Timber demand and supply in the UK

Market Statement

Timber Development UK

March 2022

Timber
Development
UK

Photo credit: Invisible Studio, via Wood Awards

Just as there appeared to be a return to some form of 'normality' on the horizon, an illegal invasion of Ukraine by Russia has brought any sense of potential calm in the market to a halt by ensuring that supply will remain tight and prices firm for the foreseeable future.

Even after a record year in 2021 where the volume of timber imports has nearly reached 11.7 million m^3 - a volume not seen since 2007 - supply is under some threat, both from old challenges and new.

Reflecting on 2021, for the first time in my memory we saw timber nearly cleared off the shelves of all merchants. Stories abound of builders apprentices driving hours looking to find supplies at whichever merchant they could get to first over Summer. This can be seen in the BMBI index, where growth in demand for timber and joinery products peaked at just under 200% over June and July.

This all put significant pressure on price throughout 2021, forcing some specific products like structural softwood, OSB and US hardwoods to levels we had not seen previously. While we have seen the prices of those products mostly stabilising since Q4 2021, with much less upwards pressure on price. However, this may yet change.

Many of these issues we identified last year, such as the shortage of HGV drivers, and inflationary factors including labour, are set to persist - or even intensify - over the course of 2022. Now these factors have been joined by a new and even more concerning development with the war in Ukraine, and the ensuing sanctions against Russia and Belarus.

Yet against this backdrop, as always the future of timber is strong. Wood and wood products are inherently sustainable and deliver value beyond simply their price. Customers want to see and feel the beauty of wood, and know that they are helping to build a more sustainable, low-carbon future with their design choices. As the only mainstream low-carbon construction product, timber will be central to achieving net zero in construction.

Nick Boulton
Head of Technical and Trade Policy
Timber Development UK

KEY INSIGHTS

- The volume of timber imported by the UK in 2021 was 1.5 million m^3 more than 2020, and in total reached nearly 11.7 million m^3 - a 15% increase.
- Most of the growth in import volumes in 2021 came in the first three quarters, with import volumes in Q4 2021 falling substantially below those seen. Import volumes in Q4 2021 were around 28% below the same quarter in 2020.
- This record level of imports is a reflection of demand for timber products in 2021, with a strong RM&I sector and a resurgent private housing market having kept supply on allocation throughout the first three quarters of 2021.
- Timber prices, and structural softwood in particular, experienced rapid increases over the course of 2021. The average price of sawn and planed softwood in May, June and July rose by 55%, 65% and 88% respectively over their corresponding months in 2020.
- After a year and a half of record production and three-quarters of near-record structural softwood imports, in Q4 2021 the market reached sufficient volume of wood at UK ports and in the UK wood supply chain to satisfy construction demand.
- Even as construction demand for timber products have been met, due to inflationary pressure there has been little movement in price away from the highs seen earlier in 2021.
- Now with the invasion of Ukraine and the ensuing sanctions against Russia and Belarus, even greater pressure is going to be placed on the supply of timber. While these countries are not major sources of imports for the UK, they are major suppliers into Europe.

SUPPLY

Record volumes of timber imported in 2021

Almost 11.7 million m³ of timber and panel products were imported by the UK over the course of 2021. This is:

- One and a half million m³ more than the same period in 2020, an increase of 15%.
- 1.35 million m³ more than the same period in 2019, an increase of 13%.

An average of nearly one million m³ of timber and panel products were imported into the UK per month in 2021.

Prior to the current wave of high import volumes – which began in the latter half of 2020 – breaking one million m³ had been a relatively rare occasion. In the four years before October 2020, this barrier had been broken just once – in January 2019 as a result of Brexit stockpiling.

Despite this incredible figure, most of the growth in import volumes in 2021 came in the first three quarters of the year, with import volumes in Q4 2021 falling to 28% below those of Q4 2020.

While there is normally a winter tail off in timber imports, this sharp decrease can likely be attributed to multiple factors, including a supply chain approaching saturation, as well as the difficulties of moving timber through the supply chain amidst port congestion and a shortage of HGV drivers.

Core import categories

Softwoods: Import volumes increased by 21.2%, when comparing 2021 to 2020. Softwood imports were nearly one million m³ higher in 2021 compared to 2020. This was led by Germany, Finland and Latvia which collectively accounted for 84% of the growth in volume. Volume from Sweden, our largest wood supply partner, in 2021 was a little below the level in 2020 and the share of supply fell to 35% of the total.

Hardwoods: Import volumes increased by 26%, when comparing 2021 to 2020, to reach 536,000m³. Europe continues to dominate hardwood supply to the UK, growing to reach 70% of the total in 2021, while the USA remains the largest single supplying country accounting for 15% of imports, now closely followed by Latvia, although with a significantly different product mix to that of the USA. Growth in volume in 2021 was derived from a 23% rise in the volume of temperate species and an 11% increase in the volume of tropical hardwoods.

Plywoods: Imports have increased by 13.1%, when comparing 2021 to 2020, reaching 1,541,000 m³. Hardwood plywood remains the major import category, accounting for 1,084,000 m³, as compared to softwood plywood, which accounts for 146,000 m³. The primary source of the increase in volumes for plywood was from an 457,000m³ increase in hardwood plywood imports, with around 90% of this accounted for by increases from China, Finland and Indonesia. Meanwhile, a striking feature in the import of softwood plywood in 2021 has been the switching of supply from Brazil and Chile to China and Finland. Both these changes show the resilience and agility of the wood supply chain in 2021.

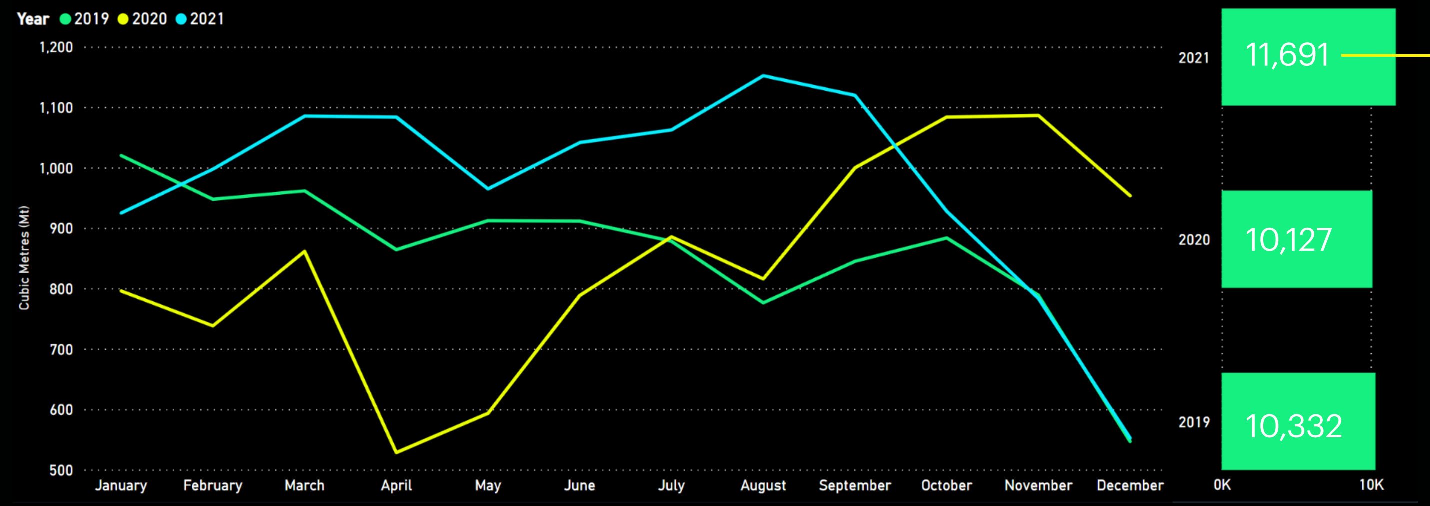
Risks to supply

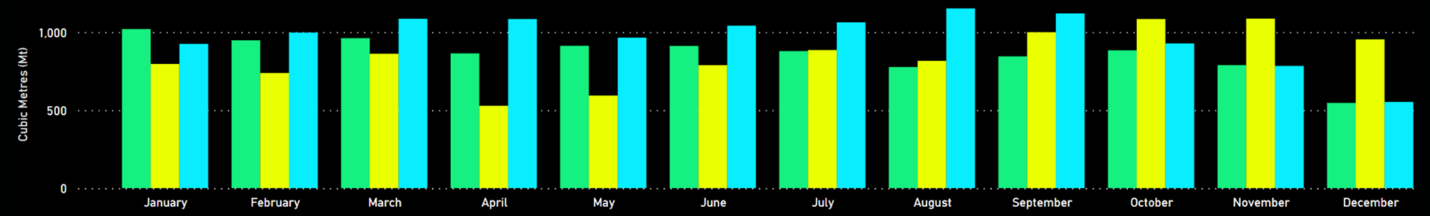
While timber is not explicitly included within current sanctions which have arisen from the invasion of Ukraine by Russia, Timber Development UK is advising all members to cease trading with both Belarus and Russia (see statement on 8 March 2022). This will have significant effects as although relatively small amounts of timber is directly imported from these countries, they are major suppliers into Europe, who in turn, supply the UK. We are already working with EU supply partners to find ways to compensate for the overall loss of volume coming to the EU from Russia. For members, this statement has been accompanied by a Trade Note which goes into further details for specific product groups on the impacts of this decision on supply (see TTF website).

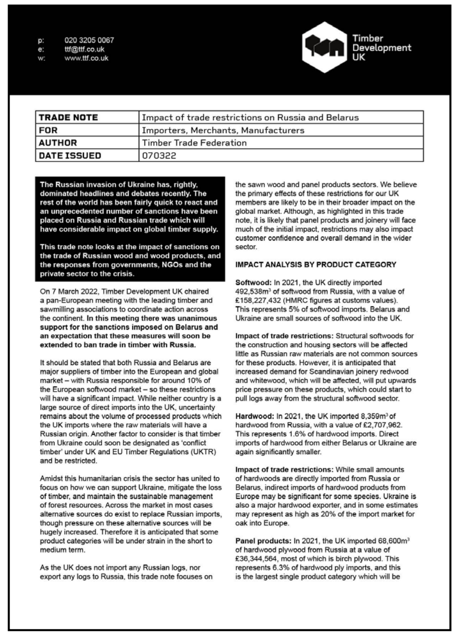
Many of the same supply risks from 2021 remain unresolved. This includes Brexit-related issues, including logistics, due diligence paperwork, new plant health requirements, and the situation with movements to and from Northern Ireland. The chronic shortage of HGV drivers has also been exacerbated in recent weeks, with many Ukrainian drivers returning home from Northern Europe and Scandinavia to defend their country. These are having an inflationary effect on price, which together with the war, may impact consumer confidence and demand for timber products.

Continued growth in demand for timber from the US amidst a surging housing market also means there is greater competition for timber supply.

Nearly 11.7 million m³ of timber and panel products were imported into the UK over the course of 2021. This is more than 1.5 million m³ above the total imports in 2020, an increase of 15%, and around 1.35 million m³ more than in 2019 - a 13% increase.







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Timber Development UK

TRADE NOTE	Impact of trade restrictions on Russia and Belarus
FOR	Importers, Merchants, Manufacturers
AUTHOR	Timber Trade Federation
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The Russian invasion of Ukraine has, rightly, dominated headlines and debates recently. The rest of the world has been fairly quick to react and an unprecedented number of sanctions have been placed on Russia and Russian trade which will have considerable impact on global timber supply.

This trade note looks at the impact of sanctions on the trade of Russian wood and wood products, and the responses from governments, NGOs and the private sector to the crisis.

On 7 March 2022, Timber Development UK chaired a pan-European meeting with the leading timber and sawmilling associations to coordinate action across the continent. **In this meeting there was unanimous support for the sanctions imposed on Belarus and an expectation that these measures will soon be extended to ban trade in timber with Russia.**

It should be stated that both Russia and Belarus are major suppliers of timber into the European and global market – with Russia responsible for around 10% of the European softwood market – so these restrictions will have a significant impact. While neither country is a large source of direct imports into the UK, uncertainty remains about the volume of processed products which the UK imports where the raw materials will have a Russian origin. Another factor to consider is that timber from Ukraine could soon be designated as 'conflict timber' under UK and EU Timber Regulations (UKTR) and be restricted.

Amidst this humanitarian crisis the sector has united to focus on how we can support Ukraine, mitigate the loss of timber, and maintain the sustainable management of forest resources. Across the market in most cases alternative sources do exist to replace Russian imports, though pressure on these alternative sources will be hugely increased. Therefore it is anticipated that some product categories will be under strain in the short to medium term.

As the UK does not import any Russian logs, nor export any logs to Russia, this trade note focuses on the sawn wood and panel products sectors. We believe the primary effects of these restrictions for our UK members are likely to be in their broader impact on the global market. Although, as highlighted in this trade note, it is likely that panel products and joinery will face much of the initial impact, restrictions may also impact customer confidence and overall demand in the wider sector.

IMPACT ANALYSIS BY PRODUCT CATEGORY

Softwood: In 2021, the UK directly imported 492,538m³ of softwood from Russia, with a value of £158,227,432 (HMRC figures at customs values). This represents 5% of softwood imports. Belarus and Ukraine are small sources of softwood into the UK.

Impact of trade restrictions: Structural softwoods for the construction and housing sectors will be affected little as Russian raw materials are not common sources for these products. However, it is anticipated that increased demand for Scandinavian joinery redwood and whitewood, which will be affected, will put upwards price pressure on these products, which could start to pull logs away from the structural softwood sector.

Hardwood: In 2021, the UK imported 8,359m³ of hardwood from Russia, with a value of £2,707,962. This represents 1.6% of hardwood imports. Direct imports of hardwood from either Belarus or Ukraine are again significantly smaller.

Impact of trade restrictions: While small amounts of hardwoods are directly imported from Russia or Belarus, indirect imports of hardwood products from Europe may be significant for some species. Ukraine is also a major hardwood exporter, and in some estimates may represent as high as 20% of the import market for oak into Europe.

Panel products: In 2021, the UK imported 68,600m³ of hardwood plywood from Russia at a value of £36,344,564, most of which is birch plywood. This represents 6.3% of hardwood ply imports, and this is the largest single product category which will be

Members can access our Trade Note for more detailed information on how the current situation will affect timber imports into the UK.

See: *https://ttf.co.uk/download/trade-note-impact-of-trade-restrictions-on-russia-and-belarus/*

DEMAND

Strength of demand for timber carries into 2022 - but some underlying risks for market

Construction output grew by 12.7% in 2021 according to ONS figures and is forecast to rise by a further 4.3% in 2022 according to the Construction Products Association (CPA) indicating a positive year for timber demand.

CPA in their winter forecast said there was some need to be cautious with the output figures given that a strong infrastructure sector, along with strong private housing new build and RM&I, may be helping to mask weaknesses in some areas across the construction sector not shown across overall output. This includes in public housing, where new work sits well below pre-pandemic levels - and across the public housing RM&I sector, where work is primarily focused onto cladding remediation.

The stability of the construction sectors continued recovery in 2022 also remains subject to inflationary pressures which it is believed will impact consumer spending and confidence. This is a quickly evolving situation. Wage inflation, rising energy costs, the cost of raw materials, along with a lack of business confidence, are all issues which will be placed under further pressure by the invasion of Ukraine.

Key construction markets bounce back in 2021 from restrictions

Private housing: In Q4 2021 there were 41,600 house building starts in England, while housing completions totalled 43,330. This means every quarter in 2021 outperformed their 2020 equivalent, with annual housing starts reaching a total of 180,180 in 2021. This is a 40% increase over 2020, which totalled just 129,700 for the year after the low point of Q2 2020.

Repair, maintenance and improvement (RM&I): The private RM&I market saw 17% growth in 2021, with more people demanding improved outdoor and home working spaces, however, it has since flattened considerably, after the Builders Merchant Building Index showed timber and joinery sales growth peaking in mid-2021 at nearly 200%.

Economic impact of invasion of Ukraine (long war scenario)

The CPA has predicted that a 'long war scenario' is most likely to occur in Ukraine in which the conflict takes a significant amount of time to resolve.

The three key economic impacts of a long war between Russia and Ukraine will be on the supply of raw materials, the price of energy, and reduced consumer confidence and spending - which is particularly important for the UK as it accounts for ¾ of GDP.

Overall Russia and Ukraine accounted for just 1.2% of UK construction products imports in 2021 (including about 5% of timber imports), so the direct supply of raw materials is unlikely to be significantly affected. Energy prices are likely to increase further which will impact inflation and consumer confidence. The CPA anticipates that inflation will rise above 8.5% in the Spring and remain stubbornly high in Summer.

Future trends

The CPA Construction Industry Forecasts - Winter 2022, released in January 2022, predicted construction output will grow by 4.3% in 2022, and 2.5% in 2023, with:

- Private housing starts expected to rise by 5% in 2022 and 3% in 2023, and
- Private housing RM&I expected to grow by 0% in 2022 and 2% in 2023.

These numbers reflect last years predictions that growth will continue at a steadier, more modest rate, following the surge seen as the industry recovered post-pandemic. Additional economic stressors introduced over the past two months may inhibit some of this expected growth. Impacts on construction demand from inflation are most likely to be in the consumer-facing sectors of private housing and private housing RM&I - both of which are key for timber demand - and heavily influenced by consumer confidence. Households have accumulated £200 billion of savings over the pandemic, so the finance remains available for renovation projects and home purchase.

PRICE

Price of timber in the UK stay firm after rises in 2021

While prices of timber, and structural softwood in particular, experienced rapid increases over the course of 2021, this growth began to ease in Q4.

This is supported by **BEIS Construction Building Materials statistics** which revealed the prices of imported sawn or planed wood to have dropped for the fourth consecutive month with the indices settling at 188.9 in January 2022. While this is 47.2 higher than a year ago, this is substantially lower than the highs seen in Q3 2021, where the indices peaked at 229.1 in September 2021.

Is this price trend likely to continue?

As with any other product, fundamentally the price of structural softwood is the result of the balance between supply and demand. When the volume of wood at UK ports and in the UK wood supply chain began to reach a balance with demand, the growth in prices began to ease - as seen at the end of 2021.

While prices have reduced from their peak, the same fundamental market forces remain at play. Structural softwood is a globally traded product. Increased demand from importer countries or limitations placed on available wood resources all ultimately have the potential to lead to price increases.

With a booming RM&I and private housing markets in the United States already projected to mean greater competition for existing wood supply in Q2 2022, and together with inflation across fuel, logistics, labour, and additional red tape for importers because of Brexit, the industry has been predicting that prices are likely to remain firm. The invasion of Ukraine further complicates the market situation.

How will the invasion of Ukraine affect timber prices?

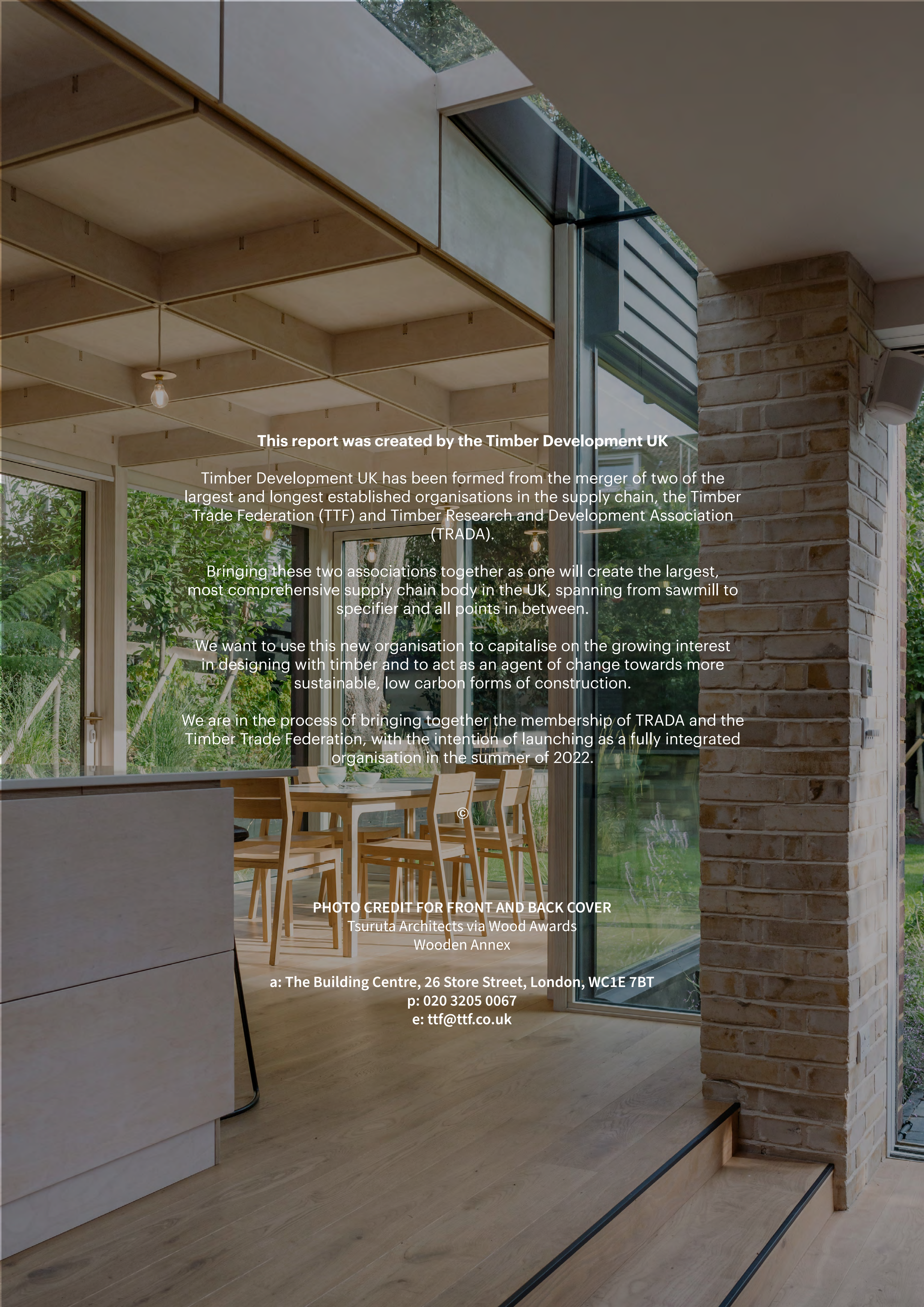
The effect on prices from the invasion will likely heavily depend on which timber products you look to. As very little structural softwood comes from Russia to the UK, the invasion will not likely have a direct effect on the supply of these goods. However, some other timber groups, such as Russian Siberian Larch used in joinery, birch plywood, or oak, will see supply directly affected. This is because Russia and Ukraine are key exporters of these goods - not always directly into the UK - but into the EU where they will be processed before onwards delivery.

A number of sanctions have already been placed on Russia by the UK, the EU, and other western countries. There have been indications this is likely to extend to restrictions on the import of timber from these countries under UK and EU Timber Regulations respectively. Timber Development UK, the organisation formed from the merger of the Timber Trade Federation and TRADA, called on all members to cease trade (see statement on 8 March 2022).

Of course, it will take time for existing stock that has already been imported to flush through the system, as many timber goods are ordered and processed months in advance of delivery. There will be stock on the ground considered 'pre-conflict'. However, already together with the statement from Timber Development UK, and the designation from PEFC and FSC that goods from Russia and Belarus be classified as 'conflict timber' some key products will no longer be imported and are likely to be under significant pressure in coming months until alternative sources or products can be found.

Meanwhile logistics woes seen within international shipping in 2021 (when the price of a 40ft container from China to Northern Europe increased by 900%) are likely to be exacerbated as trade flows shift to account for the invasion and resulting sanctions. With the Ukraine conflict at the nexus of Europe and Asia this could impact on ocean shipping between the two continents - with congestion likely as ships divert from their original paths to avoid the conflict. Rail and air transport which would usually run through Russia, Ukraine or Belarus will also be heavily impacted, which will ripple across the sector.

At this stage the key impacts of the sanctions are yet to be felt, and already there is ongoing debate within the European industry concerning mitigation and support measures that the industry could ask for from the EU Commission and national governments to alleviate any shortages. Similar packages may need to be considered in the UK.



This report was created by the Timber Development UK

Timber Development UK has been formed from the merger of two of the largest and longest established organisations in the supply chain, the Timber Trade Federation (TTF) and Timber Research and Development Association (TRADA).

Bringing these two associations together as one will create the largest, most comprehensive supply chain body in the UK, spanning from sawmill to specifier and all points in between.

We want to use this new organisation to capitalise on the growing interest in designing with timber and to act as an agent of change towards more sustainable, low carbon forms of construction.

We are in the process of bringing together the membership of TRADA and the Timber Trade Federation, with the intention of launching as a fully integrated organisation in the summer of 2022.

PHOTO CREDIT FOR FRONT AND BACK COVER
Tsuruta Architects via Wood Awards
Wooden Annex

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