

N.A. wood pellet production outstrips demand in 2009

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Demand for wood pellets in 2009 was well below both manufacturing capacity and production levels. As a result, prices for sawdust and residual chips (the raw materials used by pellet manufacturers) in the Pacific Northwest moved off their 2008 highs, reports Forest2Market, the premier provider of market data and information about the wood supply chain.

Higher heating costs and a robust European market led to strong gains for the pellet industry throughout most of the last decade. According to a June 2009 report by the USDA, wood pellet capacity in North America increased from 1.2 million tons in 2003 to 4.6 million tons in 2008.

A recent report from another source connected this increase in capacity to higher prices for sawdust and wood chips through 2009. "To suggest that price increases are driven by capacity increases is misguided," said Daniel Stuber, Director of Data Collection and Quality at

Forest2Market. "There is no correlation between manufacturing capacity and price. Price is a function of supply and demand."

For example, while North American wood pellet capacity was at 4.6 million tons in 2008, production was just over 3.5 million tons, according to the USDA's report. This gap is the result of supply issues: the high number of new plants, which need time to work out start-up issues, and sawmill residue shortages caused by the weak housing market. Because of these shortages and an increase in demand driven by higher heating costs, prices for sawdust and residue chips increased through much of 2008.

Like many other industries trying to gain traction during this global recession, the wood pellet industry suffered in 2009. The USDA estimated that 2009 North American capacity would be at 6.8 million tons. Since the report was released, however, one of the largest facilities, Dixie Pellets in Alabama, unexpectedly closed its doors, reducing the estimate by half a million tons. Production in 2009 will fall short of capacity levels as well.

"Despite a recent report from another source that prices for sawdust and wood chips in the Pacific Northwest increased from 2003 to 2009 because of growing manufacturing capacity, that's not the case," said Gordon Culbertson, Forest2Market's Pacific Northwest Regional Manager.

"Forest2Market's Delivered Price data shows that prices trended upward through most of 2008 in most areas of the Pacific Northwest. Some companies pinned their hopes on growth in demand and opened small plants or increased their capacity. But the story changed in 2009. Instead of increasing, demand for pellets leveled off. Production outstripped demand, causing many of the large pellet plants in the region to curtail production. This produced a surplus of sawdust and chips and caused a drop in prices. And prices are still trending downward. Because virtually all large pellet plants in the region are curtailed, this will likely be the case until sources of demand return to the market."

Forest2Market's Delivered Price Benchmark is the only pricing service that collects actual transacted volumes and prices in a system-to-system transfer from the accounting systems of participating companies to Forest2Market's database. Participants are required to submit 100 percent of their data. This precludes the possibility that data can be cherry-picked to skew results. In addition, all data is subject to periodic audit to ensure results are reliable and accurate. Prices reported are actual market prices as a result. They are reported to participating companies only.

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