

Global Timber and Wood Products Market Update

- a news brief from Wood Resources International LLC

The US and Canadian Pellet Feedstock Price Indices increased in early 2018, driven mainly by higher demand for pellets in Europe and Asia, according to the North American Wood Fiber Review

The pellet feedstock price indices for North America, launched by WRI in 2013, have trended upward in Canada during most of 2017 and early 2018 but declined in the US during the same period. The level of availability of sawmill residues was the major driver for the price corrections the past year.

Seattle, USA. Wood fiber costs for pellet producers in both Canada and the US were slightly higher in the 1Q/18 than in the previous quarter, continuing an upward trend that started in early 2017. In Western Canada, the difficult weather conditions during the winter months hampered harvest operations, forcing multiple sawmills to either slow production or take limited downtime in the first quarter. The lower sawmill operating rates resulted in reduced supplies of residues for pellet manufacturers, forcing some to use more costly forest biomass in their feedstock mix. The total fiber cost for Canadian pellet producers has slowly moved upward during 2017 and early 2018 to reach a three-year high in the 1Q/18.

The Pellet Feedstock Price Index for Canada (PFPI-CA), reported in US dollars, rose by 8.1% y-o-y to reach US\$44.21/odmt in the 1Q/18, according to the North American Wood Fiber Review. Much of this increase was the result of a strengthening of the Canadian dollar against the US dollar.

Pellet feedstock costs in Western Canada are likely to increase overall in 2018 because of the shrinking availability of sawlogs for the region's sawmills, a crucial source of bi-products for the pellet industry.

In the US, the **Pellet Feedstock Price Index (PFPI-US)** also inched up from the previous quarter, reaching US\$63.60/odmt. However, as compared to the same quarter in 2017, the PFPI-US index was down 3.0% as there were incremental changes in the feedstock mix, with a higher share of lower cost shavings and microchips and a lower share of high cost roundwood. As 2018 continues, U.S. South lumber production and its impact on sawdust and shavings supplies will influence the index. With sawmill residual supply expected to increase, pricing for sawdust and shavings will likely fall and thus benefit those pellet mills able to handle residuals.

Note. The WRI pellet feedstock price indices for Canada and the US (PFPI-US and PFPI-CA), launched in 2013, show a quarterly volume-weighted price for the fiber consumed by each country's pellet sector. The feedstock mix (roundwood, sawdust, shavings, microchips and forest biomass), production capacity and operating rates, are gathered to calculate the regional index price.

*About the North American Wood Fiber Review: The NAWFR has tracked wood fiber markets in the US and Canada for over 30 years and it is the **only publication** that includes prices for sawlogs, pulpwood, wood chips and biomass in North America. The 36-page quarterly report includes wood market updates for 15 regions on the continent in addition to the latest export statistics for sawlogs, lumber, wood pellets and wood chips.*

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