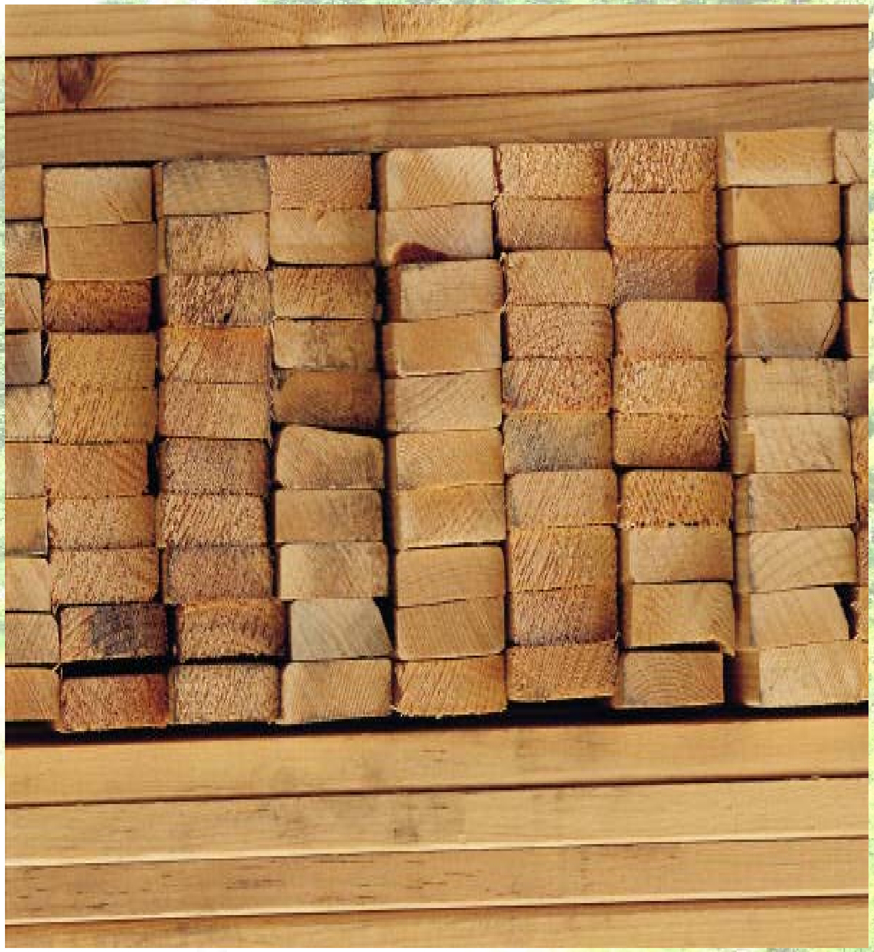
Figure 3
Employment in Idaho's Forest Products Industry
1969-2007



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.

Lumber by the Numbers

- **Production of lumber, the largest component of Idaho's forest products industry, fell to an estimated 1.7 billion board feet in 2007 from 1.85 billion board feet in 2006**
- **See Figure 4.**



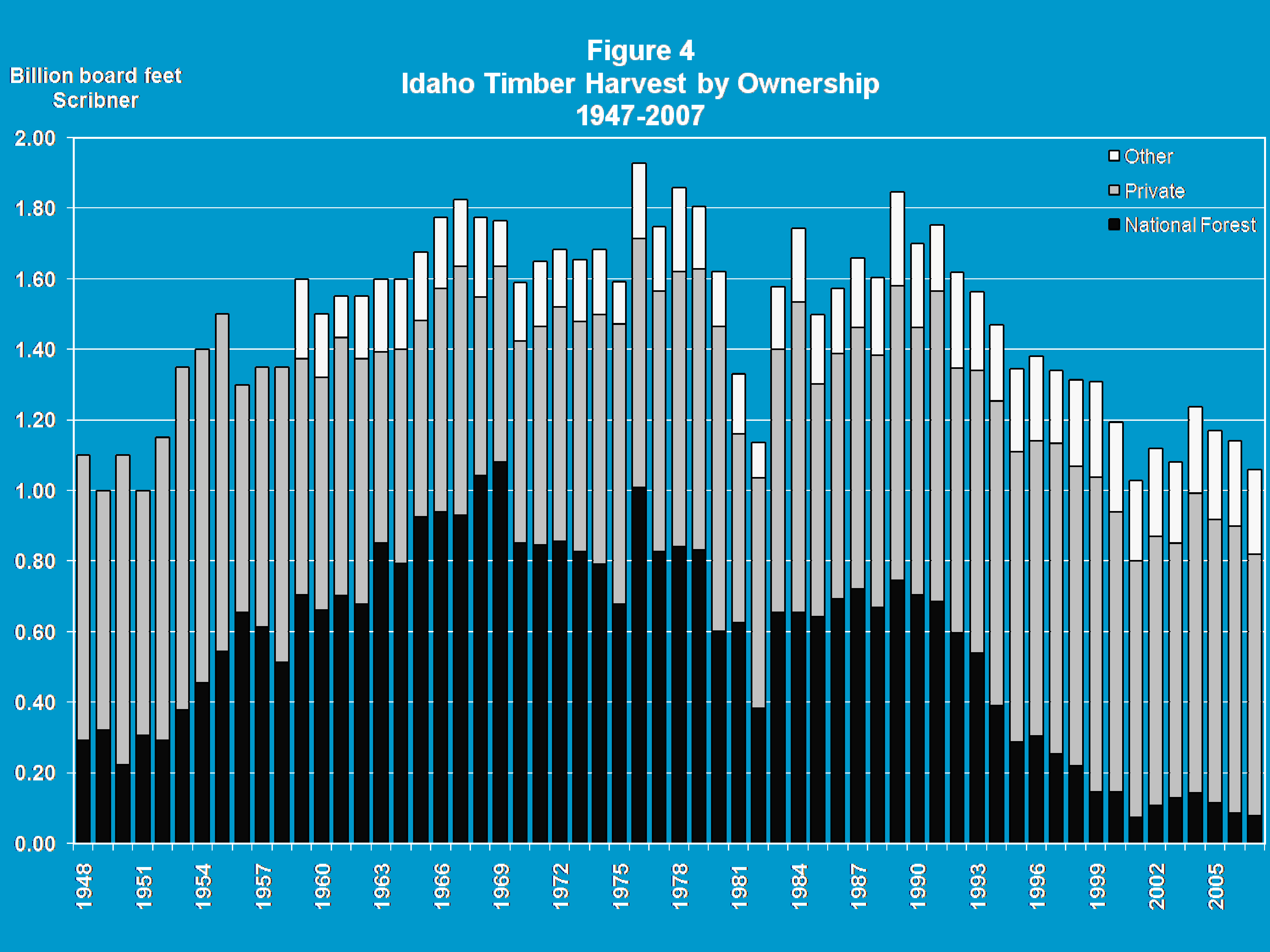
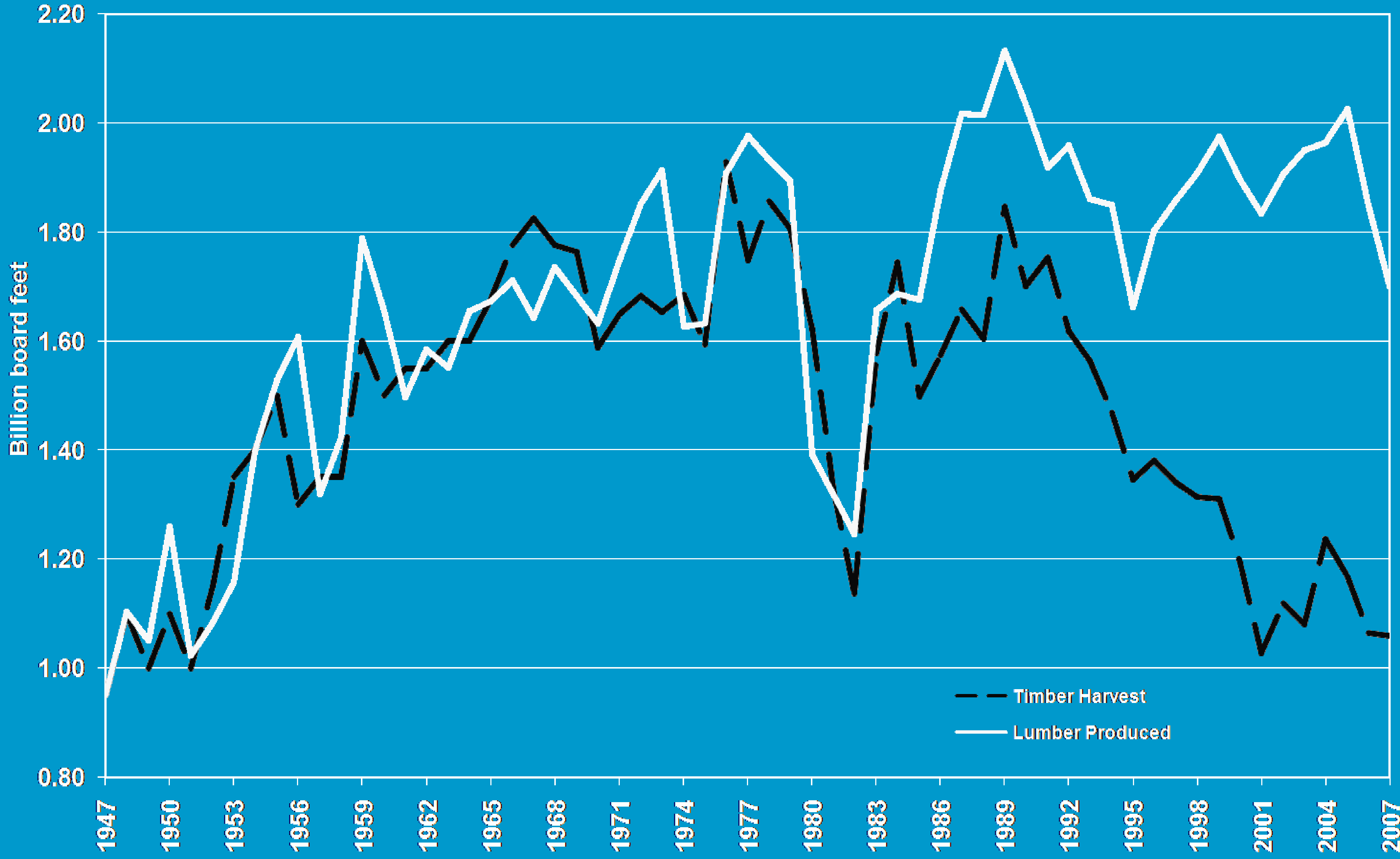


Figure 4
Idaho Timber Harvest by Ownership
1947-2007
Billion board feet
Scribner
2.00
1.80
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
Other
Private
National Forest
1948
1951
1954
1957
1960
1963
1966
1969
1972
1975
1978
1981
1984
1987
1990
1993
1996
1999
2002
2005

Timber Harvest

- **Timber harvest declines were seen in virtually all the timber ownership classes (Figure 4), with lower prices being a major factor.**
- **Idaho’s estimated timber harvest volume during 2007 was about 1.06 billion board feet, down about 7 percent from 1.14 billion board feet in 2006 (Figures 4 and 5).**
- **Private land harvest, including industry and non-industrial private lands, was about 9 percent below 2006.**
- **The harvest from national forests was down about 7 percent; low prices combined with persistent legal, budgetary, and administrative problems led to the second lowest national forest harvest since World War II (Figure 4).**
- **Harvest from other owners, including Tribal, State, and Bureau of Land Management lands, was down about 2 percent from 2006**

Figure 5
Idaho Timber Harvest and Lumber Production
1947-2007



Timber Harvest

- **Note that timber harvest, expressed in board foot Scribner and lumber production expressed in board foot lumber tally were roughly equal from 1947 to 1983 (Figure 5).**

- **After that time, timber harvest began to decline while lumber production continued to increase. This was likely due to several factors.**
  - **One factor was improvements in sawmill efficiency.**
  - **In the mid 1980s, Idaho’s sawmills started to incorporate quality control and size control practices, improved saw blade technology, and computerized process control.**

Timber Harvest

- A second factor – decline of Idaho's plywood industry in the 1980s,
- And a higher proportion of harvested timber went to Idaho sawmills.
- In the 1980s many sawmills began to re-tool to handle smaller-diameter logs.
- By 2003, nearly 60 percent of all logs processed in Idaho were less than 10 inches in diameter (measured at the small end);
- Some mills were processing very small-diameter logs (less than 6 inches in diameter).

2007 Annual Survey Report

- **59 percent of wood and paper product manufacturers indicated a decrease in profits for 2007;**
- **26 percent indicated an increase;**
- **49 percent of responding manufactures indicated a decrease in sales;**
- **48 percent indicated a decrease in production;**
- **Number of plants making major capital expenditures went down to 48 percent in 2007 from 57 percent reported in 2006.**

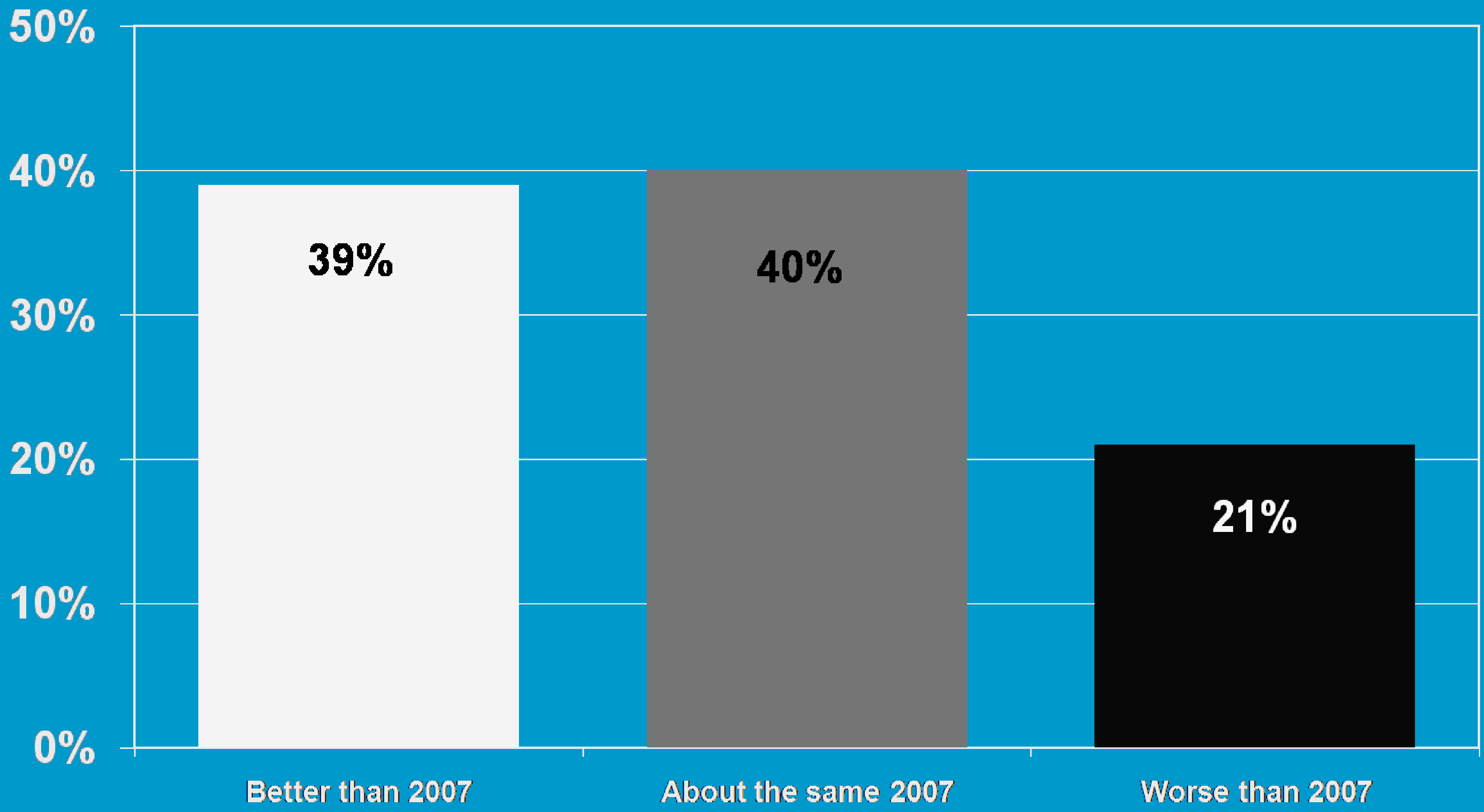
Outlook for 2008

- Weak markets and mill curtailments are expected into 2009, with housing starts for 2008 expected to be lower than 2007 levels. Information gathered from the annual survey of Idaho manufacturers indicates that they perceive a continuation of weak markets in 2008. Overall, 61 percent of the survey respondents do not expect improved operating conditions in 2008 (Figure 6).

Production and Sales

- **Only 35 percent of the facilities surveyed anticipate an increase in production,**
- **45 percent expect to experience greater sales in 2008.**
- **Just over one-half of the facilities surveyed said they expected to see an increase in profits from 2007 to 2008,**
- **while only 17 percent stated they expect profits to decrease.**
- **Furthermore, 31 percent stated that they expect to see a price increase on their products,**
- **while 46 percent of the respondents expected prices to stay about the same as those in 2007.**

Figure 6
Idaho's Wood and Paper Product Producers Overall Outlook for 2008



Areas of Concern

- General market conditions;
- Raw material availability;
- Raw material cost;
- Concerns over timber availability generally focus on national forest lands.
- Mill Manager Concerns: increases in health insurance, transportation issues and costs, energy costs, and the availability of qualified personnel.

Canadian Lumber Agreement

- Negotiated agreement reached in Fall of 2006.
- Canadians agreed to limit amount of exports by province, or collect export taxes without a quantity limit.
- Complex agreement
- US initiated formal arbitration in August 2007, because they believe Canada not living up to their side of the deal.
- Arbitration decisions due in March.
- Canadians continue to over ship into depressed US lumber market, worsening an already intolerable situation.

Good News

- **Idaho FPBS has comparative advantage of being closer to the wood basket**
- **IFA members continue their investment in facilities and land;**
- **IFA/ALC jointly working on Workforce Development issue;**
- **Emerging markets in energy and carbon credits;**
- **Landowner Conservation Initiatives may assist in keeping forests less fragmented.**

Information Providers

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- **Charles E. Keegan III, Research Professor, Bureau of Business and Economic Research, The University of Montana, Missoula, Montana, (406) 243-5113**
- **Steven R. Shook, Associate Professor of Forest Products and Marketing, College of Natural Resources and College of Business and Economics, University of Idaho, Moscow, Idaho, (208) 885-6802**
- **Francis G. Wagner, Professor of Forest Products, College of Natural Resources, University of Idaho, Moscow, Idaho, (208) 885-6700**
- **Idaho Industry Sales, Employment, and Production for 2007**

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