

Logging Cost Index

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Status

- Data collection
 - Capturing has become more and more difficult
 - All years since 2007 have major gaps
- Funding
 - Progress has been slowed by funding cut-backs
 - We have had to cut back on graduate students and support
 - Historically, we levered WSRI funding 3-5 times with soft money
 - Soft funding for non-biomass related studies began drying up in 2008 and continues to be scarce, and is expected to remain so for several years

Status

- Cooperation
 - Traditional approach
 - visit each cooperator once a year
 - collect the data
 - discuss the status of their businesses and
 - collect demographic information
 - Many times this meant sitting down with their accountant, bookkeeper or wife to collect only the necessary data – and nothing else
 - With reduced funding, we have been trying to get the data via phone and mail requests with little luck
 - A small business's records are personal, and the owner likes to meet the people who will be using his/their information

Status

- Attrition of cooperators
 - Some have closed because of health reasons or deaths
 - Some have changed roles, became dealers, shifted to land clearing, or other activity
 - Some have moved to part time basis
 - Others have simply disappeared
- New participants have been hard to recruit
 - “I don’t know if I’ll be in business next month, let alone next year”

Replacement

- For 20 years, we were successful in replacing contractors with others from the same area, of the same size, serving similar markets in an attempt to maintain continuity in the data.
- Potential cooperators were suggested by procurement foresters
- We met with potential candidates on the ground, discussed the project, showed example of the product, assured confidentiality, etc.
- The on-site, personal contact that was a key part of recruitment is no longer possible

Challenges

- Attempts to identify and recruit replacement contractors without this face to face contact has been difficult
- Concern over long term markets-mill closures
- Pessimism –
 - We conducted a “Loggers’ Roundtable” at this year’s Mid-South Show
 - Several of the participants claimed they were receiving the same rates now that they were in the early 1980s
 - Their capital investment, fuel costs, insurance rates, and labor rates were several times larger
 - Tired of becoming “more efficient” so someone else could benefit

Objectives of WSRI

- Original intent was to focus improving the operation the economic system of wood supply
 - Sellers and Consultants
 - Buyers, direct and brokers
 - In woods operations
 - Contract trucking
 - Dealerships
- Loggers were aware that the economic contribution of the system was seriously undervalued in economic planning at all levels of government, but unable to demonstrate it.

Data Usage

- Actual, verifiable, data for use in business and economic analyses
 - Cost data developed using engineering analysis methods of the 1920s
 - Economic contribution from the census, general and agricultural
 - Employment from IRS filings
- Summarization
 - Woods supply is split among agriculture, manufacturing and transportation classifications— there is no forestry sector
 - Change in methodology with the conversion to NAICS
- Application
 - Researchers- agency and academic commonly used census data and the IMPLAN model to assess direct, indirect, and induced economic efforts
 - Originally developed to demonstrate the economic impact of public land management
 - Concentration was on land use activities

Applications

- The first direct (financial & tax) summarization of loggers' expenditures – Logging Cost Index
- Real data to test the validity of commonly held “truths” e.g. There are “fixed costs” and there are “economies of scale” in logging,
- First opportunity to “unbundle” assumed impacts of policy, tax, market, and regulatory change generated by commonly used models – Such as IMPLAN

IMPLAN Estimates of local Katrina Impact

	National Level Estimate	Adjusted Local (Six County Level) Estimate
■ Direct Effects		
■ Landowner	-\$23,978,000	-\$11,988,000
■ Logging	-\$ 8,237,000	-\$16,474,000
■ Total	-\$32,215,000	-\$28,462,000
■ Indirect Effects		
■ Landowner	-\$ 4,000	- \$ 2,000
■ Logging	-\$ 1,959,000	-\$3,868,000
■ Total	-\$ 1,963,000	-\$3,870,000
■ Combined	<u>-\$34,188,000</u>	<u>-\$32,332,000</u>

Differences

- Local analysis -Landowner effects were reduced including only acreage owned by those in the effected area and surrounding counties – National level costs ~\$46,000,000
- Logging effects were increased by using actual costs and revenues
- Lack of data, and assumed multipliers lead to inaccurate estimates of loss and victims

After Katrina Effects

- Applying a national model to a smaller area resulted in a great concern for making landowners whole
- Virtually no attention to the losses by the firms in the total wood supply system – consultants, dealers, loggers, truckers, and suppliers
- But the comparison was very helpful in getting a reduction in sales tax for logging contractors in 2008

Second Application

Comparison of economic contributions of the wood supply system and outfitters in Mississippi

- Considering the logging sector only
 - Using IMPLAN data base \$2.497 Billion*
 - Using WSRI Index data \$9.487 Billion*
 - Using WSRI w/ tax adj. \$7.967 Billion*

Conclusion: IMPLAN and similar models using census and IRS based data under-estimates the contribution of the wood supply system by a factor of 3X-4X

*These figures do not include the other dimensions of the wood supply system – consultants, brokers, etc. that fall under other NAICS classifications

The Wood Supply System

- Is a major part of the forest based economy
- But, it has received very little attention as an economic sector other than focusing on “operation efficiency”
- The current political interest is focused on “small business” development and health
- This a forestry small business world that makes a contribution at the regional, state, and local level equal to timber growing
- Let’s forget old business strictures, and consider how to make the whole better understood and more effective.

Wood Supply is a Vital Part of Forestry

- We have spent great sums on research and support for:
 - Forest inventory
 - Geographic information systems
 - Aerial systems for forest typing and measurement
 - The economic impacts of recreation, outfitting, and other forest uses on local communities
- But very little on understanding the structure, performance, contributions and challenges of wood supply