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TECHNICAL RELEASE

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LOGGING COST INDICES FOR 2002

Surveys/Studies: production/costs

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INTRODUCTION: The Industrial Forestry Operations Research Coop at Virginia Tech launched a long-term wood supplier cost and productivity study in 1990, which the Forestry and Wildlife Research Center at Mississippi State University began supporting partially in 1995 and fully in 1999. The study's objectives are to monitor the effects of changes on logging business performance; to monitor the effects of externalities such as weather, tax law, fuel prices, and labor legislation on business structures; and to gather information and insights that could lead to the development of better understanding of, and management tools for, the wood supply system. The Wood Supply Research Institute (WSRI) began supporting the study in 2002 to produce an annual index of total and component costs of logging (using 1995 costs as a basis) and to support the development of a quarterly index.

GENERAL FEATURES: The study is indebted to logging firms who share quarterly and annual financial and production data. Participating firms are spread over a wide area; three are based in the Lake States, four in the Appalachian region, 12 in the Southern Piedmont, and 25 on the Coastal Plain. The indices presented here are based on information from 44 firms for which complete data for 2002 were available on April 15, 2004. These 44 wood suppliers produced a total of 4,133,048 tons of wood (annual production by firm ranging from 2,850 to 245,000 tons), with annual expenditures totaling \$63,923,738.

Total costs are partitioned into six components, each expressed as a percentage of total costs. The six cost components include equipment (depreciation plus interest on equipment loans), consumable supplies (fuel, oil, and repair and maintenance expenses), labor (wages plus fringe benefits and Workers' Compensation insurance), contract services (trucking, etc), insurance (all except Workers' Compensation), and overhead expenses.

RESULTS:

Average Total Cost per Ton Index

The Average Total Cost per Ton Index (*Fig. 1*) continued the upward trend of 2001, at a pace that exceeded the rate of inflation as measured by the Consumer Price Index (CPI). The Producer Price Index for Logging (PPI(L)) continued to fall in 2002 but shows some upward movement for 2003. Logging costs increased 22% over the period 1995-2002. Prices paid for logging services, as measured by the PPI(L), decreased 13% between 1995 and 2002, resulting in a 35% combined change.

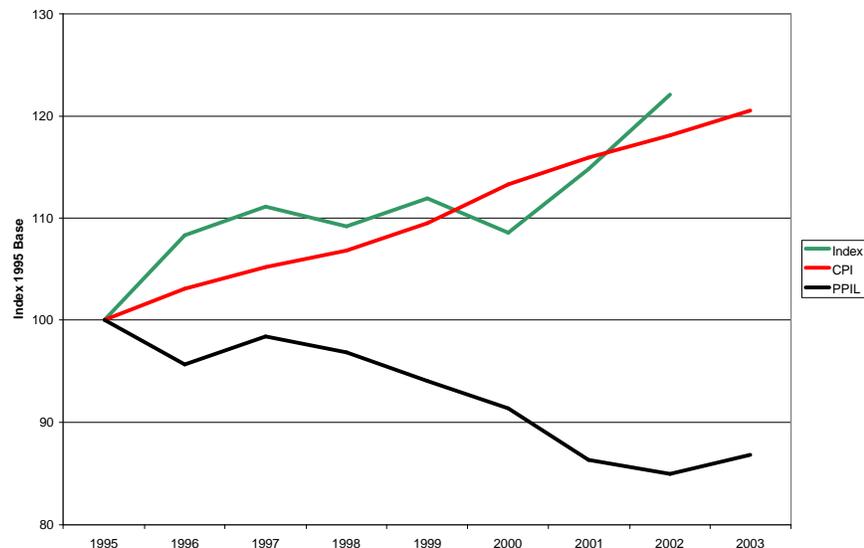


Fig. 1: Average total cost per ton index, Consumer Price Index, and Producer Price Index (Logging).

Distribution of Total Costs

The percent of total costs going toward equipment continued to decline, dropping 1.4% to the lowest level for the period 1995-2002. Both labor and consumable supplies costs decreased slightly, by approximately one percent each. An increase of 3% in outlays for contracted services largely offset the declines in the “Big 3” cost categories of equipment, labor and consumable supplies. The largest proportional increase was in administrative overheads, a jump of nearly one third, from 2.3% to 3.0%. The insurance index was flat in 2002 after a steep increase the previous year.

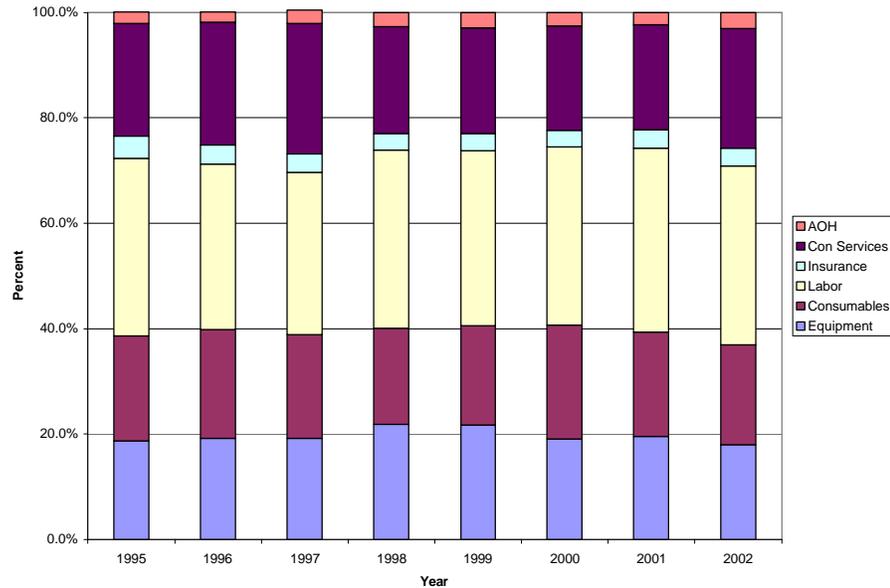


Fig. 2: Distribution of total costs.

Faced with flat or falling contract rates and rising costs (first of equipment and then of labor), participants have restructured their expenditures to continue operations as each year presented its challenges. The long-term effects of the short-term restructuring should be monitored for impacts on the wood supply system.

For More Information

The “Final 2002 Logging Cost Indices and 2003 Update” report can be viewed or downloaded at www.cfr.msstate.edu/forestry/WSRI_R4.pdf. This report is the fourth in a series; please contact the authors for additional information.

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