

Global lumber markets

The growing role of European lumber

June 2021



WOOD RESOURCES INTERNATIONAL



Global softwood lumber markets are in flux with growing supply shortages. While current price spikes are temporary, we expect permanently higher than normal prices for many years to come. This report examines the forces driving tightness of global lumber markets, including the demand outlook in the US and China, and supply potential from Europe and other regions – including the outlook for European sawmill capacity, sawlog supply, and sawmill margins. It also summarizes the implications of tighter lumber markets for all players in the value chain.

Contents

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3. Asian demand growth

- Historical demand and imports
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- Import need

4. Export from other regions

- Overview of potential by region
- Outlook for Russian lumber exports
- Outlook for Latin America and Oceania lumber exports

5. Growing role of European exports

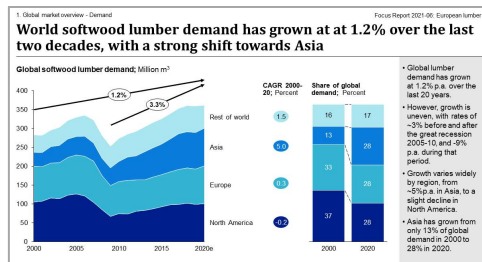
- European lumber market balance over time
- European lumber exports by source and destination
- Sawmill capacity outlook
- Sawlog supply potential
- Price and margins development
- European sawmill cost structure and outlook

6. Implications for global markets

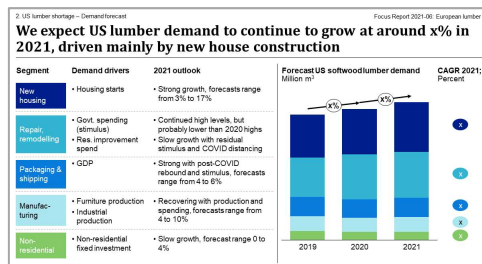
- Overview of implications throughout value chain
- Examples of impact on log and residue markets, forest owner returns, sawmill technology and product innovation.

Example exhibits

Global softwood lumber demand development by region.



US softwood lumber demand by market segment and 2021 forecast.



Global softwood lumber trade flows in 2020, largest importers and exporters.



Questions the report helps answer

- What demand and supply developments will shape global lumber markets in the coming decade?
- How will softwood lumber demand develop in the US and China in the coming years?
- Where will new lumber supply come from?
- What is Europe's potential to produce and export additional softwood lumber?
- How will tighter lumber markets impact forest owners/investors, sawmills, pulp and panel makers?
- What role will sawmill technology and product innovation play?

Who the report is most relevant for

- **Sawmill owners** / operators globally.
- **Lumber buyers**, including construction, packaging and furniture manufacturers.
- **Lumber traders** and **wholesalers**.
- **Forest owners** and **investors** globally.
- **Pulp, panel** and **pellet industries** using sawmill residues.
- Suppliers of **sawmill equipment** and technology.
- **Analysts, consultants, financial institutions** and **industry associations**.

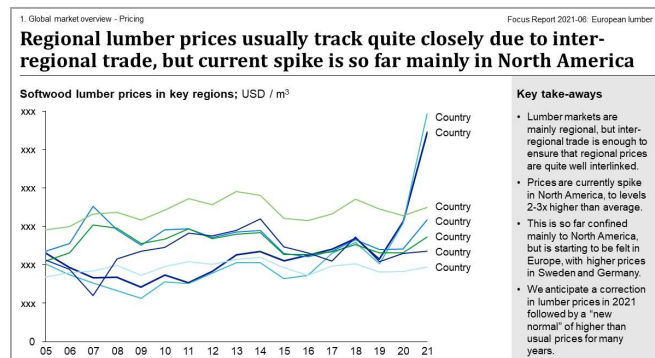
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Example exhibits

Softwood lumber price development in key regions.



Additional sawlog supply potential in Europe.

5. Growing role of European exports - Sawlog supply
Focus Report 2021-06: European Lumber

Northern Europe has greatest potential to increase softwood sawlog harvest, and diverse small producers throughout Europe

| Group | Region | Countries | Million m ³ | Comments | Implications |
|-----------------------|--|------------|------------------------|--|--|
| Leading producers | Northern Europe | Finland | x | Significant potential to increase harvests, to utilize more of growth (NA) in forests available for wood supply | <ul style="list-style-type: none"> • Of the leading producers and exporters of softwood lumber in Europe, countries in Northern Europe have greatest potential to increase sawlog harvest. • Germany and Czech Republic will reduce harvest after bark beetle salvage - to maintain log supply to mills in the region, likely to see switch to net import and higher log prices. • Other key producers in Central/Eastern Europe are less impacted by the bark beetle but are appear already close to full harvest potential. • There are many countries throughout Europe with relatively small sawmill industries, which could increase harvest, e.g. Romania, Slovakia, Ireland, Scotland. • Taken together, we estimate that near-term (coming 5-10 years), Europe has potential to harvest 4-5 mln m³ more softwood sawlogs than currently. |
| | | Baltics | x | | |
| | | Sweden | x | | |
| | | Norway | x | | |
| Central / East Europe | | Germany | x | Declining harvest after bark-beetle salvage, potentially reducing sawlog supply by as much as x.x mln m ³ | |
| | | Czech Rep. | x | Limited potential - close to full potential harvest | |
| | | Austria | x | Unclear, but probably limited potential - close to full potential harvest | |
| | | Poland | x | | |
| | | Ukraine | x | | |
| Smaller producers | Romania, Slovenia, Slovakia, Ireland, Scotland | | x | Significant potential to increase harvests to utilize more of NA | |
| | | | x | | |
| | | | x | | |
| Total | | | x | | |

European lumber cost drivers and future outlook.

5. Growing role of European exports - Sawmill costs
Focus Report 2021-06: European Lumber

In balance, European lumber costs are likely to rise, as higher wood costs are only partly offset by lower costs for ocean freight

| Typical cost structure, European export lumber | Cost drivers | Outlook for cost development | Key take-aways |
|--|------------------------|---|---|
| 100 | Exchange rates | Current rates (EUR, SEK) are in middle of historic range | <ul style="list-style-type: none"> • Wood costs are likely to increase for European sawmills, with higher lumber production and harvest rates - possibly dampened by improved chip prices. • Part of this will be offset by lower transport costs, from current highs. • No significant change expected near-term in yield and other productivity. |
| 20 | Transport | Transport costs likely to fall. There is currently a spike in global containerized freight rates, which will lead to capacity expansion and lower rates. Europe-US rates are much higher than Europe-China and have risen up in 2021. | |
| 3 | Other production costs | Gradual improvement in labour cost efficiency with larger sawmill scale, in Sweden over the last 20 years, average sawmill size has almost doubled, and labour productivity grown by 1.5% per year. Energy efficiency also slowly improving with scale and technology. | |
| 12 | Yield | No significant change in yield expected in the coming 5 years but constant for sawmills. New technology, such as full log scanning, can improve yield, but a focus on labour productivity can shift focus from yield. There has been no significant improvement of yield in European sawmills over the last 10 years. | |
| 10 | Sawlog and chip prices | Sawlog prices are expected to rise with growing lumber production and higher harvest rates. Chip prices are currently low, due to increased supply, but are likely to increase as fiber industries (pulp, panels) expand capacity to utilize the additional material. | |
| 55 | | | |

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