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Wood Fiber Costs Declined for Pulp Producers in 2019 and Early 2020

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Wood fiber costs fell for many hardwood pulp-producing countries worldwide in the 1Q/20. The biggest declines (in US dollar terms) were seen in the US South, Russia, and Latin America, where hardwood pulplog prices were down between 5 and 10 percent from the 4Q/19. In the US South, hardwood prices fell for the second consecutive quarter in the 1Q/20 after having reached an all-time high in the 2Q/19. The relatively steep decline took prices in the US South down to their lowest levels in almost three years. The major driver of declining pulplog prices was the reduction in log demand from regional papermills towards the end of the quarter as the result of the COVID-19 pandemic.

The early 2020 price declines in Latin America were largely the result of currencies weakening against the US dollar. From the 4Q/19 to the 1Q/20, the Brazilian Real and the Chilean Peso fell 8.2% and 6.2% against the US dollar, respectively.

As a consequence of falling wood fiber prices in the key markets worldwide, the Hardwood Fiber Price Index (HFPI) dropped 4.2% q-o-q in the 1Q/20. This was the fourth consecutive q-o-q decline, bringing the average price to the lowest it has been in four years. As a percentage, it has fallen 9.2% since the 1Q/19.

The Softwood Fiber Price Index (SFPI) also declined last year, although not as severely as the HFPI. In the 1Q/20, the Index was 5.6% lower than in the same quarter in 2019. The biggest price declines came in Central Europe, Latin America, and Oceania, while on the contrary there were actually small increases in prices for softwood fiber in the US South, Eastern Canada, and Sweden.

Pulpmills in Austria, Germany, and France have seen their wood fiber costs decline quite substantially in the past year. Wood fiber is dropping in price both due to an increased supply of lower-cost residuals from the region's sawmills and to substantially lowered costs for pulplogs, which have been plentiful as a result of the large supply of beetle-killed logs in Central Europe. Softwood pulplog prices in Germany have been particularly hard hit during 2019, with average prices falling 28% from the 1Q/19 to the 1Q/20. Spot prices have been reported to have plunged to the low to mid \$30s in early 2020, levels that barely cover the logging and hauling costs. The historically low log prices in Germany are expected to stay at their current levels assuming there continues to be a surplus of logs in the domestic market, as well as weak demand for market pulp and selected paper grades.



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