Idaho's Forest Products Business Sector (FPBS)

Economics in Today's Environment

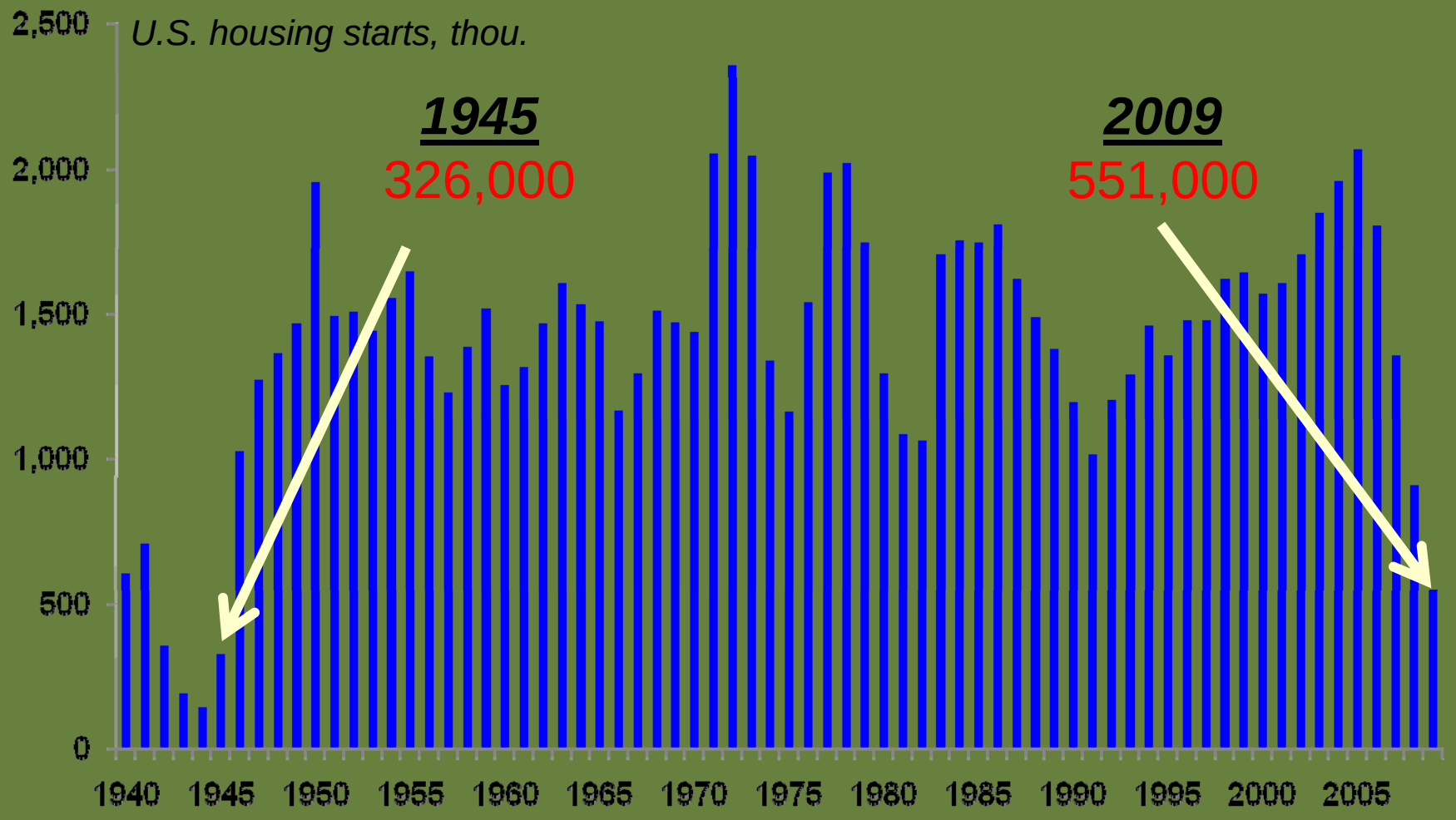
Presented by the Intermountain Forest Association

January 2010

2009 – A Horrific Year

- National Housing Markets Depressed;
- Housing Starts Suffer Dramatic Declines;
- Dimension Lumber Prices Tank;
- Plywood Prices Tank;
- Mills Overstocked with Finished Product;
- Little to No Market.

50-year low for housing



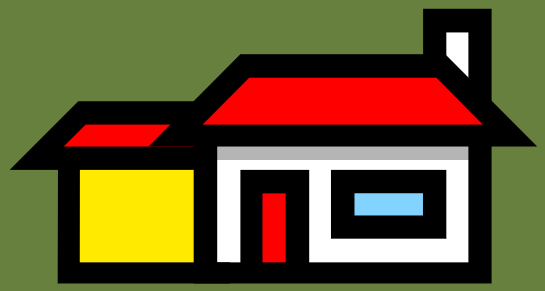
Source: WWPA

Lumber used in home building

2005

27.6 billion BF

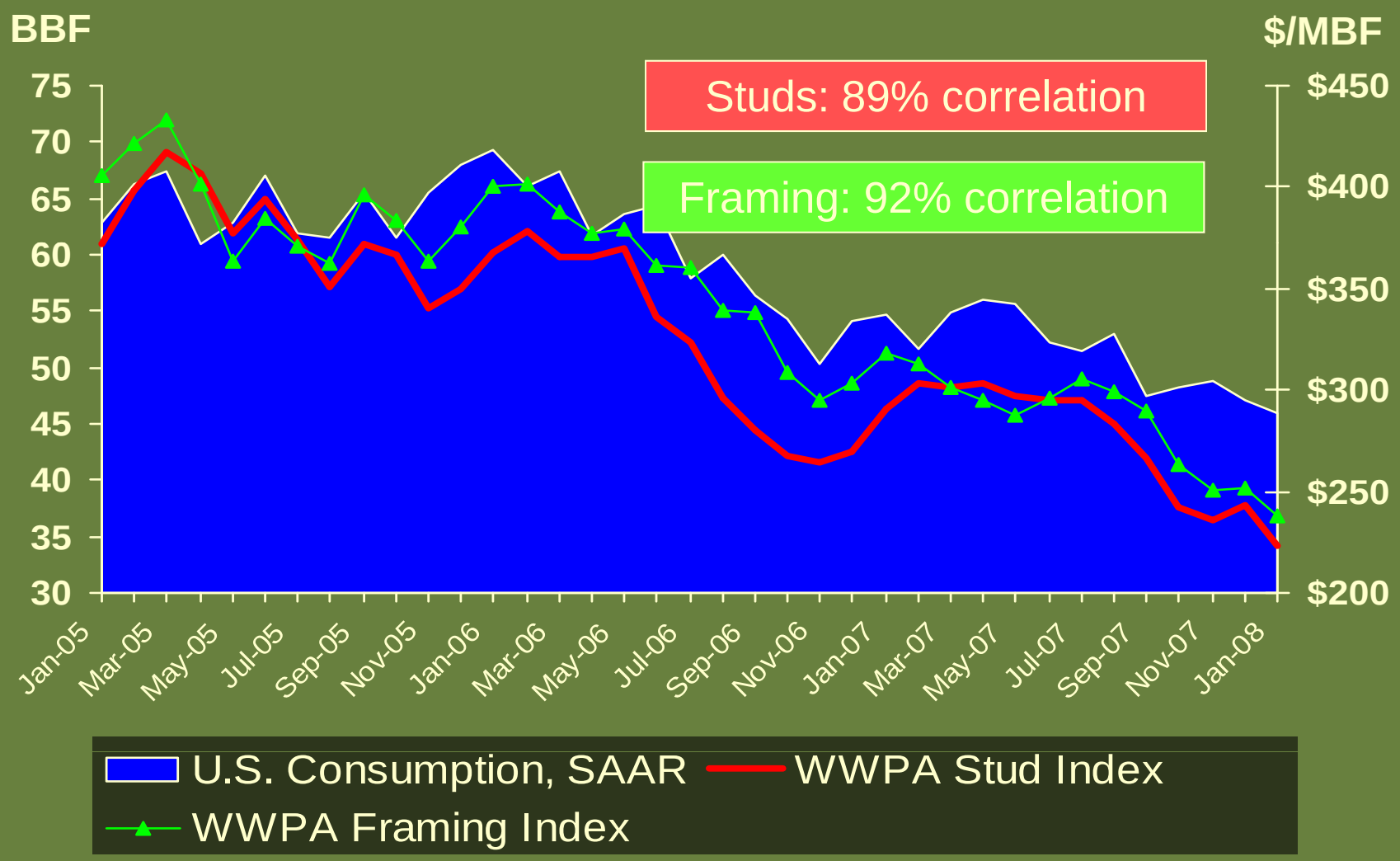
2009



7.2 billion BF

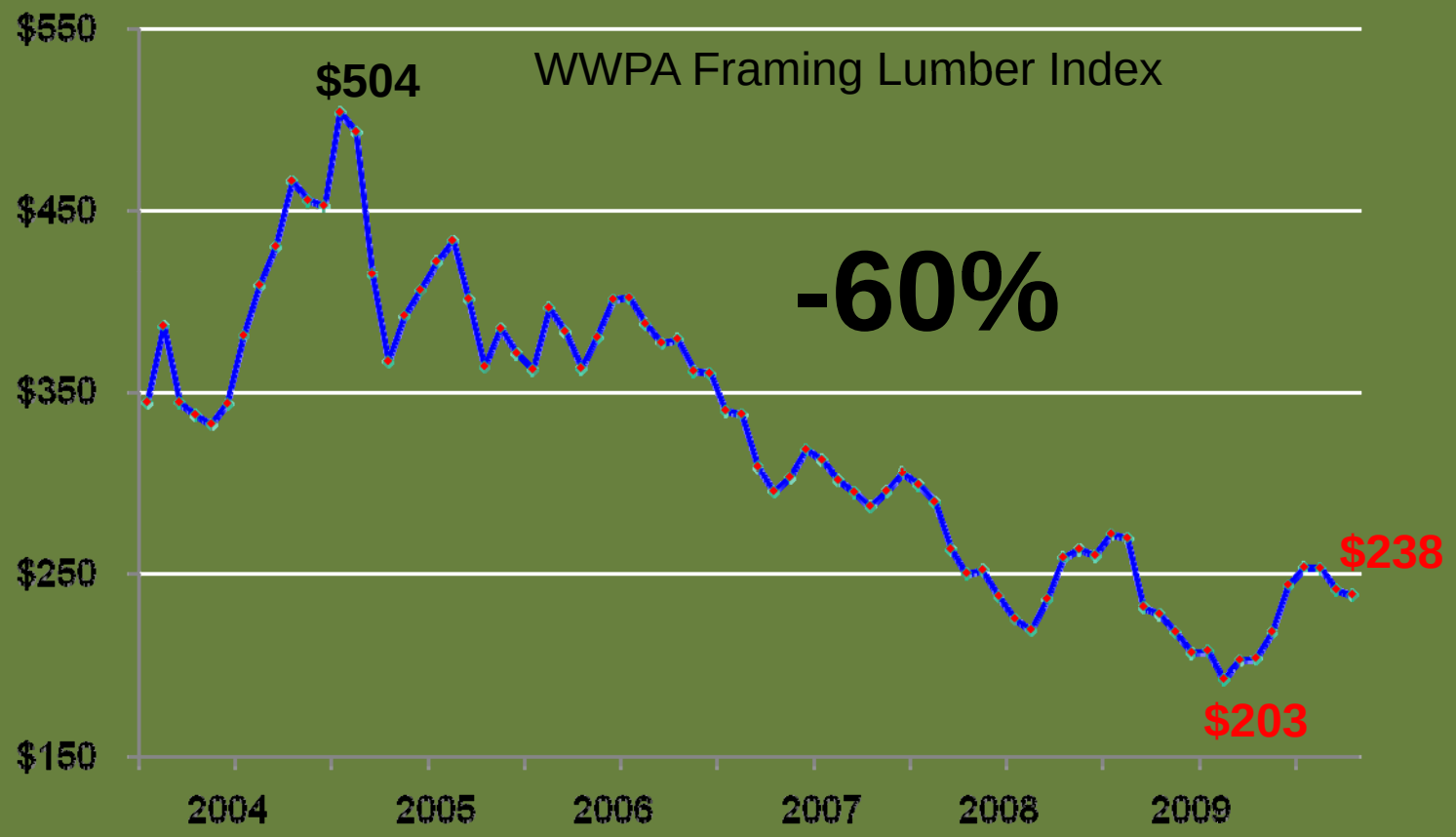
Source: WWPA

Faltering demand drives lumber prices lower

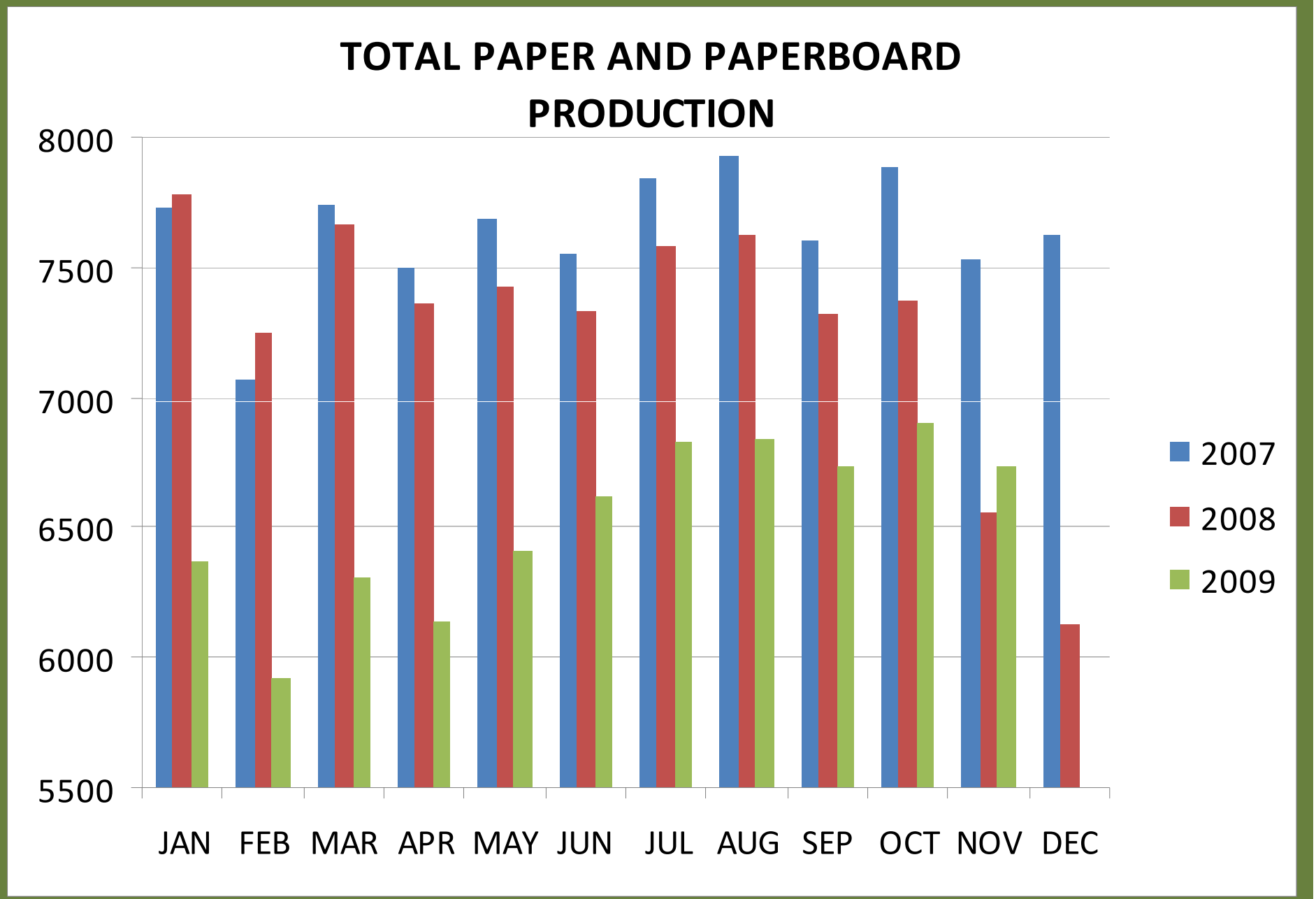


Source: WWPA

Western lumber price trends

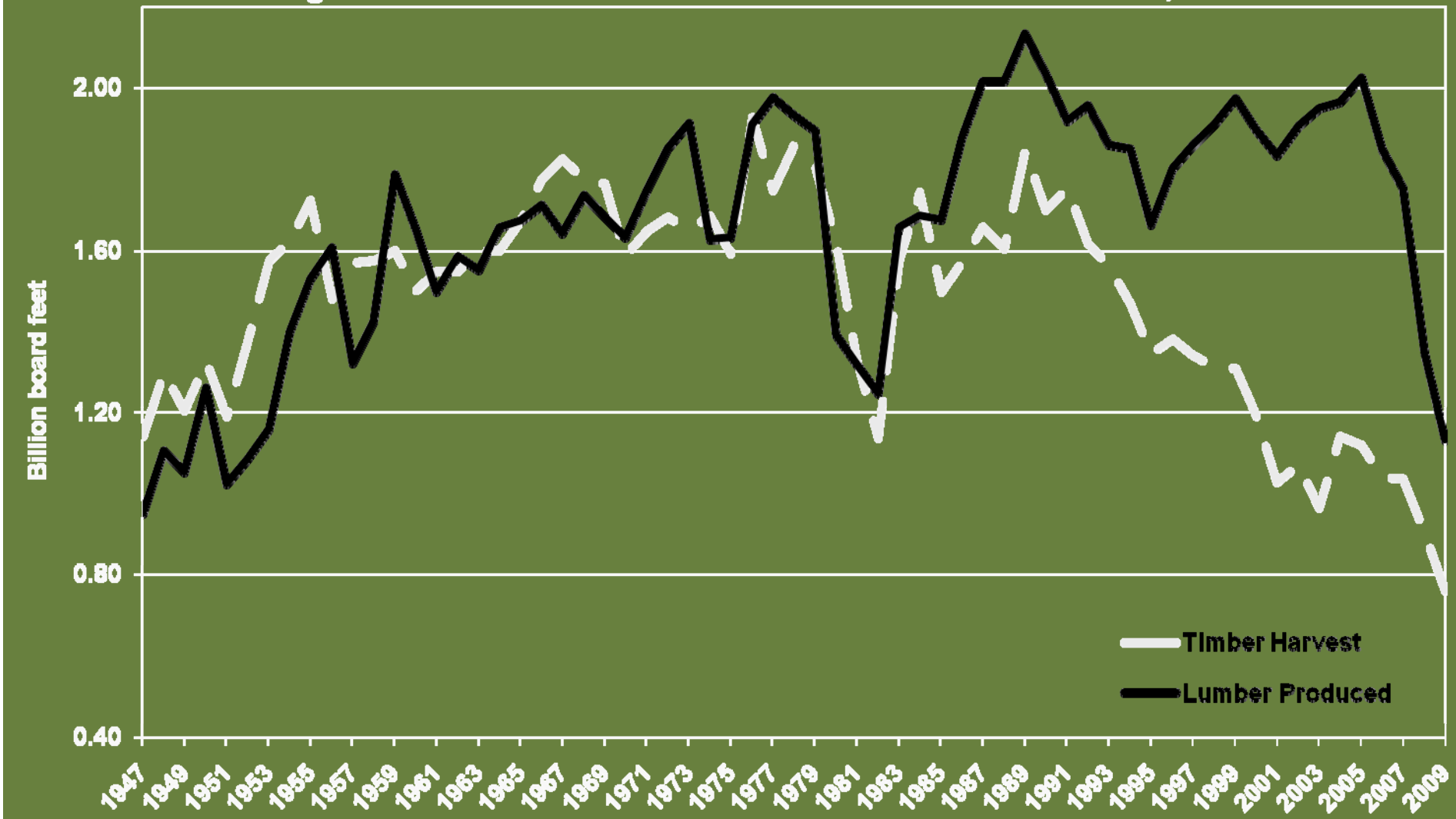


Source: WWPA


TOTAL PAPER AND PAPERBOARD PRODUCTION
8000
7500
7000
6500
6000
5500
JAN
FEB
MAR
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
2007
2008
2009

Source: AF&PA

Figure 4 -- Idaho Timber Harvest and Lumber Production, 1947-2009



Volume of timber harvested, 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. Several factors contributed to this divergence. One factor was improvements in sawmill efficiency. In the mid 1980s, 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 in the 1980s, and a higher proportion of harvested timber went to Idaho sawmills. Additionally, many sawmills began to re-tool during the 1980s to handle smaller-diameter logs. By 2003, nearly 60 percent of all logs processed in Idaho were less than 10 inches in small-end diameter, and some mills were processing logs less than 6 inches small-end diameter. The increased use of smaller-diameter logs exposed a weakness in the Scribner log scale—namely that the actual volume of lumber able to be produced from a small-diameter log is under-estimated by the Scribner scale.

Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; USDA Forest Service Region One, Missoula, Montana; Western Wood Products Association.

Western lumber production

Million Board Feet

	2008	2009	2010
Coast	7,703	6,229	6,727
Inland	4,783	3,686	3,981
Cal. Redwood	508	312	337
TOTAL	**12,994**	**10,227**	**11,045**

Source: WWPA

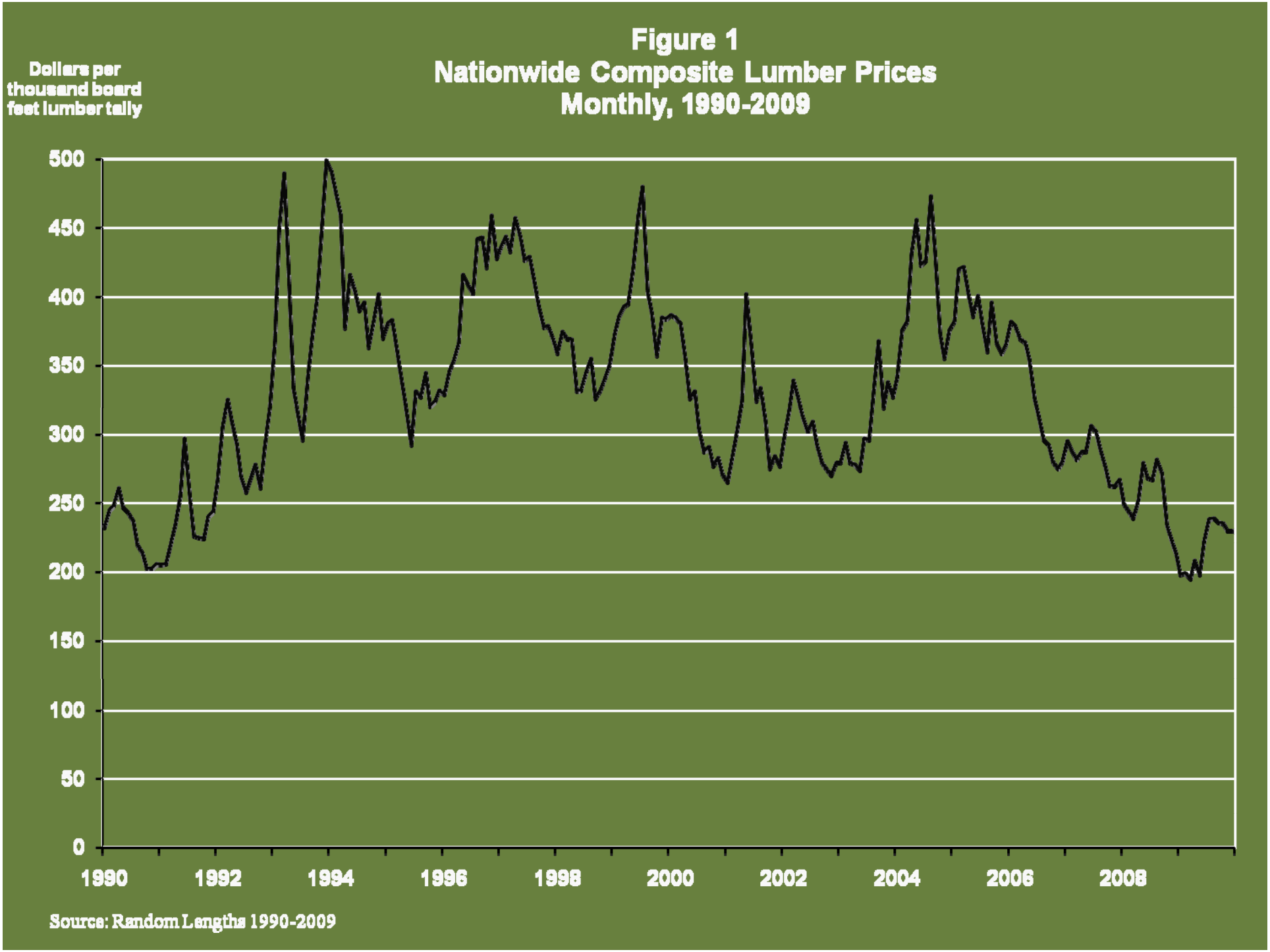


Figure 1
Nationwide Composite Lumber Prices
Monthly, 1990-2009
Dollars per thousand board feet lumber tally
500
450
400
350
300
250
200
150
100
50
0
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
Source: Random Lengths 1990-2009

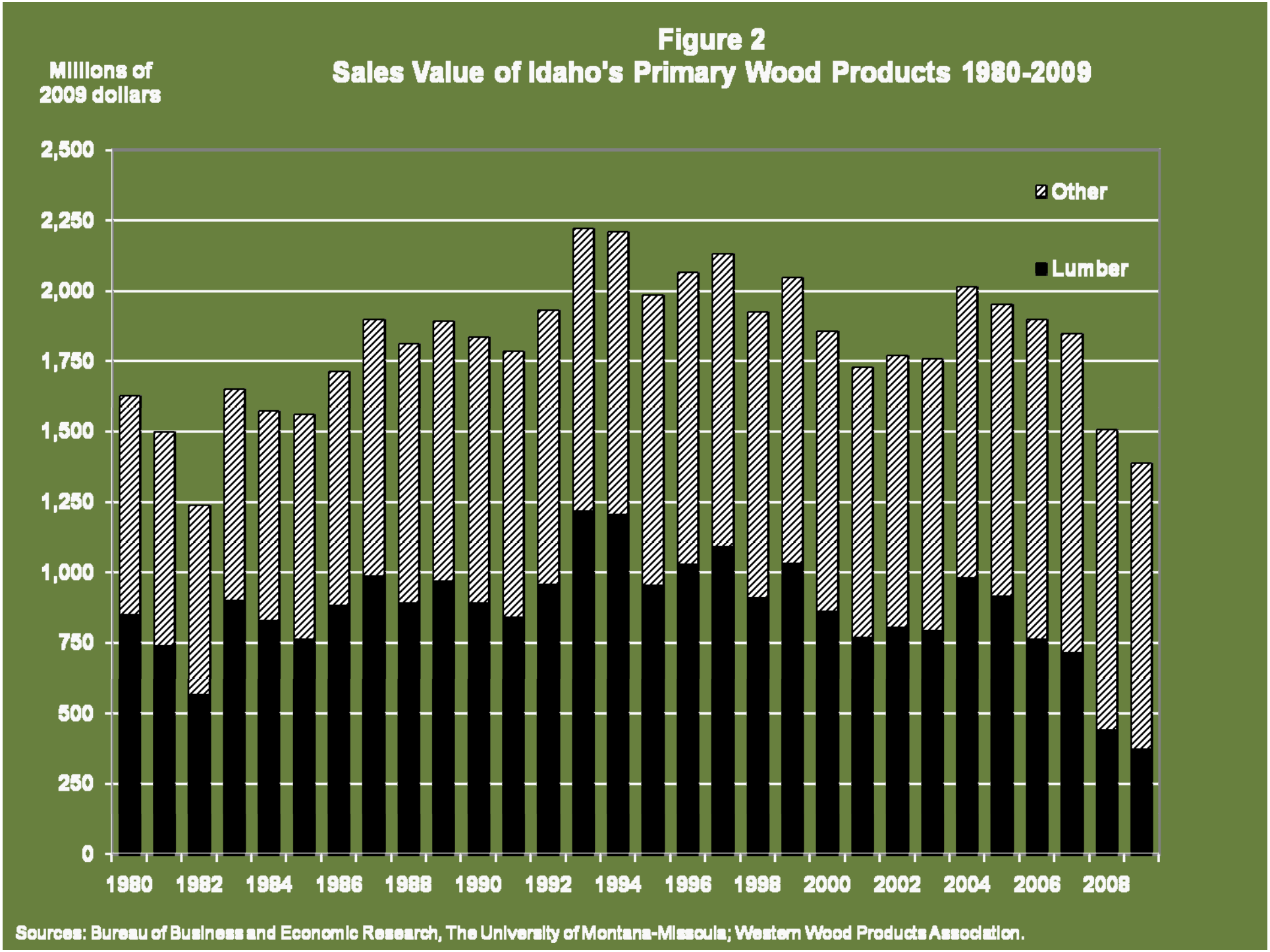


Figure 2
Sales Value of Idaho's Primary Wood Products 1980-2009
Millions of 2009 dollars
2,500
2,250
2,000
1,750
1,500
1,250
1,000
750
500
250
0
Other
Lumber
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; Western Wood Products Association.

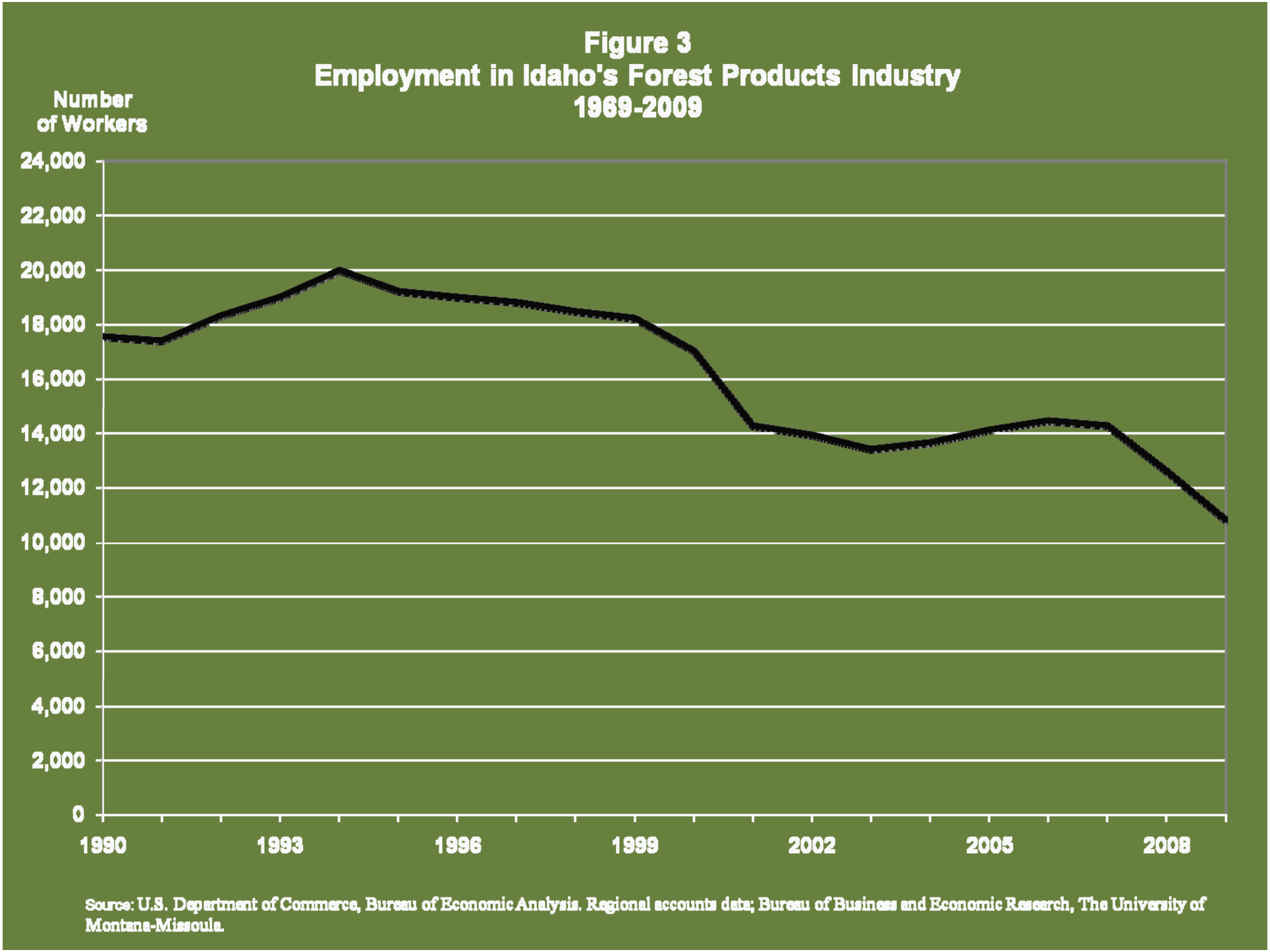


Figure 3
Employment in Idaho's Forest Products Industry
1969-2009
Number of Workers
24,000
22,000
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
1990
1993
1996
1999
2002
2005
2008
Source: U.S. Department of Commerce, Bureau of Economic Analysis. Regional accounts data; Bureau of Business and Economic Research, The University of Montana-Missoula.

Industry Employment in Idaho

- Timber industry and secondary manufacturers: approximately 11,000 jobs in Idaho
- Pulp/Paper Products Manufacturing Employment: 1,641 jobs; $ 50,582 average annual wage
- Logging Employment: 1,667 jobs; $43,520 average annual wage
- Wood Products Manufacturing Employment: 5,689 jobs; $37,284 average annual wage

Impact on Idaho Mills

- Slowdowns - All Idaho Mills
- Shutdowns - permanent and temporary
- Some mills closed permanently
- Layoffs of experienced workers
- Mills focused on survival

Impact on Forest Land Owners

- Log Prices Depressed and Falling
- Production Cut Backs – Logging Contractors

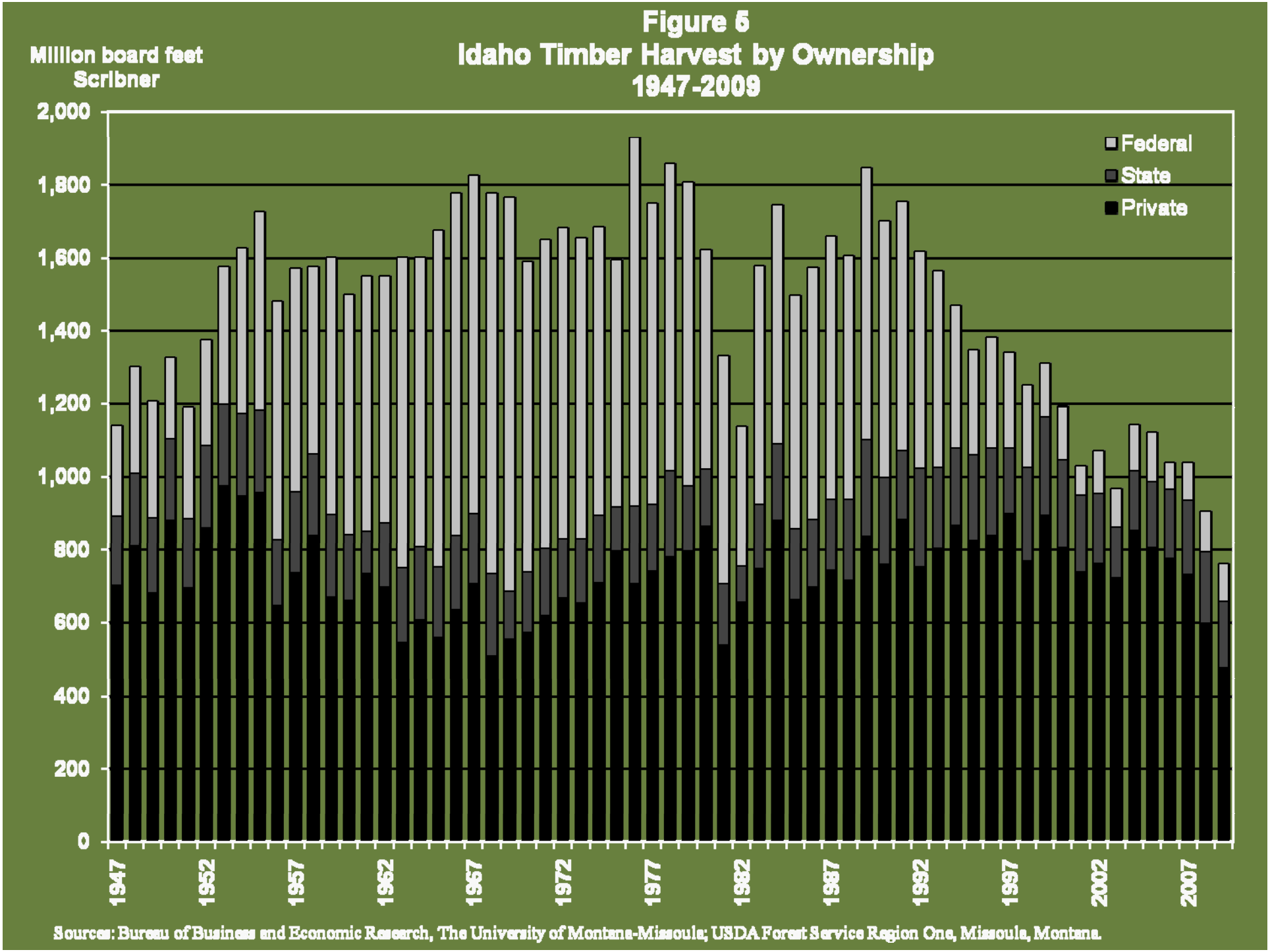


Figure 5
Idaho Timber Harvest by Ownership
1947-2009
Million board feet
Scribner
2,000
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
Federal
State
Private
1947
1952
1957
1962
1967
1972
1977
1982
1987
1992
1997
2002
2007
Sources: Bureau of Business and Economic Research, The University of Montana-Missoula; USDA Forest Service Region One, Missoula, Montana.

Impact to State

- Near-term: Concern over reduction in Endowment Fund returns.
- Long-term: Need to maintain mill infrastructure to maintain stumpage value of state timber.

Look To The Future

- Better times expected – **HOW SOON?**

- Fundamentals are still good in the long-term for Idaho's FPBS
  - Fundamental Demand for Housing
  - Trees grow very well in Idaho
  - Logging, trucking, and milling infrastructure adequate to support existing sector

Forecasts

- Market Recovery: 2010?
- Won't be Quick
- Won't be Easy

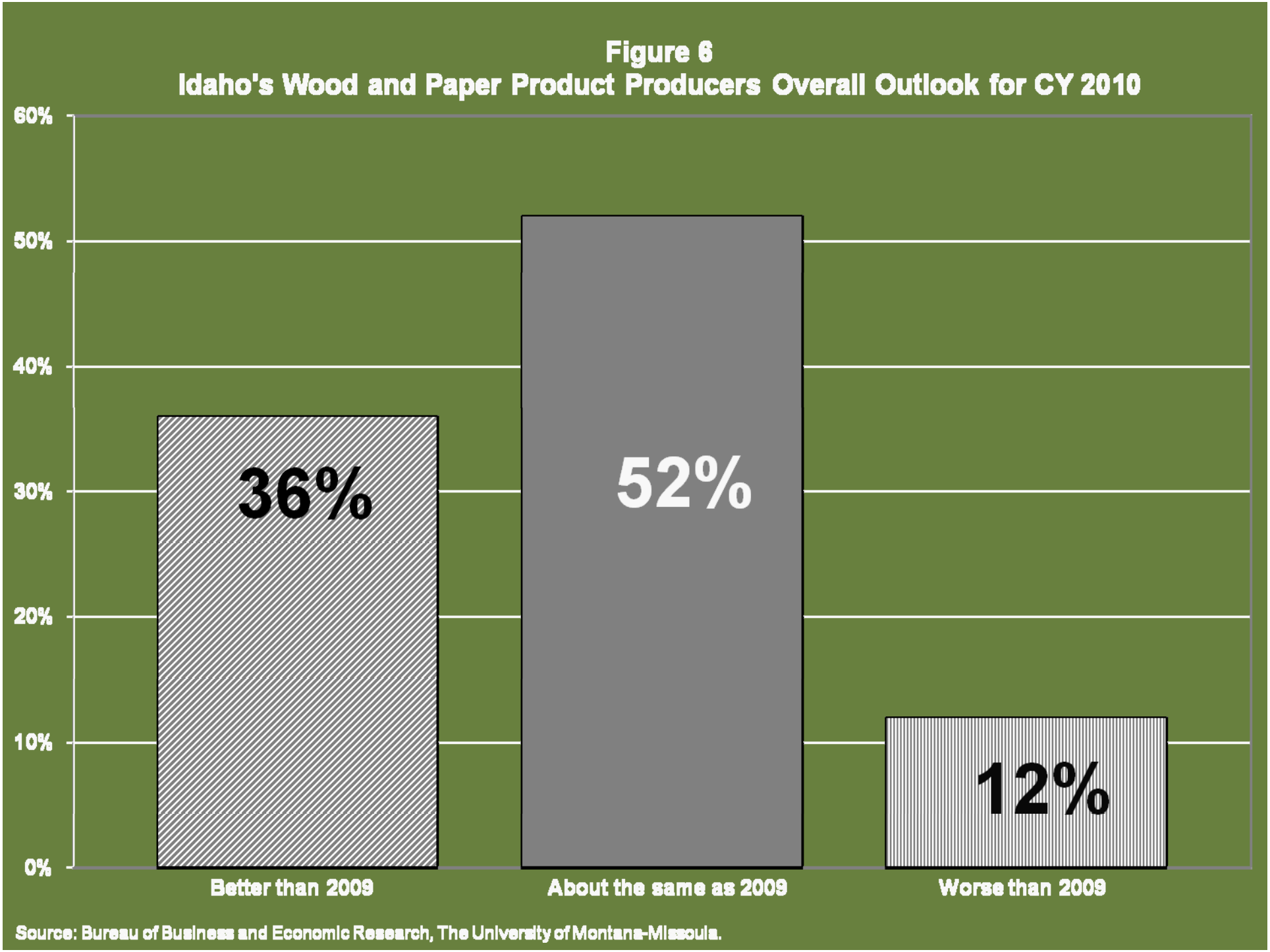


Figure 6
Idaho's Wood and Paper Product Producers Overall Outlook for CY 2010
60%
50%
40%
30%
20%
10%
0%
36%
52%
12%
Better than 2009
About the same as 2009
Worse than 2009
Source: Bureau of Business and Economic Research, The University of Montana-Missoula.

Home Building Forecast

thousands	*2007*	*2008*	*2009*	*2010*	*2011*
SF	1,046	678	870	1,075	1,222
MF	309	290	300	313	318
Total	**1,355**	**968**	**1,170**	**1,388**	**1,530**
MH Ship.	96	88	103	113	115

Source: WWPA

U.S. lumber demand

Million Board Feet

Markets	***2008***	***2009***	***2010***
New Homes	11,233	7,173	8,344
Rep/Remodel	14,938	10,968	12,530
Non-Res.	6,148	5,376	5,350
Ind./Other	9,539	7,463	8,246
TOTAL	**41,858**	**30,980**	**34,470**

Source: WWPA

Western lumber production

Source: WWPA

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