

# Global Timber and Wood Products Market Update

- a news brief from Wood Resources International LLC

**Production cost margins for sawmills in Brazil, Russia and Finland have fallen during the first half of 2017, while they increased to their second highest level in 13 years in the US South in the 2Q/17, according to the Wood Resource Quarterly**

*The sawmill margins to cover non-wood costs and profits have been squeezed in a number of countries in the first half of 2017 because of relatively higher raw-material costs and lower lumber prices, according to the Wood Resource Quarterly. Since the wood costs account for about two-thirds of the production costs when manufacturing softwood lumber, it is essential for sawmills to control the wood cost/lumber price ratio.*

**Seattle, USA.** Wood costs are by far the largest and most important cost component when manufacturing softwood lumber. The Wood Resource Quarterly (WRQ) has tracked quarterly sawlog prices worldwide since 1995 and is now also reporting the quarterly sawmill cost margins for key lumber-regions around the world. The costs for sawlogs when manufacturing lumber accounts for 65-70% of the production costs and is the factor that often determines a lumber company's competitiveness.

The sawmill cost margin, defined as the difference between the cost of wood raw-material and the revenue from lumber and sawmill residues, is a reliable indicator of the changing trend of the profitability of a region's sawmill sector.

In the latest issue of the WRQ, production cost margins for sawmills in the US South, Finland, Brazil and Eastern Russia are reported for the period 1Q/05 to 2Q/17. Additional regions of North America, Europe, Latin America and Asia-Pacific will be added in the upcoming issues in 2017 and 2018.

The average production cost margin for sawmills in the US South increased during much of 2016 and 2017 and reached its second highest level in 13 years in the 2Q/17. The higher margins have been the result of slightly declining sawlog costs and increasing lumber prices thanks to higher wood demand in the domestic housing sector.

In Finland, lumber prices and income from residues have fallen faster than the log costs during 2014 to 2017, which has resulted in a decline in the cost margin by 25% in US dollar terms. In the local currency, the decline has been a more modest 8% over the past three years.

Wood raw-material costs for sawmills in Eastern Russia have gone up faster than lumber prices the past 18 months, which has resulted in declining cost margins in the region. However, the current margins are still higher than the average for the past 13 years, according to the latest issue of the WRQ.

The income from lumber and sawmill residues have declined more than costs for sawlogs for sawmills in Brazil the past three years. Consequently, the cost margin in the 2Q/17 was 26% lower than in the 2Q/14 (in US dollar terms). In the local currency, the cost margin has fallen dramatically the past two years after reaching a record high in late 2015.

*Global lumber, sawlog and pulpwood market reporting is included in the 56-page quarterly publication Wood Resource Quarterly (WRQ). The report, which was established in 1988 and has subscribers in over 30 countries, tracks sawlog, pulpwood, wood chip, lumber and pellet prices, trade and market developments in most key regions around the world. **To subscribe to the WRQ, please go to [www.woodprices.com](http://www.woodprices.com)***

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