

Idaho's Forest Products Industry Current Conditions and 2013 Forecast

Operating Conditions

Market conditions impacting Idaho's forest products industry con-

Production and sales trends—secondary products. Sales from the secondary wood and paper sectors increased to an estimated \$430 million in 2012, up from about \$419 million in 2011 and just \$300 million in 2010. The total value of Idaho’s primary and secondary wood products sales is \$2.081 billion, compared to \$2.011 billion in 2011. Although improving, sales values are still considerably lower than during the strong markets in 2004 and 2005, when sales of Idaho’s primary forest products were nearly \$2 billion and secondary products accounted for another \$1 billion in sales.

Economic impact of sales. Because of linkages to supporting industries each dollar of wood and paper products sold and exported from the state generates, on average, an additional \$0.60 of sales by other industries within the state. About 84 percent of the wood products manufactured in Idaho are exported elsewhere, and we assume nearly all paper products are exported. Using the output multipliers in the IMPLAN model, the total impact in Idaho from converting timber into consumer products is more than \$3.2 billion in sales, of which \$1.1 billion are from industries that support forest products manufacturing, such as forestry, logging, heavy equipment, and trucking.

Employment and timber harvest trends. The close relationship between timber harvest and employment in the forest industry is illustrated in **Figure 4**. Employment in 2012 was estimated at 10,200

Economic impact of timber harvest. Timber harvests are closely related to lumber production and employment in the forest products industry. As timber harvest increased from 1.2 billion board feet in 1947 to almost 2 billion in the late 1970s (**Figure 5**), lumber production followed, doubling from 1 billion board feet to 2 billion during the same period (**Figure 3**). As noted prominently in **Figure 4**, each million board feet of timber harvested and processed in the state today provides approximately 18 jobs (10 in the forest products industry plus 8 indirect or induced jobs in supporting industries), \$629 thousand in labor or TT (plus 8aT

For the past decade or so, Idaho's forest products industry has been sustained by timber harvests from private and state lands (**Figure 5**). During 2012, private lands provided more than half (58 percent) of the harvest volume, while state lands provided 33 percent of Idaho's total harvest. Federal lands provided about 9 percent of the 2012 harvest, as harvest volume from U.S. National Forest System lands was essentially unchanged from 2011.

As **Figure 5** illustrates, between 1947 and 1990 federal lands provided 43 percent of the timber harvested in the state. In 1990 federal harvests began a steep decline as a result of several policies, and since 1990 have provided 20 percent of the timber harvest. In the past ten years, federal lands have provided just 10 percent of the harvest. Approximately 39 percent of Idaho's land (20.4 million acres) is within the U.S. National Forest System—Oregon ranks a distant second at 25 percent. More than three-fourths of Idaho's timber resources are on federal lands, a total that does not include 4 million acres of federal forest lands in the National Wilderness Preservation System.

Outlook for 2013

Idaho's forest industry is recovering from the worst extended wood products market downturn (2007-20011) since World War II. Although 2012 production, sales, and employment remain well below pre-recession levels, improvements in wood and paper products markets and Idaho's industry are generally expected to continue during 2013. National forecasts call for modest growth in the U.S. economy and consumption of wood and paper products. Housing starts are expected to continue recovering, and home values should continue to increase.

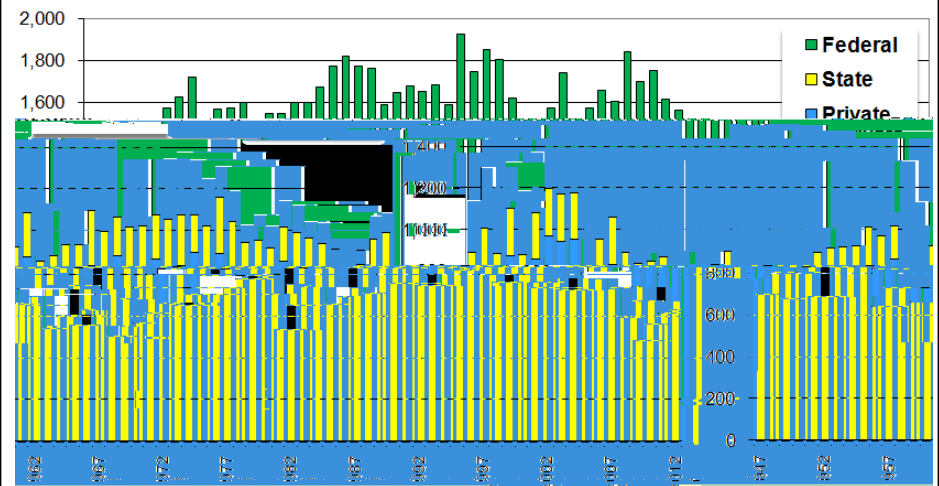
Idaho's wood products executives responding to our survey expressed guarded optimism about the coming year, with 35 percent of them predicting operating conditions in 2013 to be better than 2012, and 48 percent predicting conditions to be about the same as 2012 (**Figure 6**). Two-thirds of Idaho wood products executives surveyed expect employment in 2013 to be about the same as 2012, with 19 percent expecting an increase, and 14 percent a decrease.

More than half of the survey respondents expect gross sales to increase, and almost half of them expect increases in production and profits during 2013. Only 9 percent of the respondents expect decreases in sales, with 12 and 16 percent predicting declines in production and profit, respectively. About three-fourths of the respondents, however, indicated their facilities would not be making major capital investments during 2013.

Factors constraining industry growth potential. Responding to a pair of open-ended questions, nearly all of Idaho's primary and secondary wood products industry executives mentioned market conditions, housing starts, and overall economic conditions as the major issues that affected their operations in 2012 and that will continue to affect their operations in 2013. Health insurance costs and raw material availability ranked highest among eight issues of importance to the responding businesses. Energy costs and worker compensation rates also ranked quite high, while foreign competition was the lowest ranking issue. Idaho's wood industry executives also mentioned excessive environmental regulation and skilled labor shortages as issues that will continue to impact their operations.

Figure 5
Idaho Timber Harvest by Ownership
1947-2012

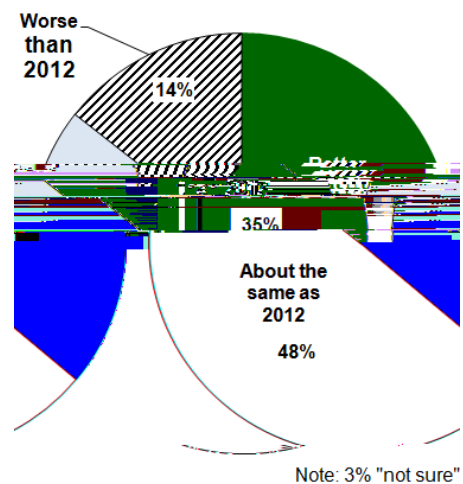
Million board feet, Scribner log scale



Sources: Bureau of Business and Economics Research, The University of Montana-Missoula; U.S. Forest Service, Region One, Missoula, Montana.

Figure 6
Idaho Wood and Paper Products Producers' Overall Outlook for 2013, Compared to Their Outlook for 2012

Overall Outlook for 2013



Source: Bureau of Business and Economics Research, The University of Montana-Missoula.