

Louisiana's Primary and Value-Added Wood Products Industry and the Great Recession

Richard Vlosky | 5/5/2016 1:35:59 PM

Forests cover 14 million acres or almost half of Louisiana and are an important part of Louisiana's history, culture and economy. Louisiana's forests represent an important resource for the state, both in terms of income to landowners and as inputs to the forest products industry. 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 primary and secondary manufacturing establishments. Primary products are produced directly from logs such as lumber and plywood. Secondary products use primary products as input for re-manufacturing and include furniture, cabinetry, doors, flooring and millwork. 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. The secondary wood product sector follows because new homes include floors, doors and millwork. Also, when people move into new homes, they typically purchase new furniture.

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 (Figure 1). Accordingly, the wood products industry was extremely healthy with record production and employment. However, the "Great Recession" of 2007-2008 marked two consecutive years of significant reductions in housing starts, severely harming the U.S. forest products sector, both primary and secondary. Housing starts have never fully recovered.

Louisiana's forest sector followed this sharp contraction in the national economy that began toward the end of 2007. From 2007 to 2008, the total sawlog harvest decreased by 326 million board feet (29 percent) to a cut of 970.9 million board feet. Pine sawtimber harvest decreased by 30 percent, to a total statewide harvest of 833.2 million board feet. The hardwood sawtimber harvest fell to 137.7 million board feet in 2008, which was a 21 percent decrease.

LSU AgCenter researchers conducted studies of Louisiana's primary and secondary wood product sectors in 2007 and 2014. In 2007, 620 surveys were sent with a response rate of 14 percent. In 2014, 405 surveys were sent with a response rate of 19 percent. The respondents were not necessarily the same between the two years, and no paired comparisons were made. For the primary sector, the total number of part-time employees is estimated to have decreased 85 percent while full-time employees decreased almost 17 percent, indicating that this sector had not rebounded from the recession (Figure 2a). For the secondary sector, part-time time employees are estimated to have decreased 26 percent with full-time employees increasing 9 percent (Figure 2b). Although the secondary sector is tied to new housing starts, it is possible that manufacturers have either developed new markets or have shifted production to the repair and remodel demand sector.

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Companies in each sector were asked if they planned to increase employees over the next five years. In 2007, for the primary sector, 38 percent of respondents said yes with an average increase per company of eight employees (Figure 3a). In 2014, the percent of companies saying yes declined to 23 percent, but the average number of employees anticipated to be added per company was 17. This suggests a mixed sentiment of whether the housing economy will increase or not. For the secondary sector, the percent of companies that indicated plans to increase employees declined from 49 percent in 2007 to 32 percent in 2014. In this case, a concurrent decline in the anticipated average number of employees to be added declined as well between 2007 and 2014 (Figure 3b).

Finally, respondents were asked reasons they did not have plans to increase employees over the subsequent five years. For the primary sector, in 2007, the main reason was “Lack of Markets,” which corresponds to the decline in housing starts (Figure 4a). However in 2014, the main reason was “Workmen’s Compensation Costs” followed by “Can’t Find Adequate Labor.” With layoffs in the sector, many past employees went on to other careers or retired. The pattern is almost the same in the secondary sector, indicating the connection to housing starts in 2007 and cost inflation to hire new employees in 2014 (Figure 4b).

Results from these studies indicate that until housing starts rebound to pre-recession levels, both the primary and secondary wood products sectors in Louisiana will be depressed.

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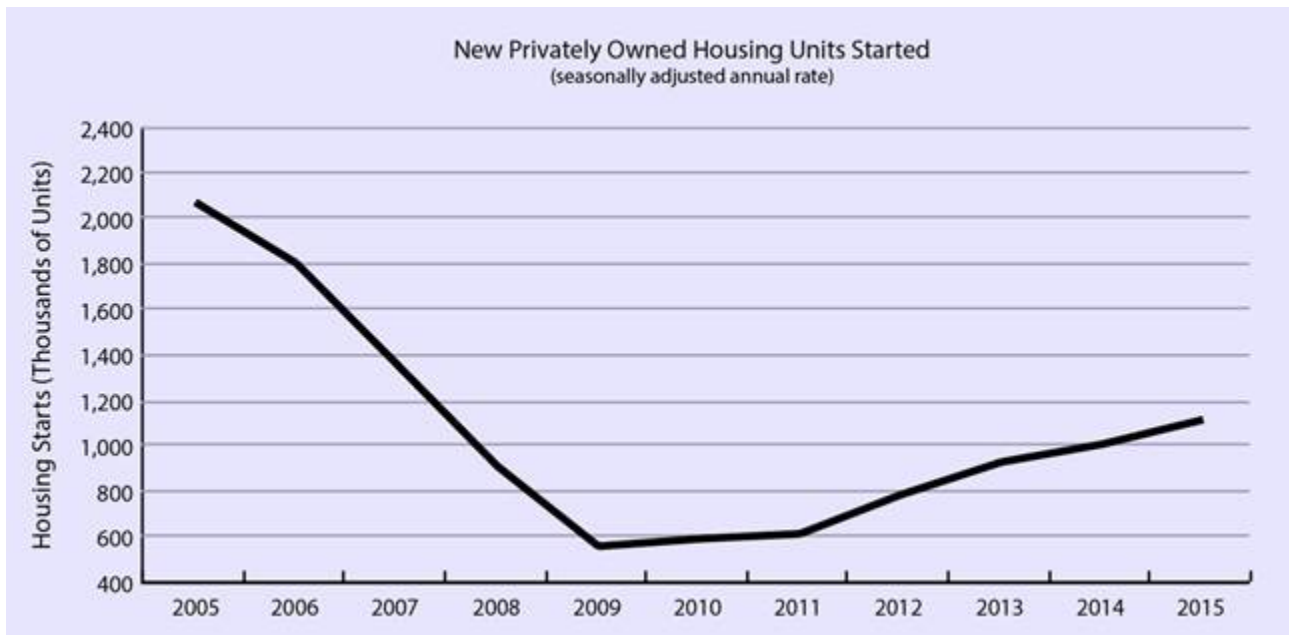


Figure 1. New Privately Owned Housing Units Started (seasonally adjusted annual rate)

Source: U.S. Census Bureau

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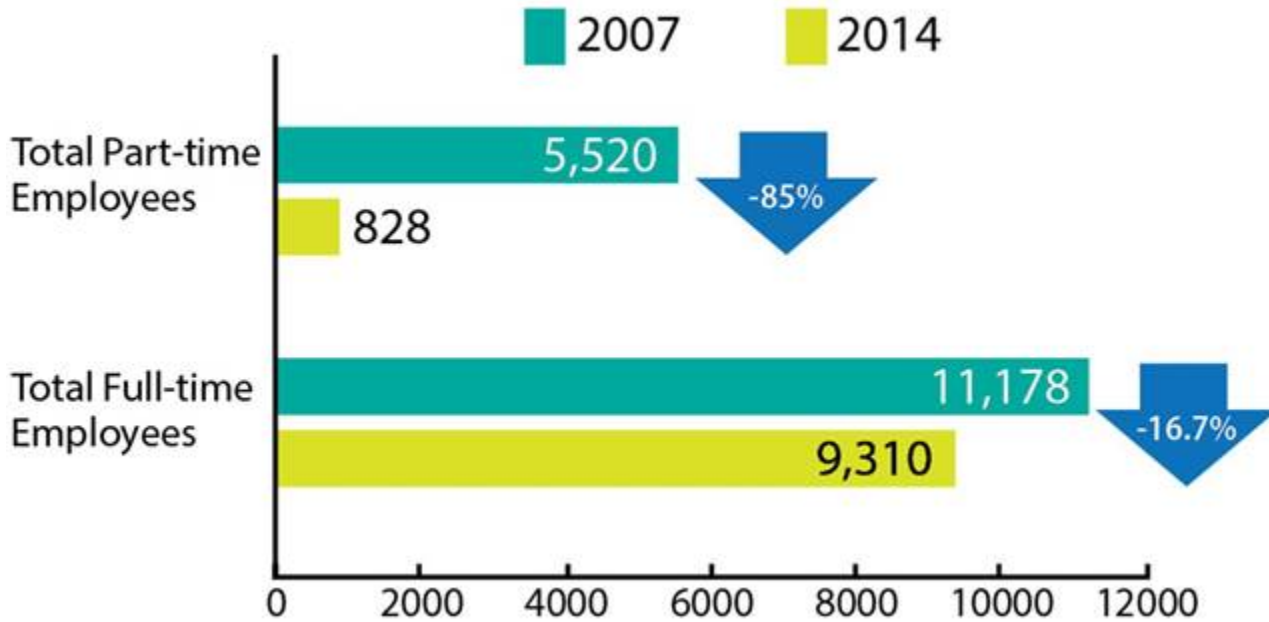


Figure 2a. Estimated Employees for the Louisiana Primary Wood Products Sector (extrapolated to total number of companies).

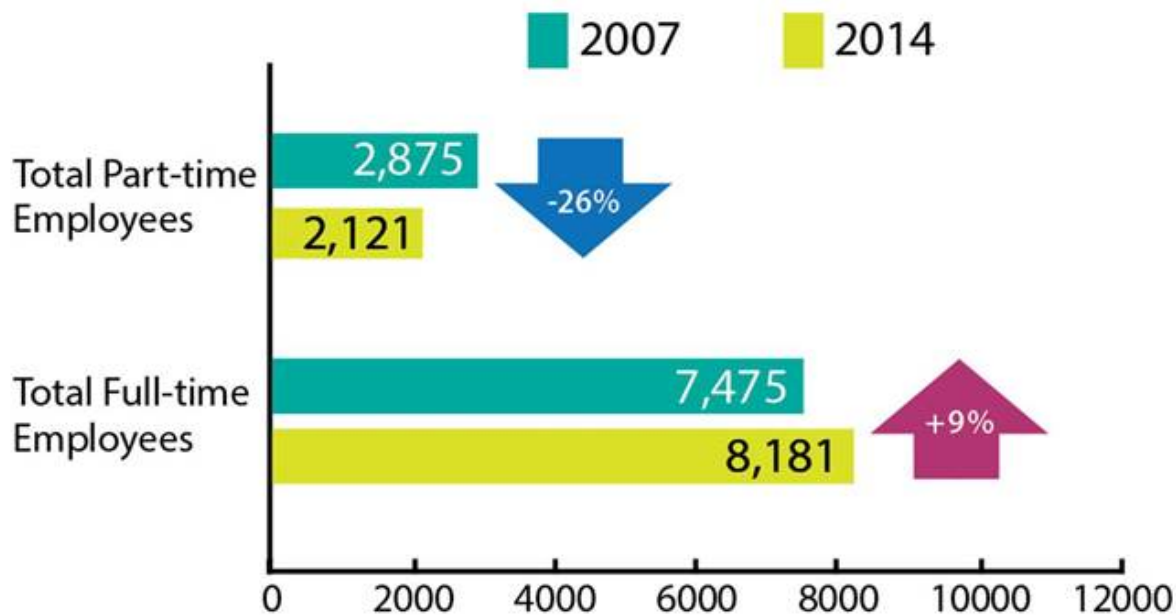


Figure 2b. Estimated Employees for the Louisiana Secondary Wood Products Sector (extrapolated to total number of companies).

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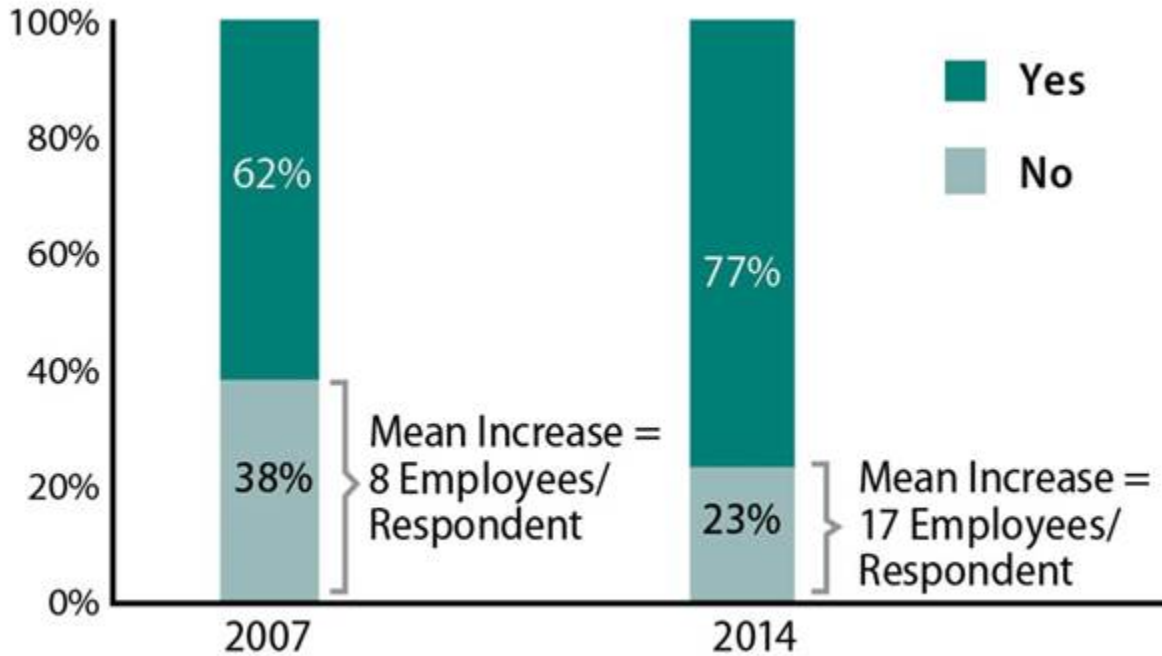


Figure 3a. Plans to Increase Number of Employees in the Succeeding Five Years in the Louisiana Primary Wood Products Sector (percent of respondents).

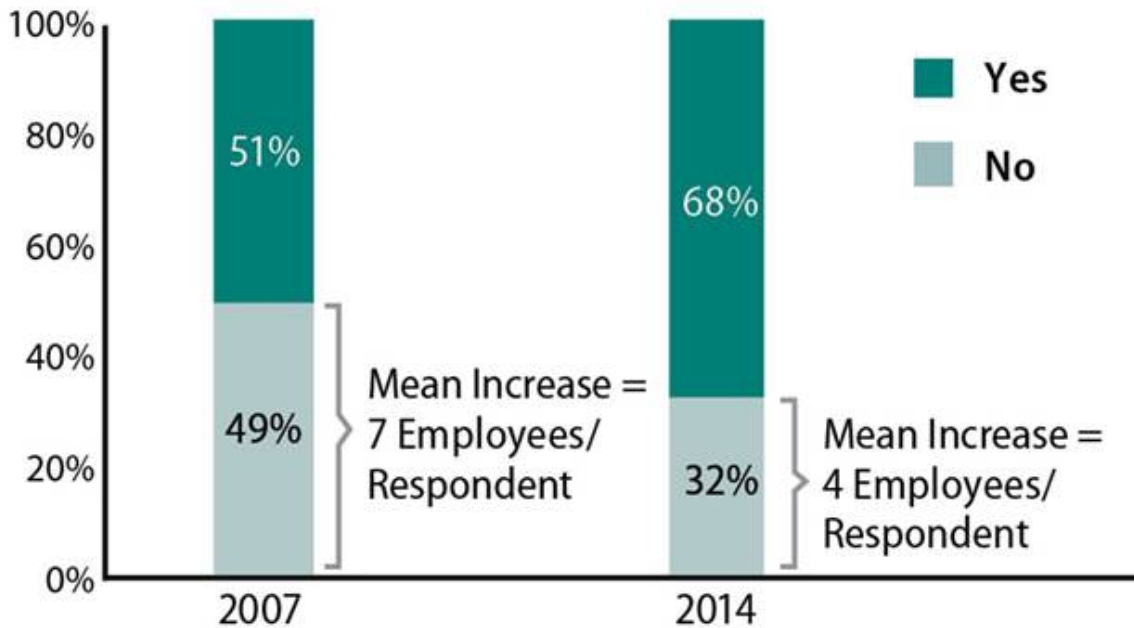


Figure 3b. Plans to Increase Number of Employees in the Succeeding Five Years in the Louisiana Secondary Wood Products Sector (percent of respondents).

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	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 market for my company's products

Figure 4a. Reasons for not having plans to hire new employees in the Louisiana primary wood products sector

(percent of respondents) (multiple responses possible) (2007 n=29, 2014 n=23)

	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 market 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

Figure 4b. Reasons for not having plans to hire new employees in the Louisiana secondary wood products sector

(percent of respondents) (multiple responses possible) (2007 n=51, 2014 n=44)



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