



## **First Quarter Wood Chip Costs Up Almost 50% in Western US, But Pulpmills in the US South Experienced Only Small Upward Price Adjustments**

*The deteriorating housing market in the US is having an increasing impact on the wood fiber costs for the pulp industry in North America. Sawmills, which typically supply the least expensive wood fiber to pulp producers, have reduced the production by over 15% in 2007, thus tightening wood chip supply and forcing pulpmills to increase their usage of expensive roundwood chips.*

Seattle, WA, March 28, 2008 --(PR.com)-- Pulpwood and wood chip costs were higher for many pulpmills in the US in the first quarter as reported in the latest issue of the North American Wood Fiber Review. This was mainly a result of the reduced supply of residual chips from the sawmilling industry, which has cut back production due to dismal lumber markets in 2007 and early 2008.

Although the costs for pulpwood and residuals have slowly declined in many regions of the US South during the past 12 months (softwood residuals being the exception), the total wood fiber costs for many pulpmills have remained unchanged or even increased as the percentage use of the more expensive roundwood chips has gone up. The cost of roundwood chips has typically been 30-50% higher than that for residual chips; thus, increasing the share of roundwood chips has resulted in higher average wood costs particularly for pulpmills that mainly have relied on residuals sawmills for their furnish. Despite the recent increases, wood costs in the South are still the lowest in North America.

Softwood chip price trends have developed quite differently in the US South compared to the western states the past 20 years. In the southern states, prices have fluctuated between \$60-70/oven-dry metric ton (odmt) during most of the past two decades, while the pulpmills in the Northwest have seen swings between \$60/odmt and \$160/odmt.

With the very high dependency on residual chips, pulpmills in the US Northwest have recently struggled to supply their mills with wood fiber as many sawmills have been running on irregular schedules because of the weak lumber market. The lack of residual chips resulted in sharply higher wood fiber prices in the 1Q. The price jumped almost 50%, which was the second major price adjustment in 15 months. The last price spike in the 4Q/06 lasted nine months.

As the supply of sawmill residuals declined during the first months of the year, the demand for roundwood chips has increased rapidly. This has resulted in higher costs for traditional pulpwood and increased chipping of smaller sawlogs. Last fall, many pulpmills had a 25-35% share of the more expensive roundwood chips in their wood fiber furnish. In the 1Q/08, this share reached between 35-50%, a development that has had a major impact on the average wood fiber costs.

With the continued weak markets for lumber it can be expected that the supply of sawmill residuals will be tight in the 2Q and that wood fiber costs for many pulpmills in the US will move up further.

The North American Wood Fiber Review, established in 1982 and utilized by most of the major forest companies in the US and Canada, tracks pulpwood and wood chip prices in 17 key markets of North



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