A Mid- and Post-Recession View of Louisiana's Primary and Secondary/Value-added Wood Products Industries

Richard P. Vlosky, Ph.D.
Director, Louisiana Forest Products Development Center
Crosby Land & Resources Endowed Professor of Forest Sector Business Development

THE PATH FORWARD FOR WOOD PRODUCTS: A GLOBAL PERSPECTIVE

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Outline

- Overview
- The Problem
- The Studies
- Results
- Summary

Overview

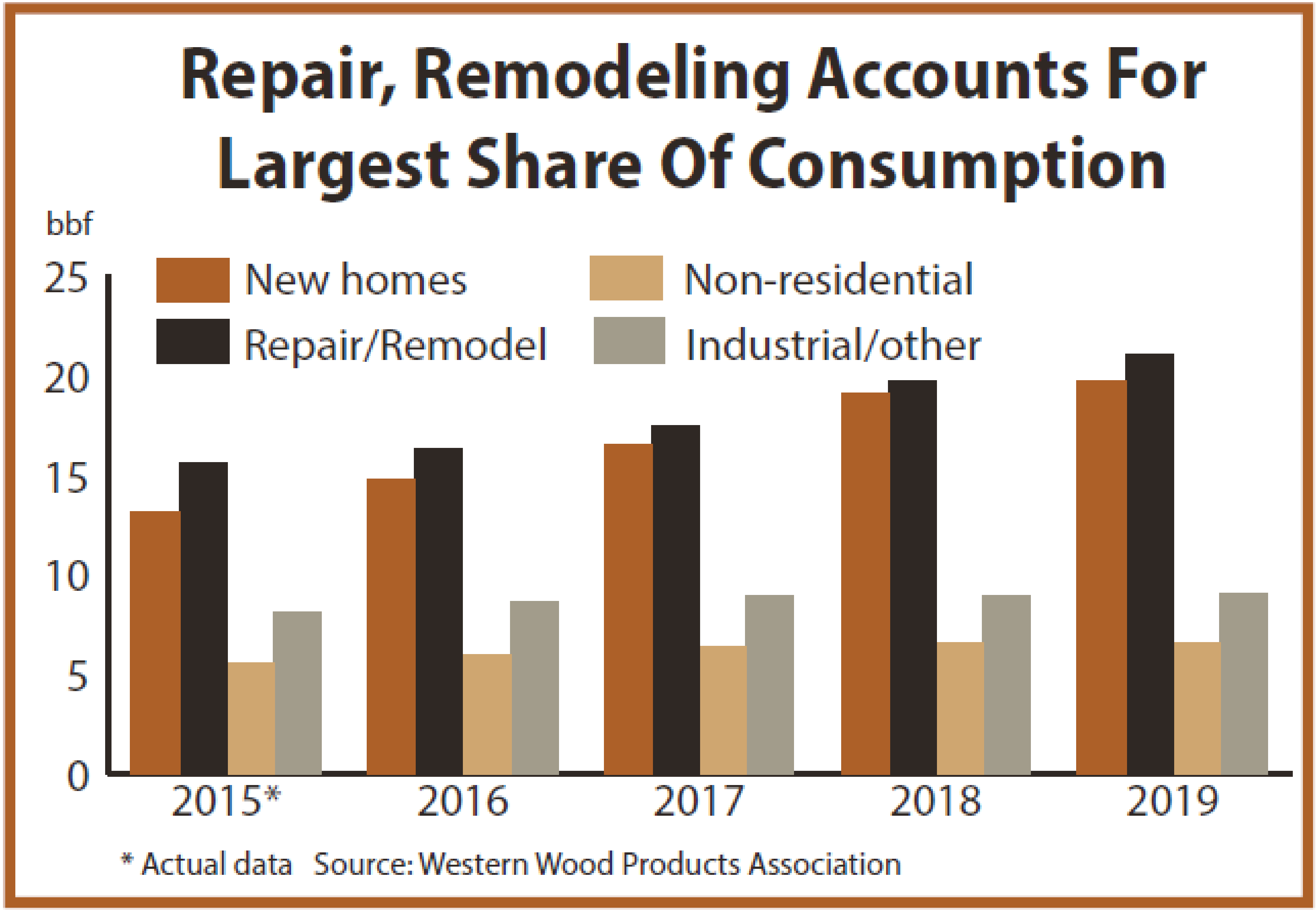
- Forests cover 14 million acres or almost half of Louisiana
- Louisiana's forest sector contributed $11 Billion in 2012 to the state economy.
- The harvest of timber, which is Louisiana's No. 1 agricultural crop both in terms of gross income and value-added processing.
- Supports a solid wood forest products industry that consists of approximately 450 enterprises.

Overview

- Primary products are produced directly from logs such as lumber and plywood.
- *Historically*, the largest demand sector for primary wood products is new home construction, also termed housing starts.
- Housing can be single family or multifamily, including apartments, condominiums and townhomes.
- Recently, the *Repair & Remodel* demand sector has surpassed new housing starts.

Overview

- Secondary products use primary products as input for re-manufacturing and include furniture, cabinetry, doors, flooring and millwork.
- The secondary wood product sector also follow housing starts - new homes include floors, doors and millwork.
- Also, when people move into new homes, they typically purchase new furniture.

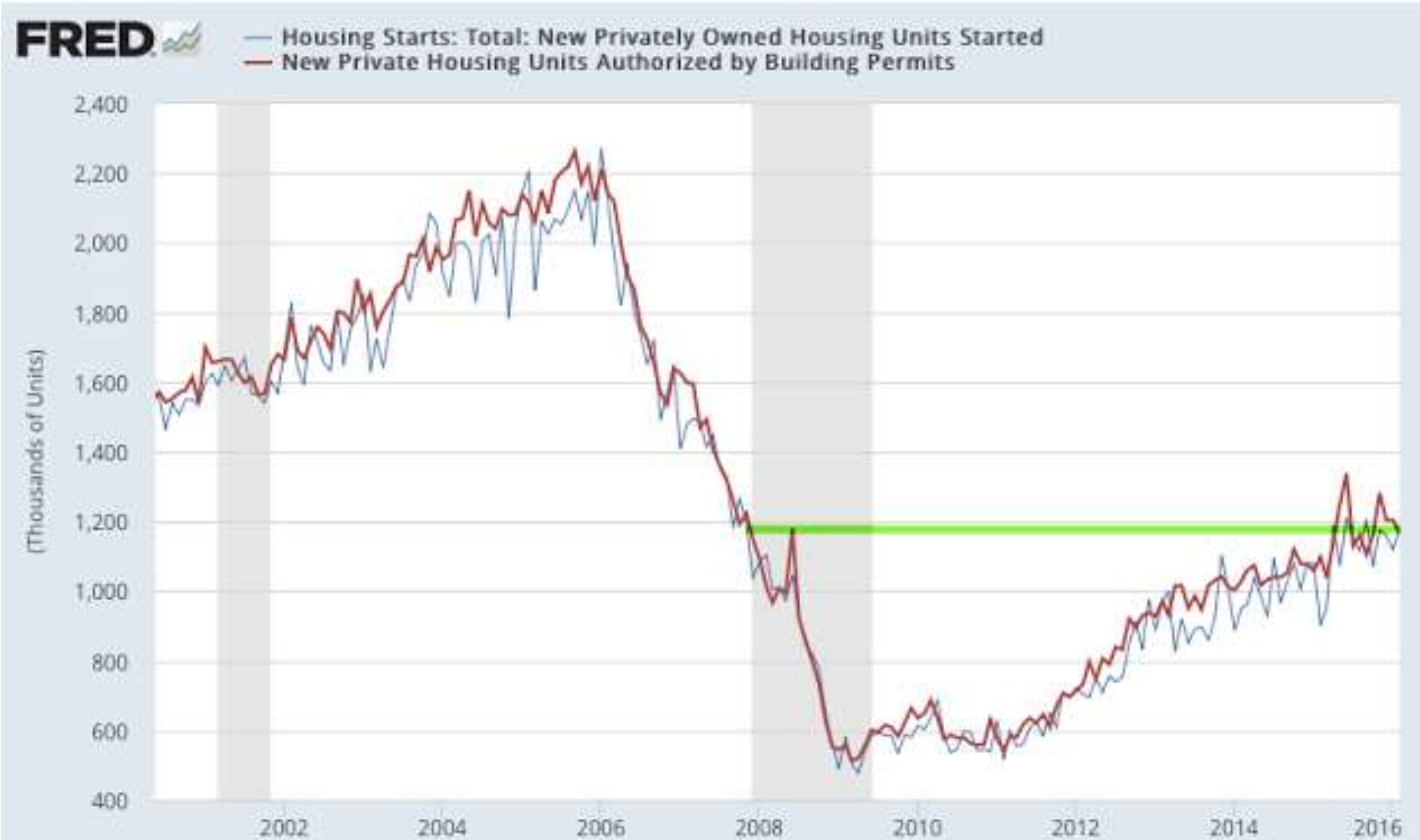

Repair, Remodeling Accounts For Largest Share Of Consumption
bbf
New homes
Non-residential
Repair/Remodel
Industrial/other
25
20
15
10
5
0
2015*
2016
2017
2018
2019
* Actual data Source: Western Wood Products Association

Leading Indicator of Remodeling Activity – First Quarter 2016

Notes: The former LIRA modeled homeowner improvement activity only, while the re-benchmarked LIRA models home improvement and repair activity. Historical estimates are produced using the LIRA model until American Housing Survey data become available.
Source: Joint Center for Housing Studies.

The Problem

- According to Federal Reserve Economic Data (FRED), seasonally adjusted annual housing starts in the U.S. reached a peak of 2.2 million in the 2005-2006 period.
- The wood products industry was extremely healthy with record production and employment.
- The "Great Recession" of 2007-2008 marked two consecutive years of significant reductions in housing starts, severely harming U.S. forest products sector, both primary and secondary.
- Housing starts have never fully recovered.


FRED
Housing Starts: Total: New Privately Owned Housing Units Started
New Private Housing Units Authorized by Building Permits
(Thousands of Units)
2,400
2,200
2,000
1,800
1,600
1,400
1,200
1,000
800
600
400
2002
2004
2006
2008
2010
2012
2014
2016

The Problem

- Louisiana’s forest sector followed this sharp contraction in the national economy that began toward the end of 2007.
- From 2007 to 2008:
  - total sawlog harvest decreased by 326 million board feet (29%) to a cut of 970.9 million board feet.
  - Pine sawtimber harvest decreased by 30%, to a total statewide harvest of 833.2 million board feet.
  - Hardwood sawtimber harvest fell 21% to 137.7 million board feet.

The Problem

- From 2007 to 2014:
  - Number of Louisiana Primary Mills estimated to have declined 21.5% from 200 to 157.
  - Number of Louisiana Secondary Mills estimated to have declined 22.5% from 458 to 354.

The Study

Objective:

Examine any changes in the Louisiana wood products sectors since the Great Recession

The Studies

Methodology

- Studies were conducted of Louisiana’s primary and secondary wood product sectors in 2007 and 2014.
- Census of all known firms were surveyed.
- List Source: Louisiana Forest Products Development Center.*
- In 2007, 658 surveys were sent with a response rate of 14%.
- In 2014, 511 surveys were sent with a response rate of 19%.
- The respondents were not necessarily the same between the two years, and no paired comparisons were made.

* **www.lsuagcenter.com/ForestIndustries**

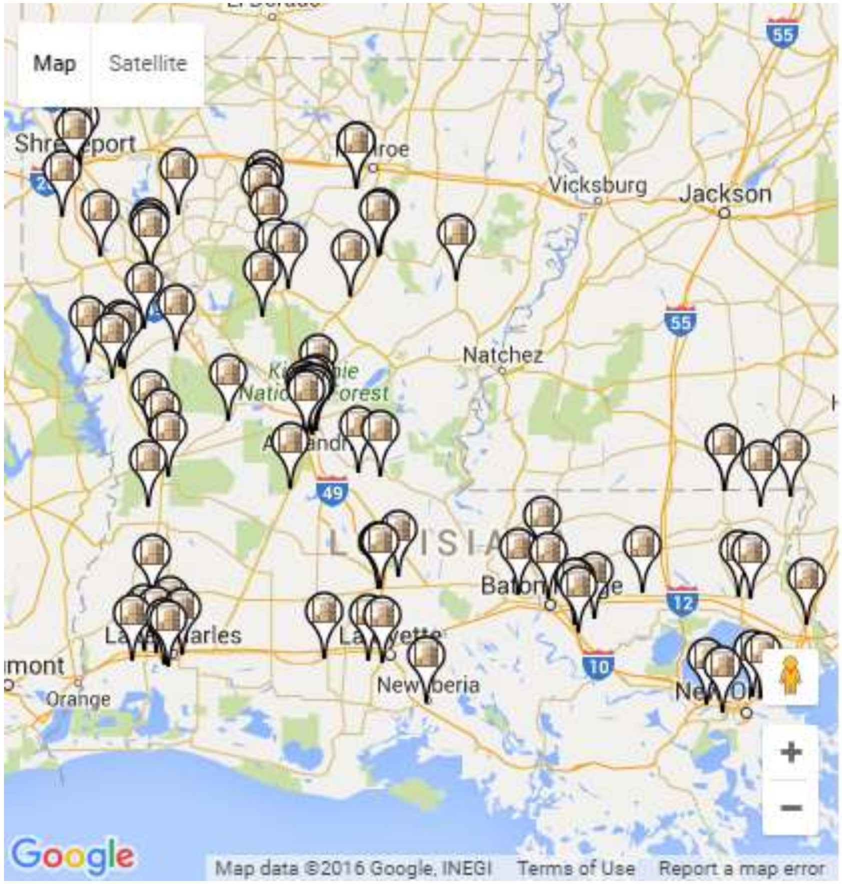
The Studies

<u>Methodology</u>

- The questionnaires was pretested with 5-10 wood products manufacturers and revised before the final mailing.
- Mailing procedures followed the Tailored Design Method (Dillman 2000): Pre-notification postcard, the first questionnaire mailing with a postage paid return envelope, a reminder postcard, and a second mailing to first-mailing non-respondents.
- Personalized cover letters accompanied the questionnaires were signed by the principal investigator(s) and were addressed to companies/mills by name and address.

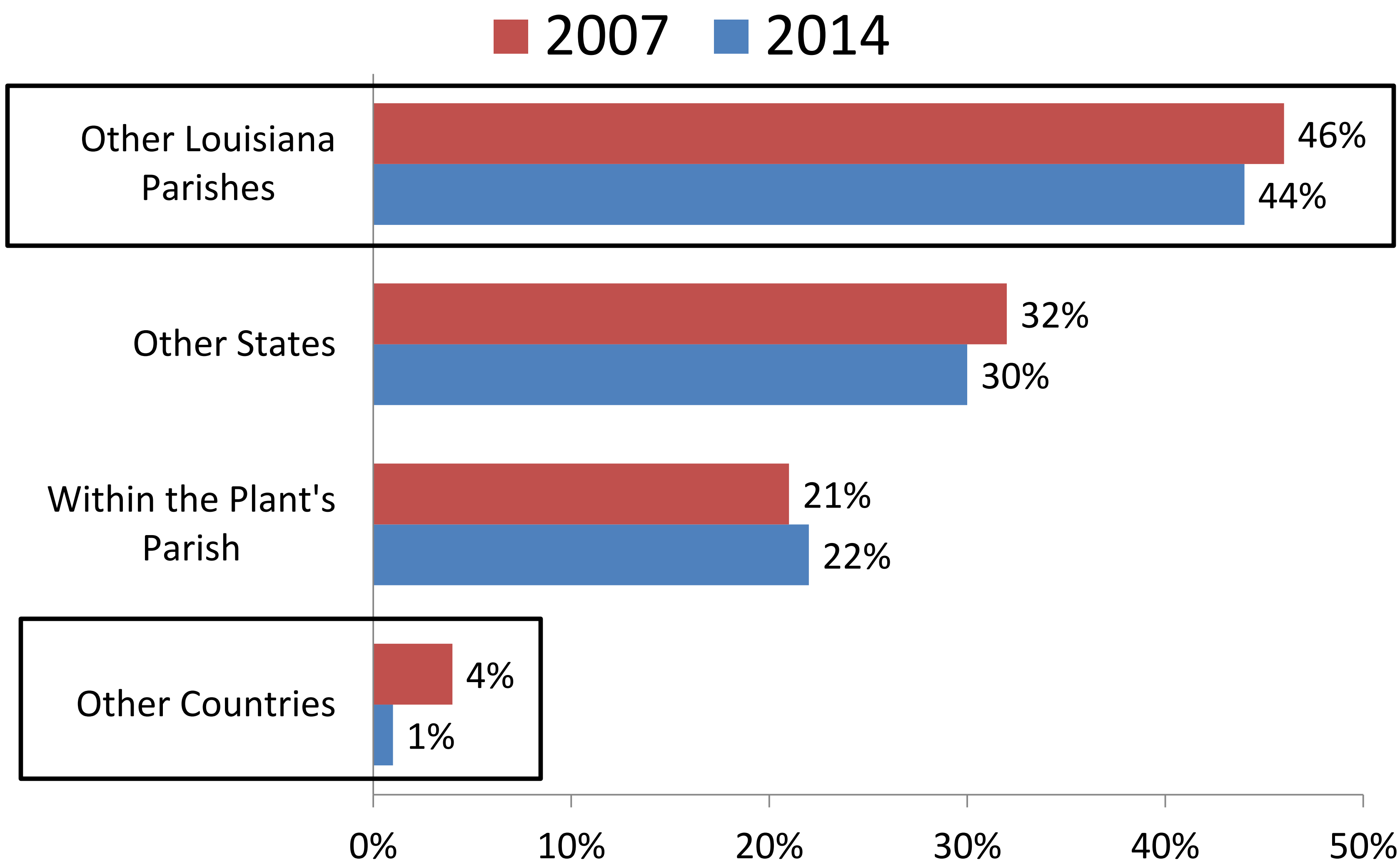
Louisiana's
Primary Wood Products Industry

2007 (Recession)(n=29) vs. 2014 (Post-recession) (n=23)



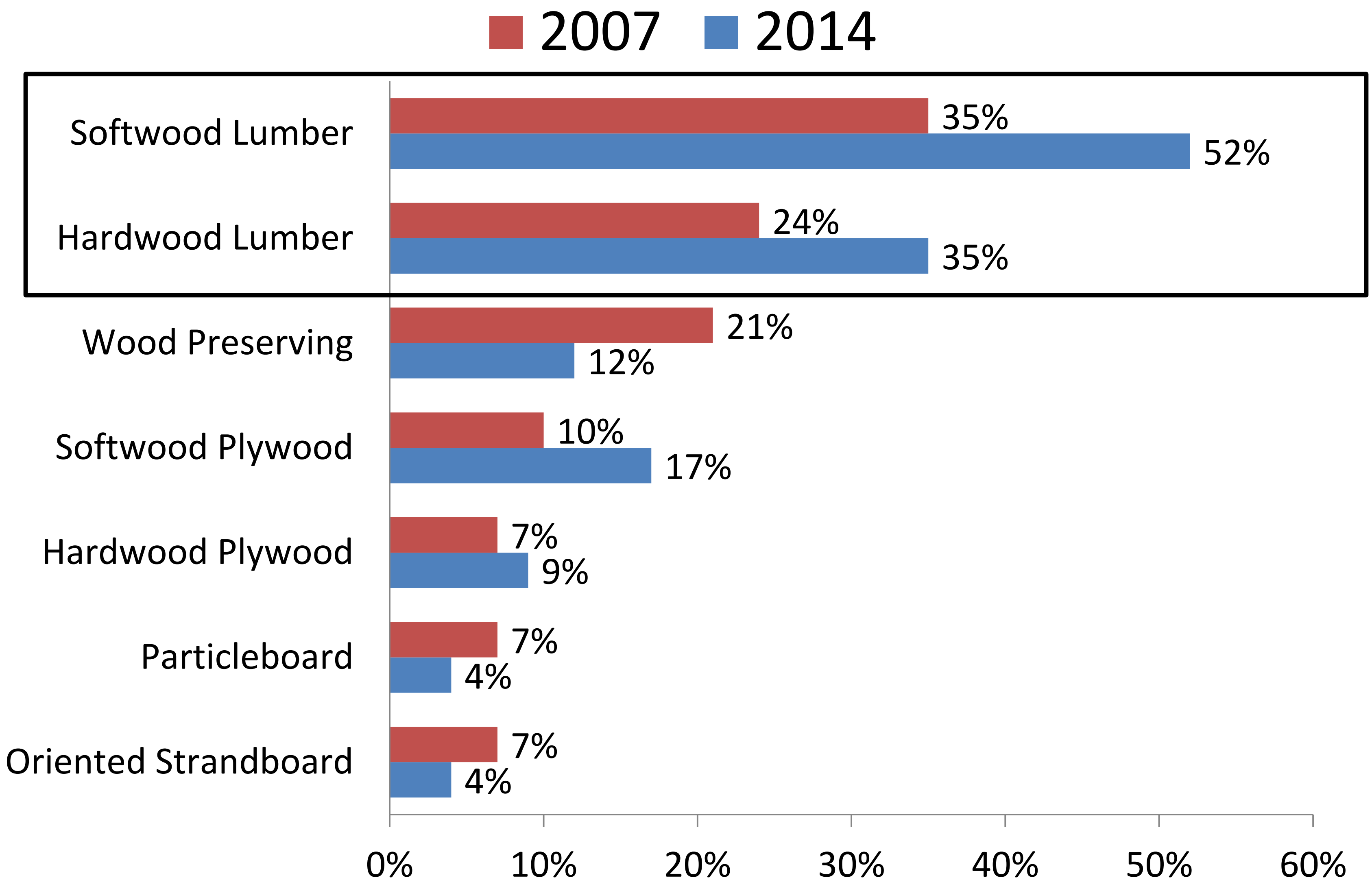
Louisiana Primary Industry

Raw Materials Sourcing Locations (percent of respondents)



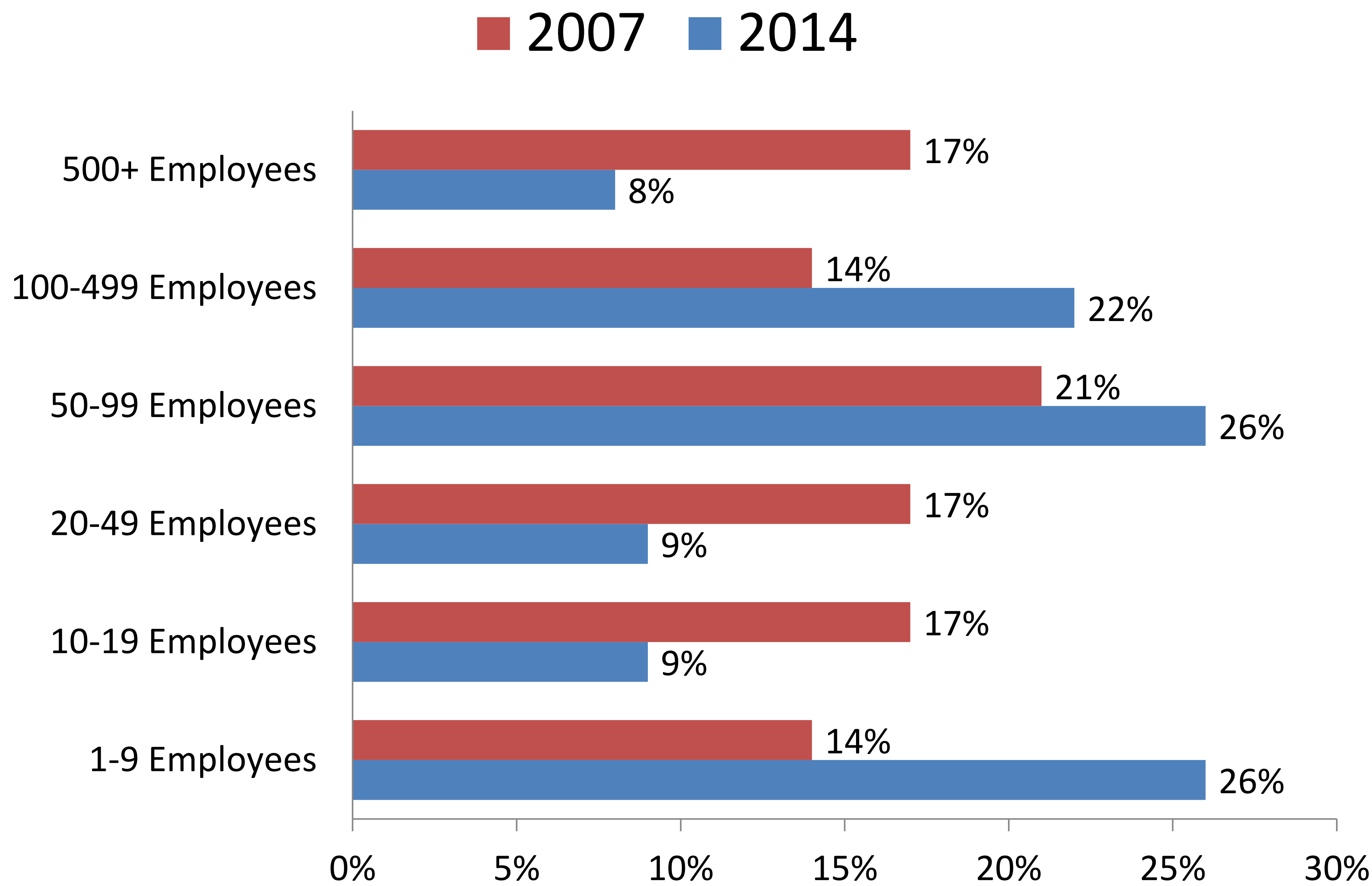
Louisiana Primary Industry

Products Manufactured by Respondents (percent of respondents) (multiple responses possible)



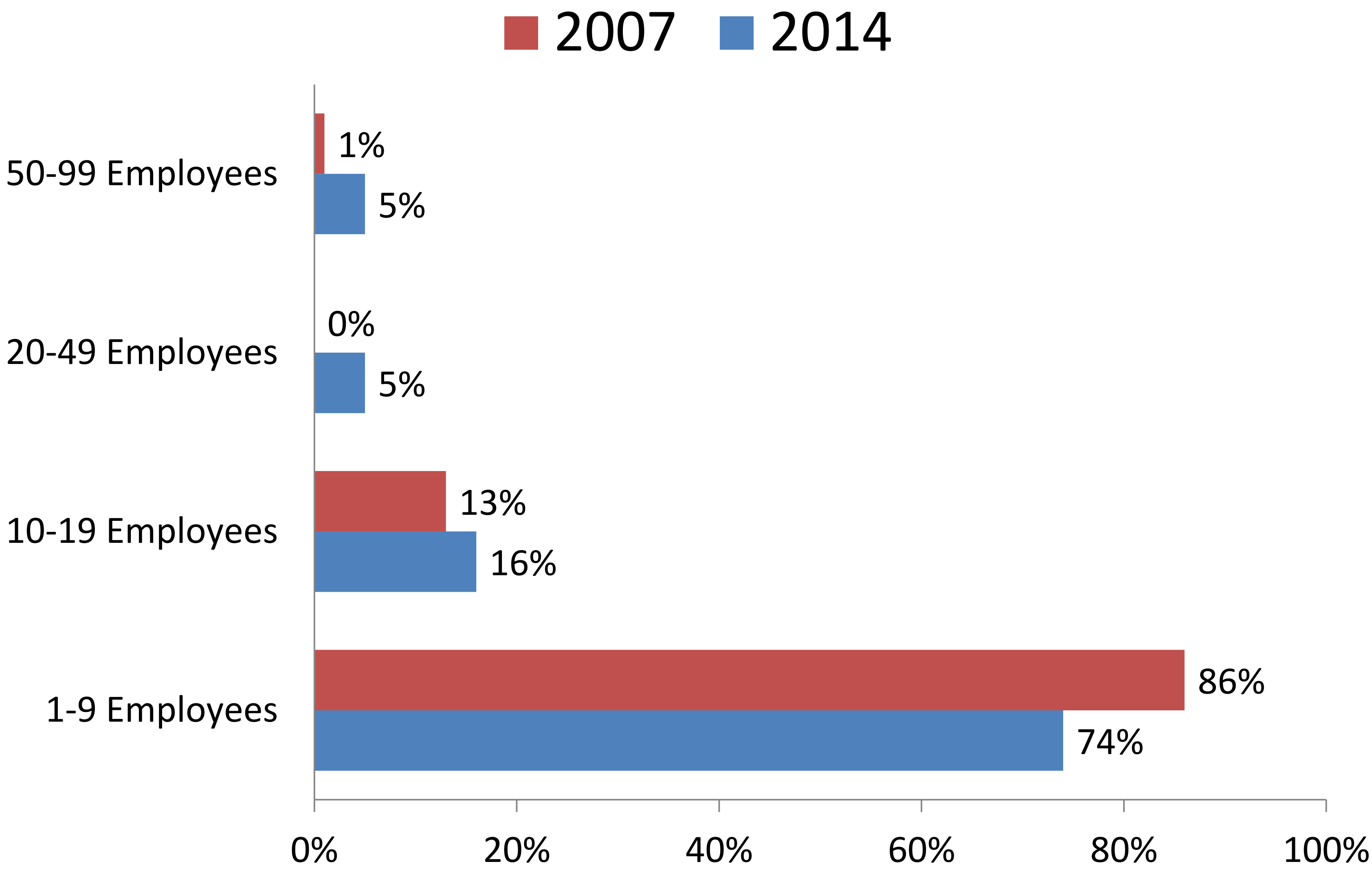
Louisiana Primary Industry

Number of *Full-time* Employees (percent of respondents)



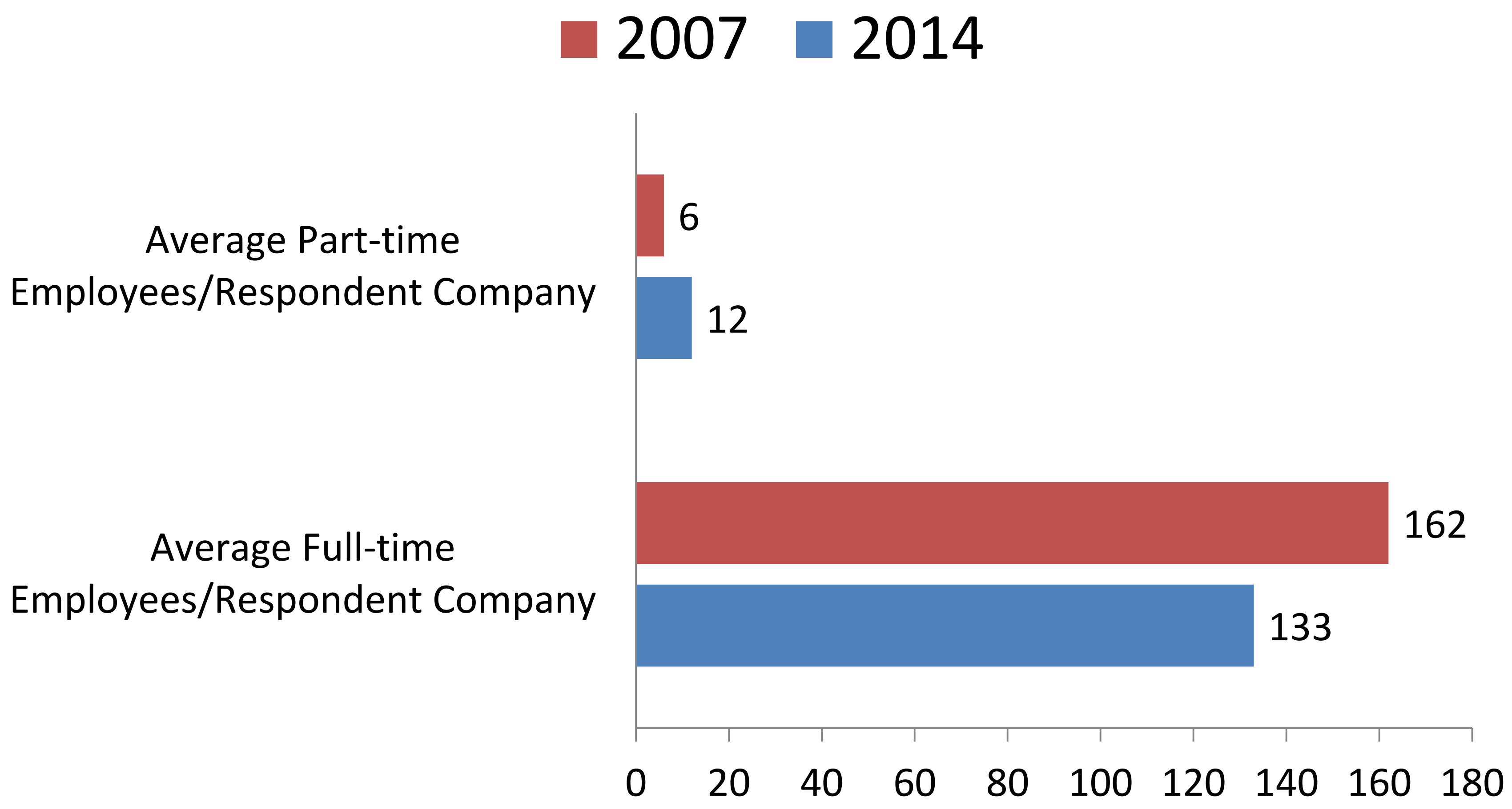
Louisiana Primary Industry

Number of *Part-time* Employees (percent of respondents)



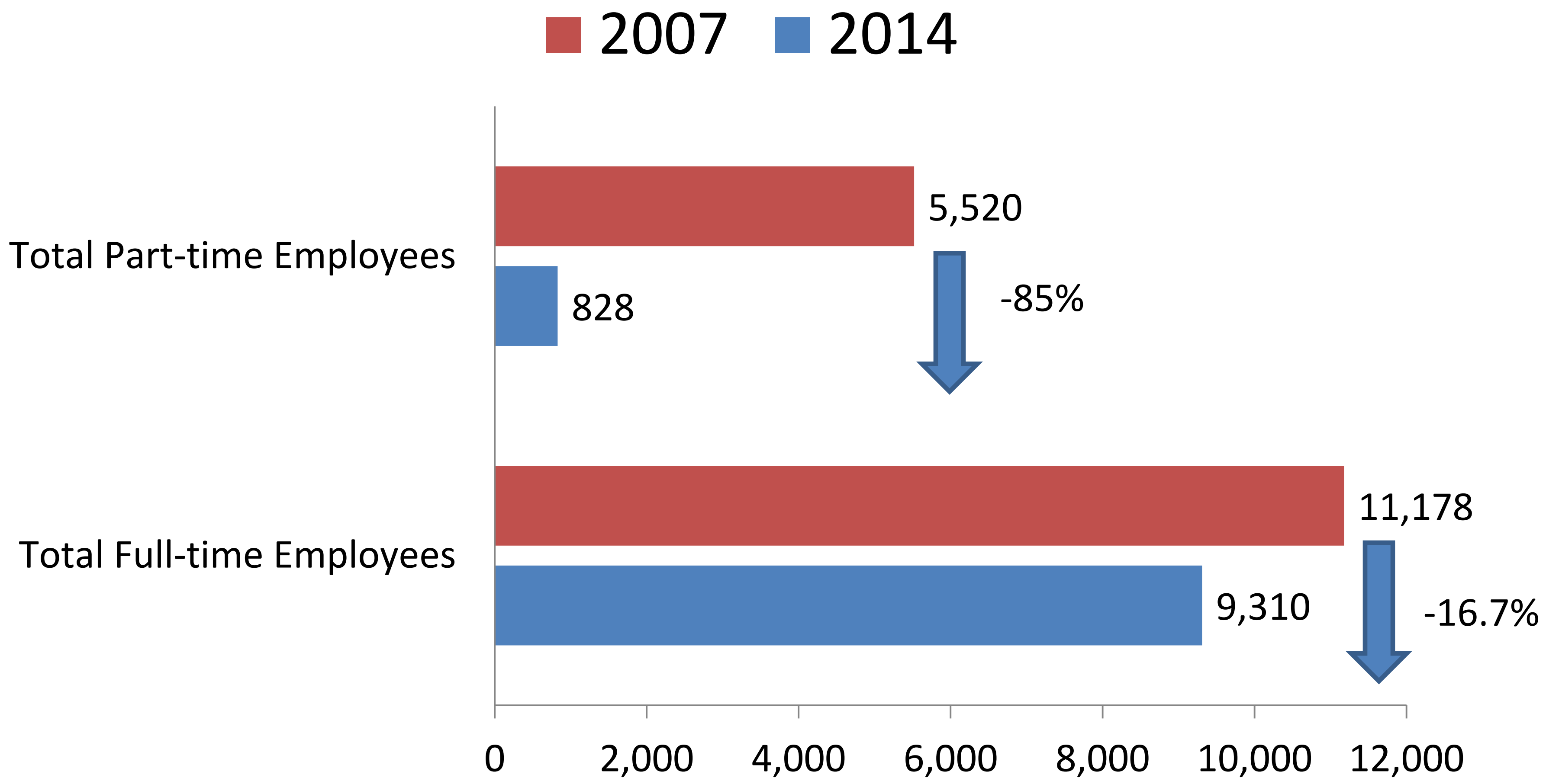
Louisiana Primary Industry

Average Employees/Respondent Company (weighted mean)



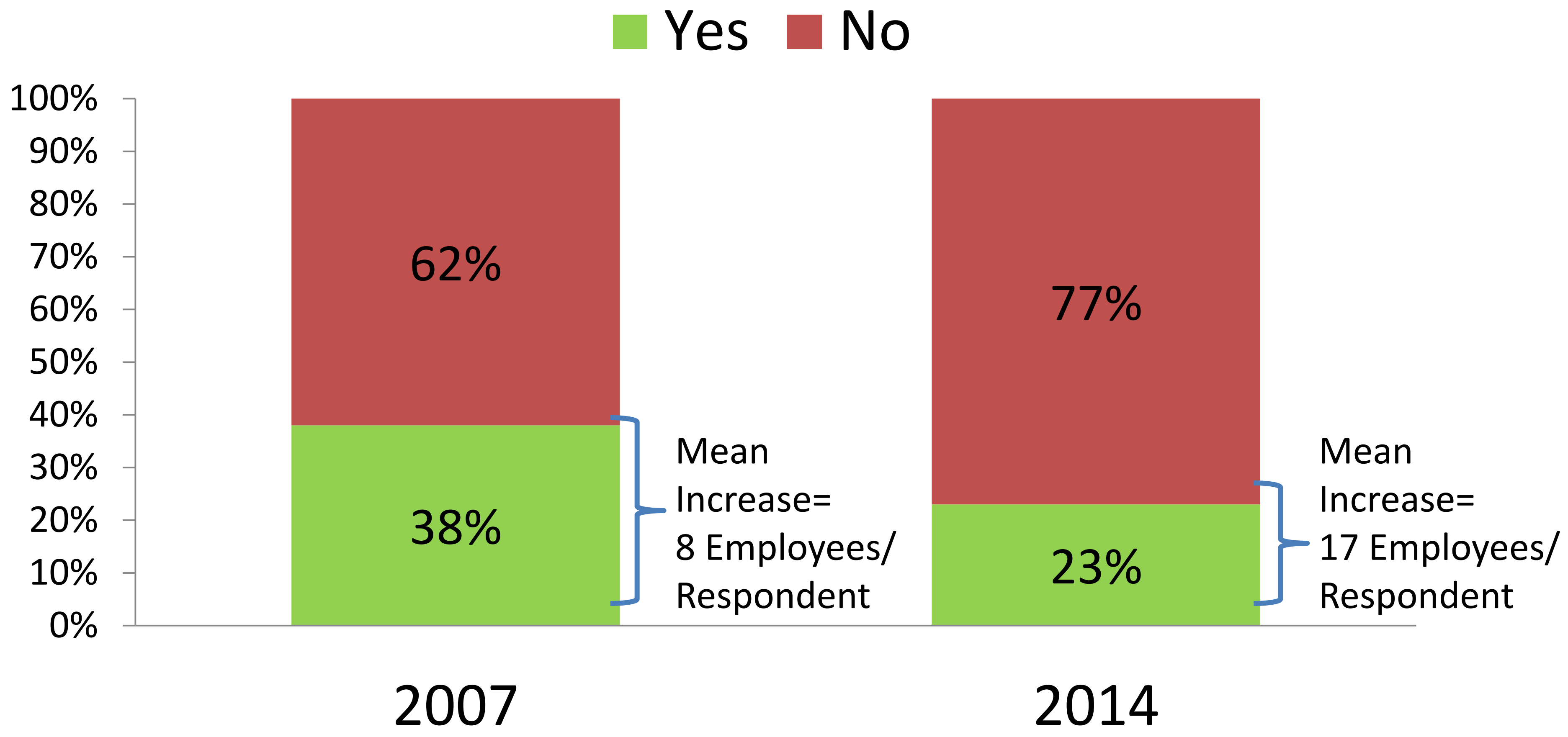
Louisiana Primary Industry

Estimated Change in Number of Sector Employees (extrapolated to total number of companies)



Louisiana Primary Industry

Plans to Increase Number of Employees in the Succeeding 5 Years (percent of respondents)

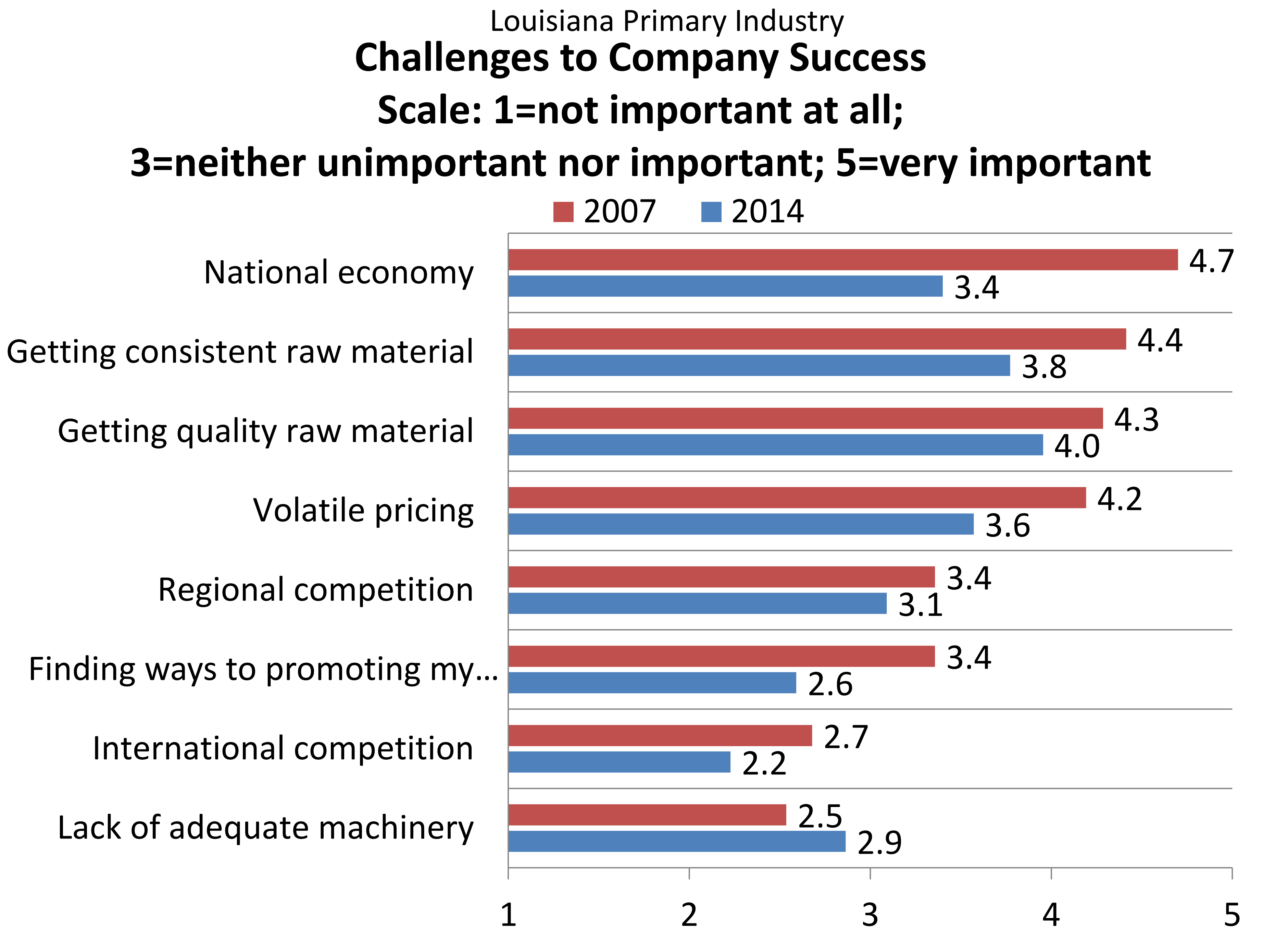


Louisiana Primary Industry

Reasons for not having plans to hire new employees (percent of respondents)(multiple responses possible)

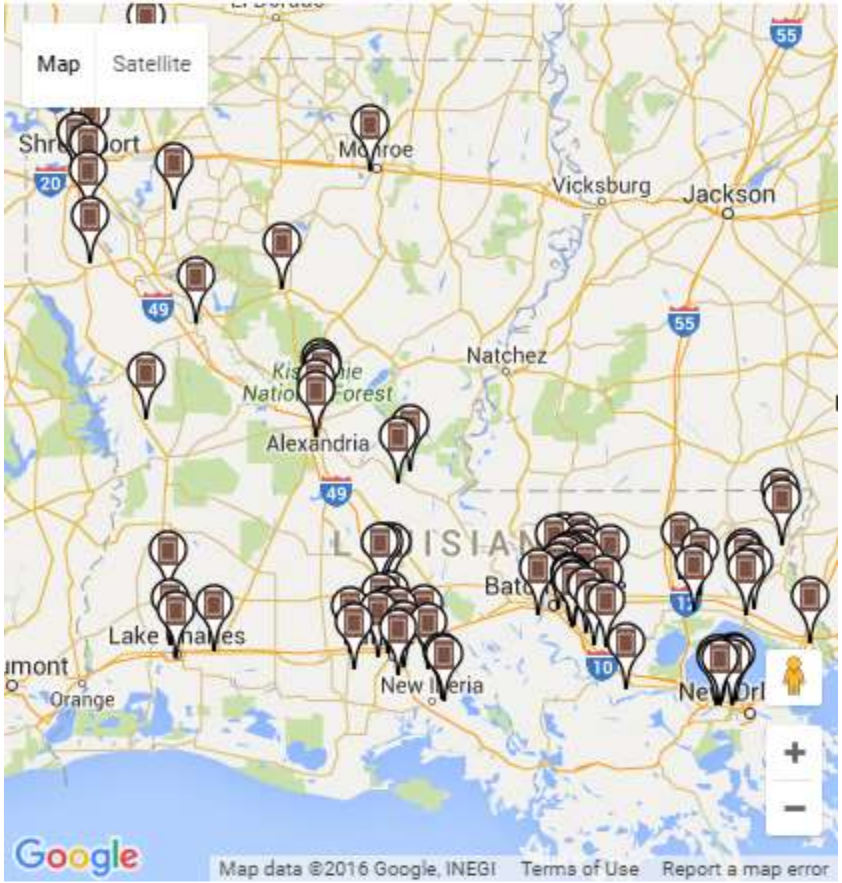
(2007: n=29; 2014: n=23)

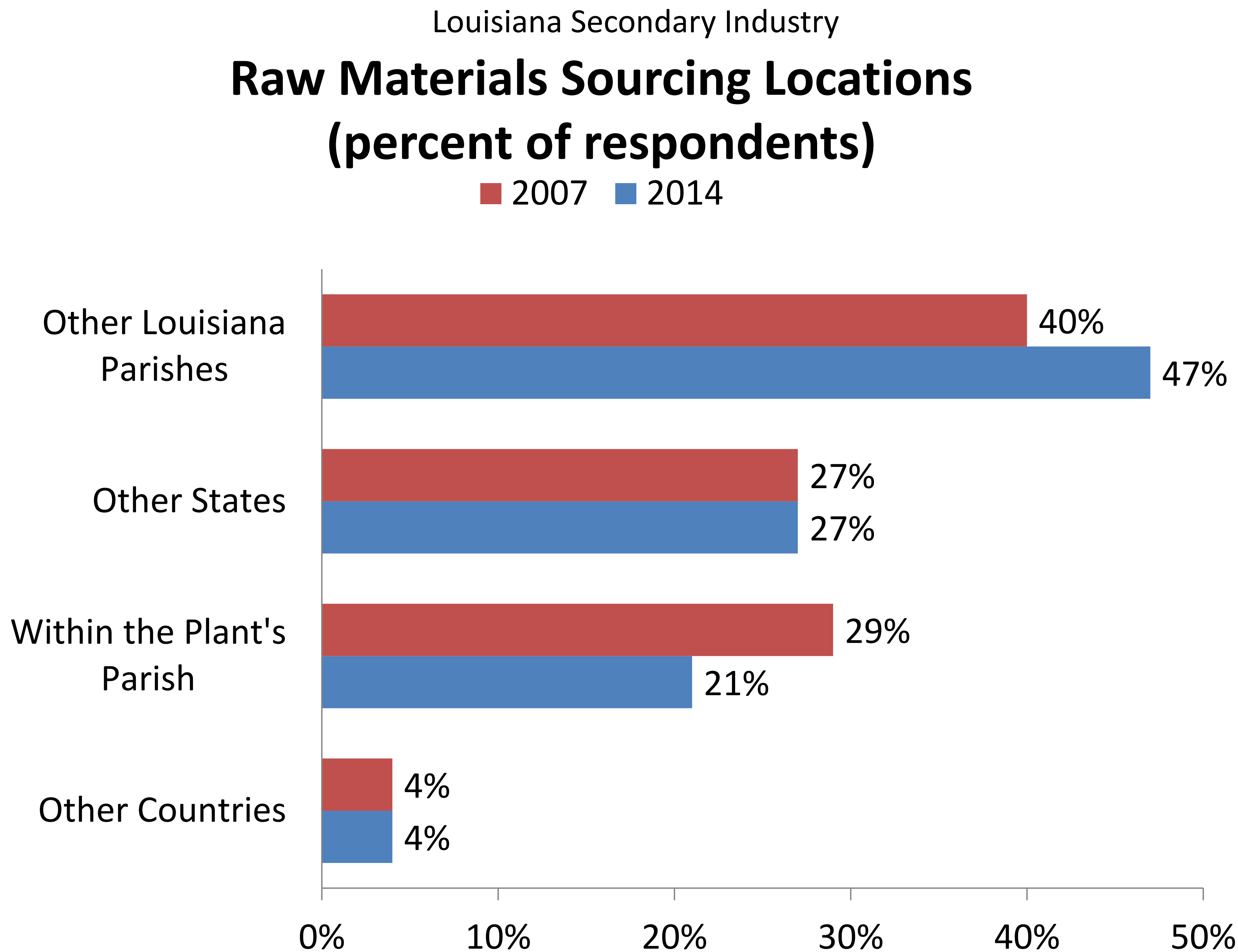
	2007		**2014**	
Lack of markets for my company's products	28%		22%	Workmen's compensation costs
Can't find adequate labor	21%		26%	Can't find adequate labor
Workmen's compensation costs	17%		4%	Can't afford to train employees
State taxes	17%		30%	Labor health costs are too high
I do not want to grow the company	14%		26%	Wages required to hire new employees
Labor health costs are too high	14%		13%	I do not want to grow the company
Federal taxes	4%		9%	Federal taxes
Local taxes	3%		17%	State taxes
Can't afford to train employees	3%		13%	Local taxes
Wages required to hire new employees	0%		9%	Lack of markets for my company's products


Louisiana Primary Industry
Challenges to Company Success
Scale: 1=not important at all;
3=neither unimportant nor important; 5=very important
2007
2014
National economy
4.7
3.4
Getting consistent raw material
4.4
3.8
Getting quality raw material
4.3
4.0
Volatile pricing
4.2
3.6
Regional competition
3.4
3.1
Finding ways to promoting my...
3.4
2.6
International competition
2.7
2.2
Lack of adequate machinery
2.5
2.9
1
2
3
4
5

Louisiana's
Secondary Wood Products Industry

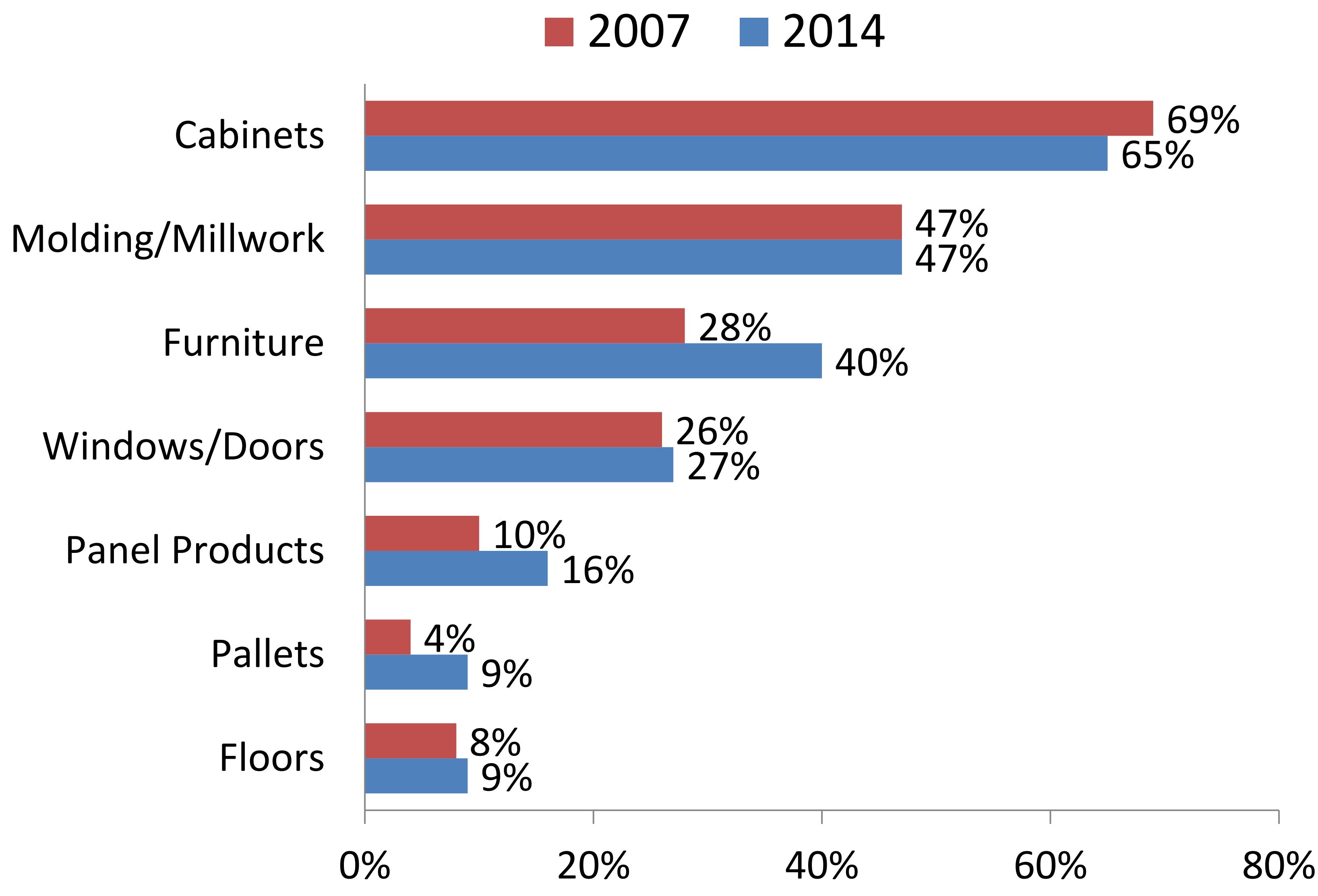
2007 (Recession)(n=51) vs. 2014 (Post-recession) (n=44)

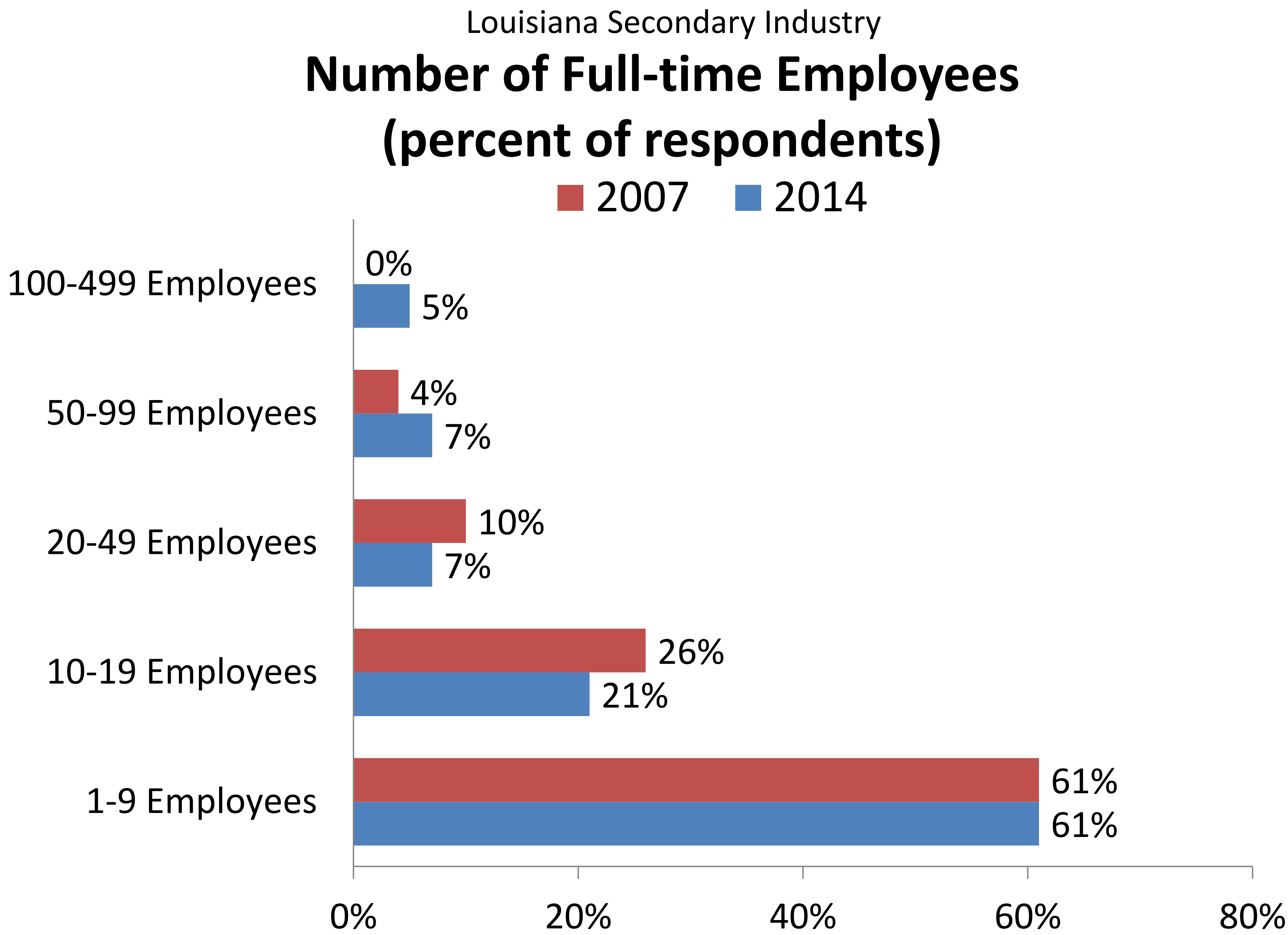



Louisiana Secondary Industry
Raw Materials Sourcing Locations
(percent of respondents)
2007
2014
Other Louisiana Parishes
Other States
Within the Plant's Parish
Other Countries
40%
47%
27%
27%
29%
21%
4%
4%
0%
10%
20%
30%
40%
50%

Louisiana Secondary Industry

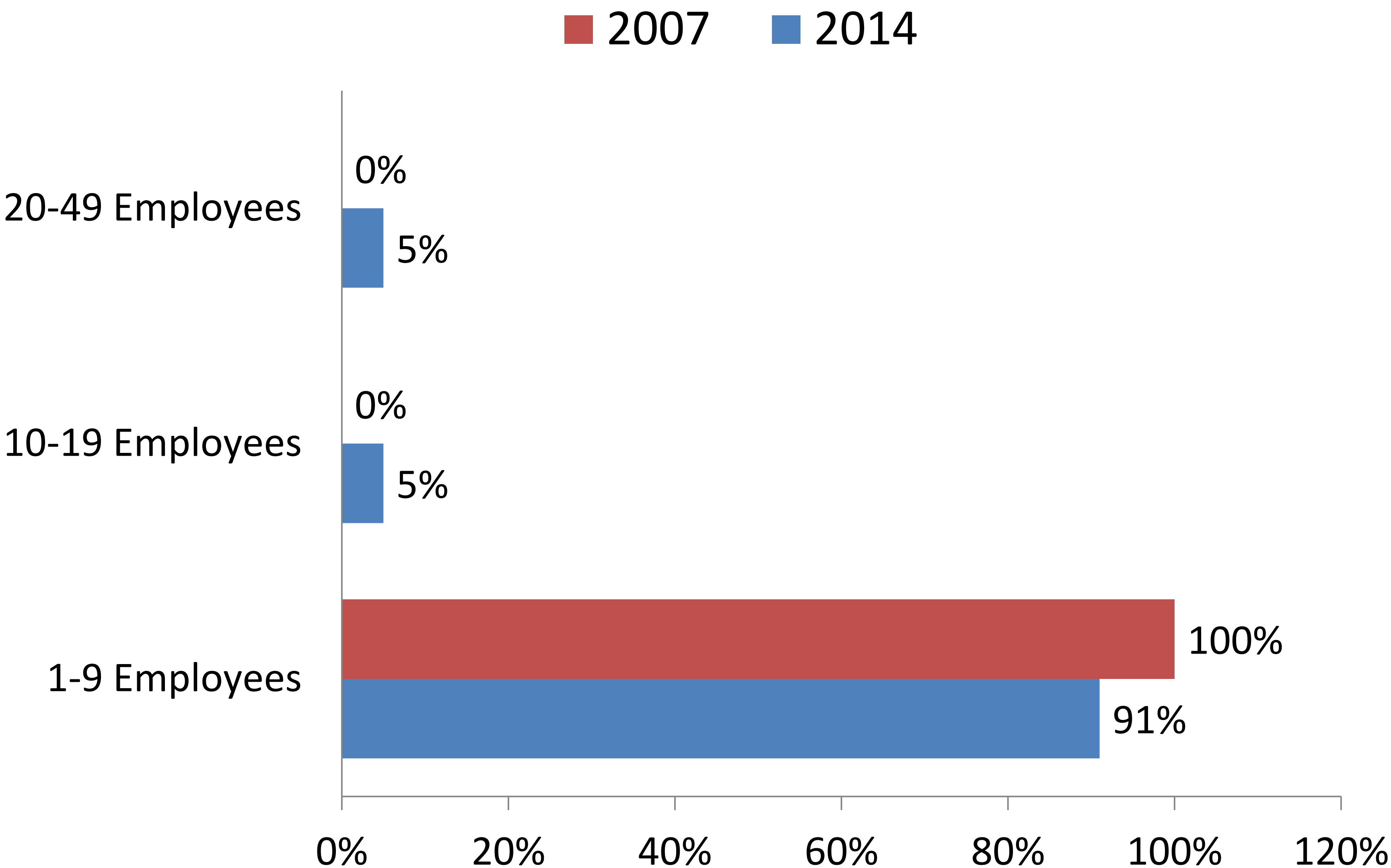
Products Manufactured by Respondents (percent of respondents) (multiple responses possible)




Louisiana Secondary Industry
Number of Full-time Employees
(percent of respondents)
2007
2014
100-499 Employees
0%
5%
50-99 Employees
4%
7%
20-49 Employees
10%
7%
10-19 Employees
26%
21%
1-9 Employees
61%
61%
0%
20%
40%
60%
80%

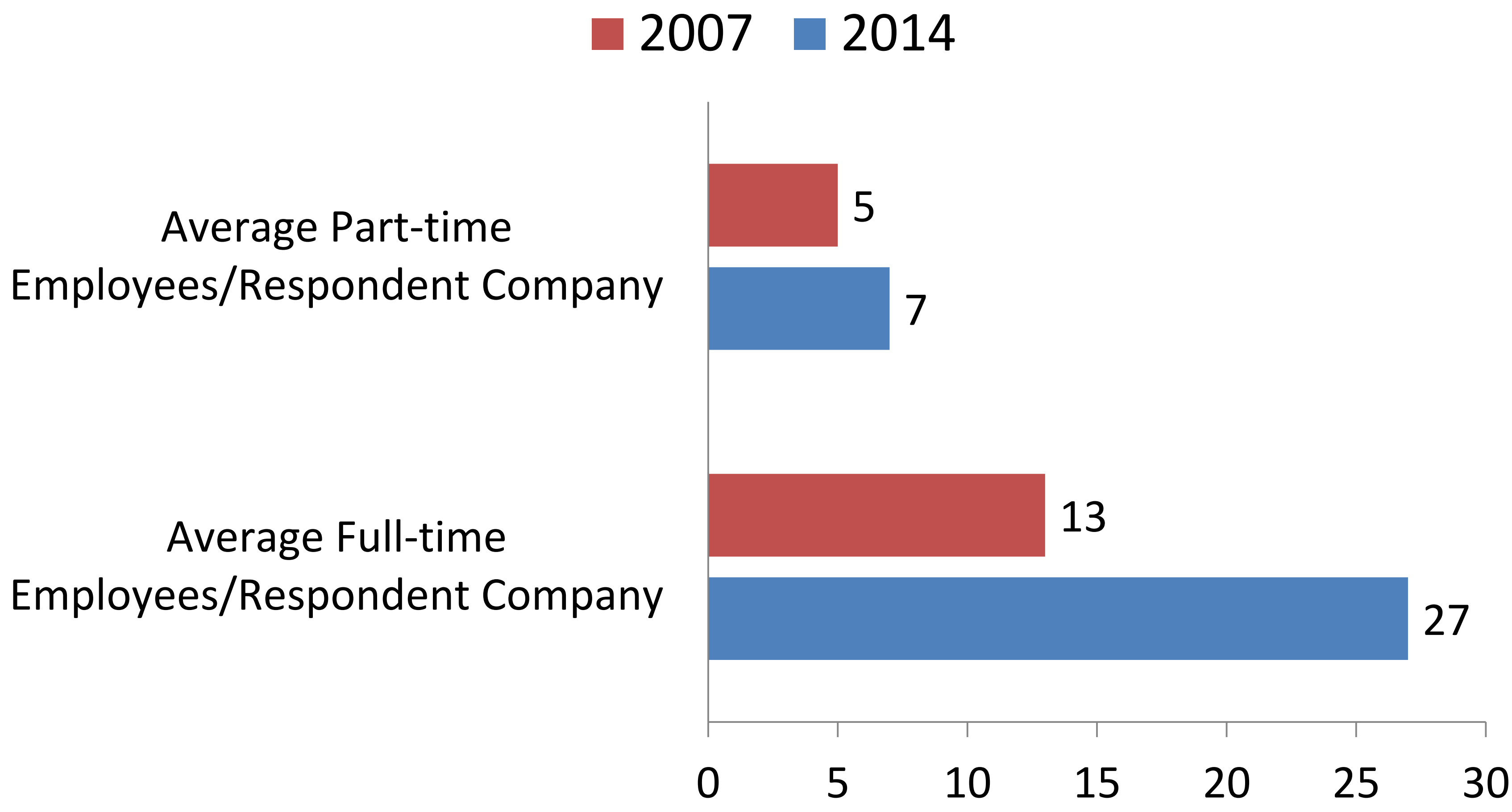
Louisiana Secondary Industry

Number of Part-time Employees (percent of respondents)

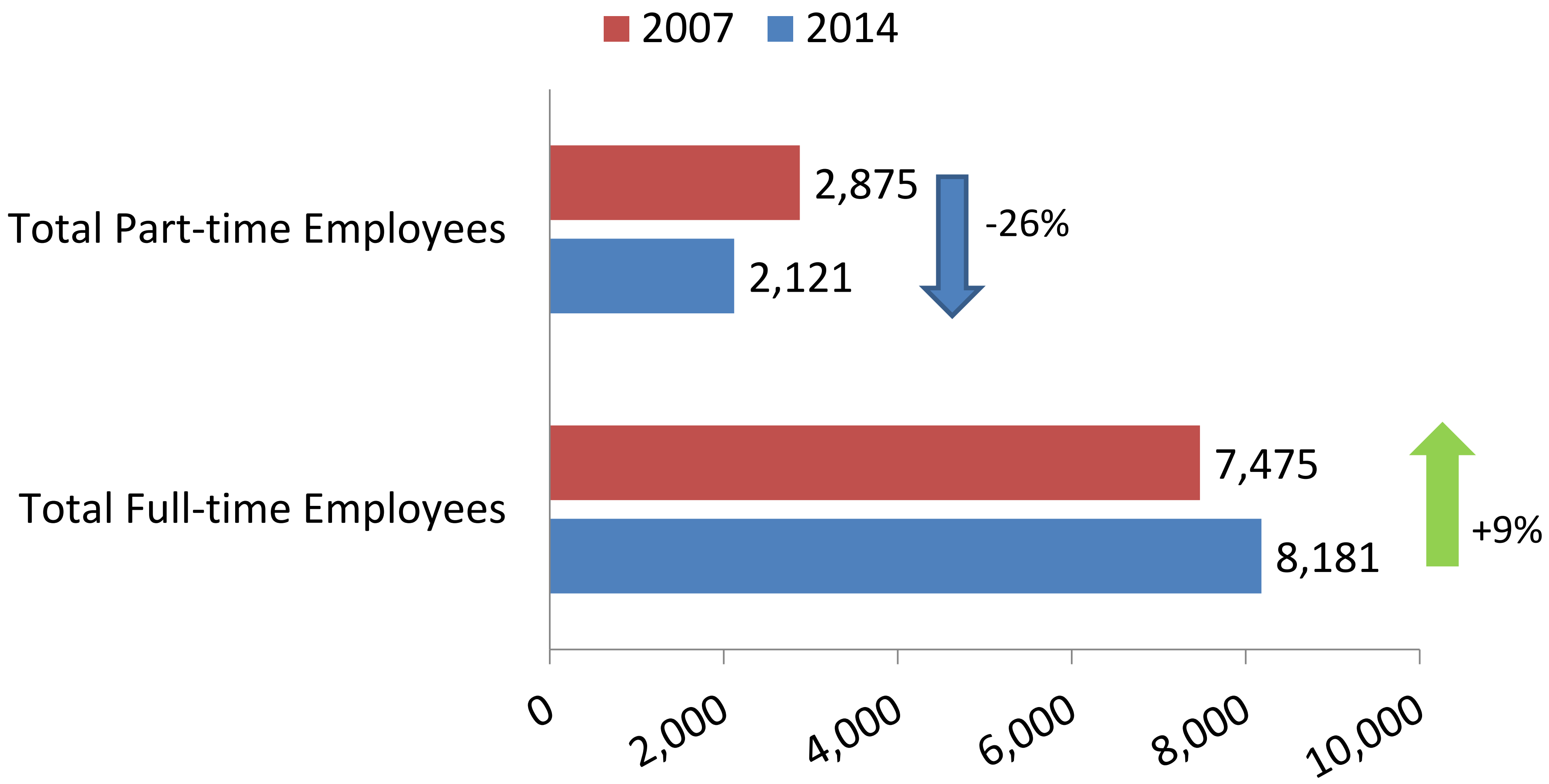


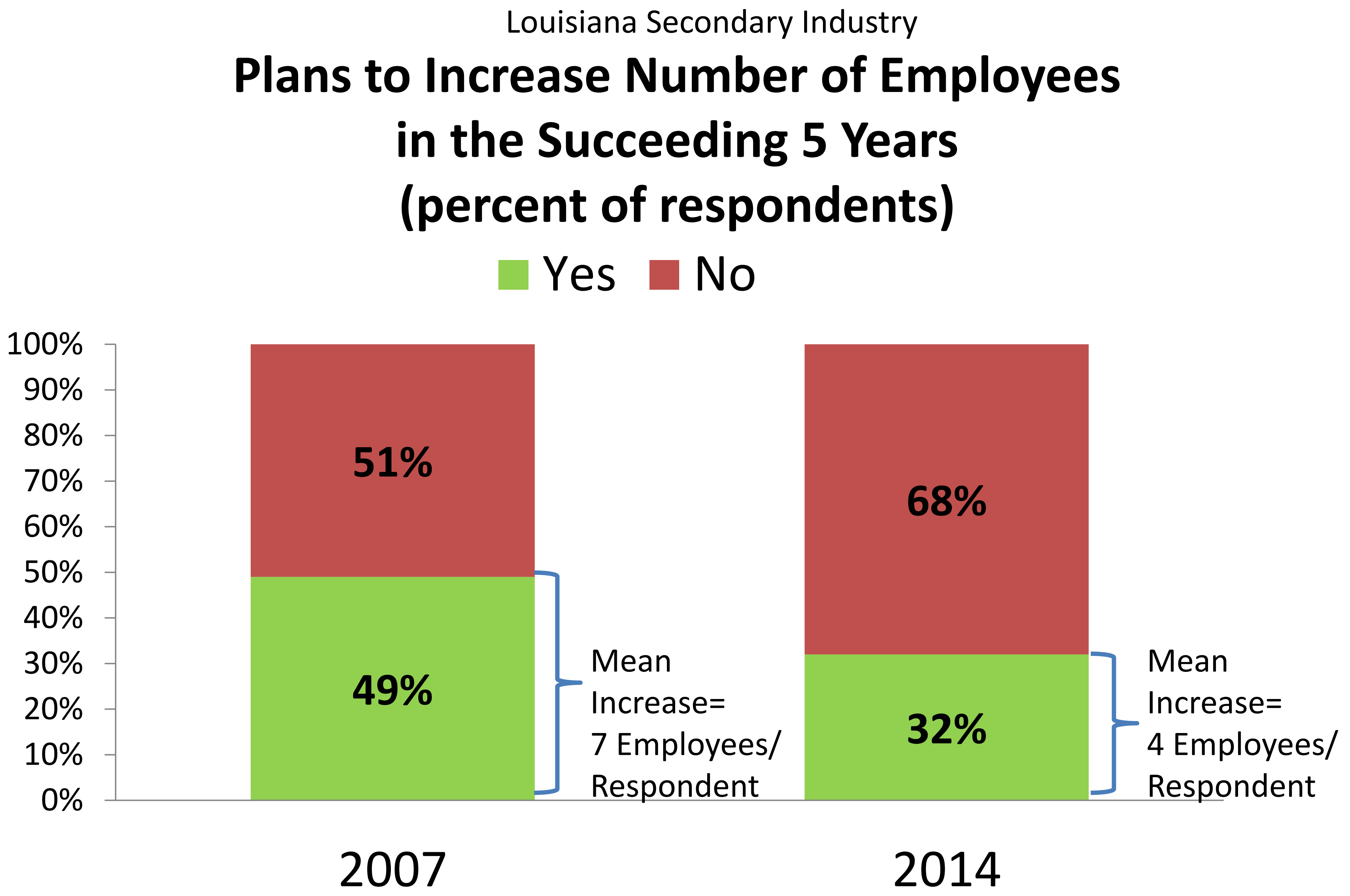
Louisiana Secondary Industry

Average Employees/Respondent Company (weighted mean)



Estimated Change in Number of Sector Employees (extrapolated to total number of companies)




Louisiana Secondary Industry
Plans to Increase Number of Employees in the Succeeding 5 Years (percent of respondents)
Yes
No
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
51%
49%
Mean Increase= 7 Employees/ Respondent
68%
32%
Mean Increase= 4 Employees/ Respondent
2007
2014

Louisiana Secondary Industry

Reasons for not having plans to hire new employees (percent of respondents)(multiple responses possible) (2007: n=51; 2014: n=44)

	2007		2014	
Lack of markets for my company's products	28%		34%	Can't find adequate labor
Workmen's compensation costs	28%		31%	Workmen's compensation costs
Can't find adequate labor	26%		25%	Wages required to hire new employees
Can't afford to train employees	20%		22%	I do not want to grow the company
Labor health costs are too high	18%		21%	Labor health costs are too high
Wages required to hire new employees	18%		16%	Lack of markets for my company's products
I do not want to grow the company	14%		11%	State taxes
State taxes	10%		11%	Local taxes
Local taxes	10%		9%	Can't afford to train employees
Federal taxes	4%		9%	Federal taxes

Louisiana Secondary Industry

Summary

- The recession had a negative influence on Louisiana's primary and secondary wood products sectors.
- The number of mills in each sector declined by over 20%.
- Full-time employees in the primary sector declined almost 17% due to strong link to housing starts.
- The secondary sector increased by 9%, suggesting less of a linkage to starts.
- In 2008, "Lack of Markets" was the most significant barrier to hiring new employees in both sectors; in 2014 cost issues became more important.
- The National Economy was a significant Barrier to Success for both sectors but has declined in importance in 2014.
- Both sectors are still facing challenges and will continue to do so until housing starts increase and the housing economy stabilizes.

Questions?
Comments?