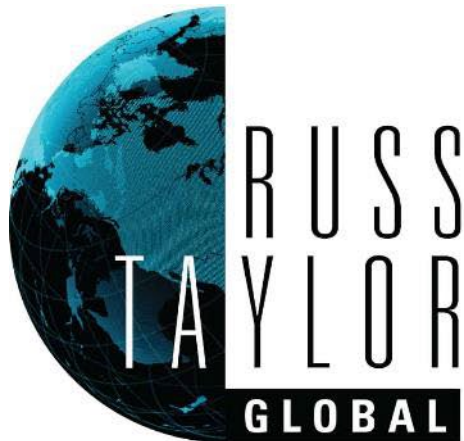




# Global & North America: Sawn Softwood Dynamics & Outlook

**GD Holz: German Timber Trade Federation**  
**May 19, 2022**



**RUSS TAYLOR GLOBAL**  
**WOOD BUSINESS & MARKET CONSULTING**  
[www.russtaylorglobal.com](http://www.russtaylorglobal.com)

- MARKETS
- INDUSTRY
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- GLOBAL TIMBER/LUMBER ASSESSMENTS & PRICE OUTLOOKS
- SPECIALTY PROJECTS

**Russ Taylor**  
RUSS TAYLOR GLOBAL  
Vancouver, B.C., Canada



# RUSS TAYLOR GLOBAL: Wood Business & Market Consulting

In the wood-based consulting business in Vancouver since 1988:

- **1988-1992** – Widman Management Consulting
- **1992-2017** – R.E. Taylor & Associates Ltd. & International WOOD MARKETS Group Inc.
- **2017-2020** – WOOD MARKETS/FEA Canada
- **2020-** – RUSS TAYLOR GLOBAL
- 45 years experience in the wood products industry:
  - 4+ years with **Northwood Timber** – now Canfor (forester in Houston BC in 1970s).
  - 7+ years with **Interfor** (sales mngr, log custom cutting, reman, Vancouver – 1980s).
- 28 Years operating International WOOD MARKETS Group, including China office.
- Regular travel to international markets: Europe, Russia, Asia (China), So Hemisphere.

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# International Background: Russia, Europe & China & So. Hemisphere

- Consulting projects in USA, Southern Hemisphere & Asia in 1990s.
- Consulting projects in Russia, Europe and China since 2000.
- **WOOD MARKETS:** Over 30 consulting assignments in the **Russia** timber and solid wood products industry.
  - The consultants made over 40 industry-related trips to Russia.
  - Six tours of the Russian industry were led by **WOOD MARKETS**.
- In **Europe**, regular travels to Scandinavia, Baltics, Western & Central Europe as well as Romania.
- Ongoing visits globally to 100+ sawmills to assess log & sawmill costs for biennial *Global Cost Benchmarking Report*.
- Managed **China** office & regular travels through out China with many trips to the Russia-China border regions.



# Presentation Outline

- 1. Global Sawn Softwood**
- 2. Current Situation: Russia, Belarus, Ukraine: IMPACTS**
- 3. China**
- 4. US & Canada Softwood Lumber Trends**
- 5. Price Trends & Outlook**
- 6. Summary**

# 1. Global: Softwood Lumber Demand Outlook to 2025

## CONSUMPTION:

Global lumber demand had been slowing:

2017: +4.0%

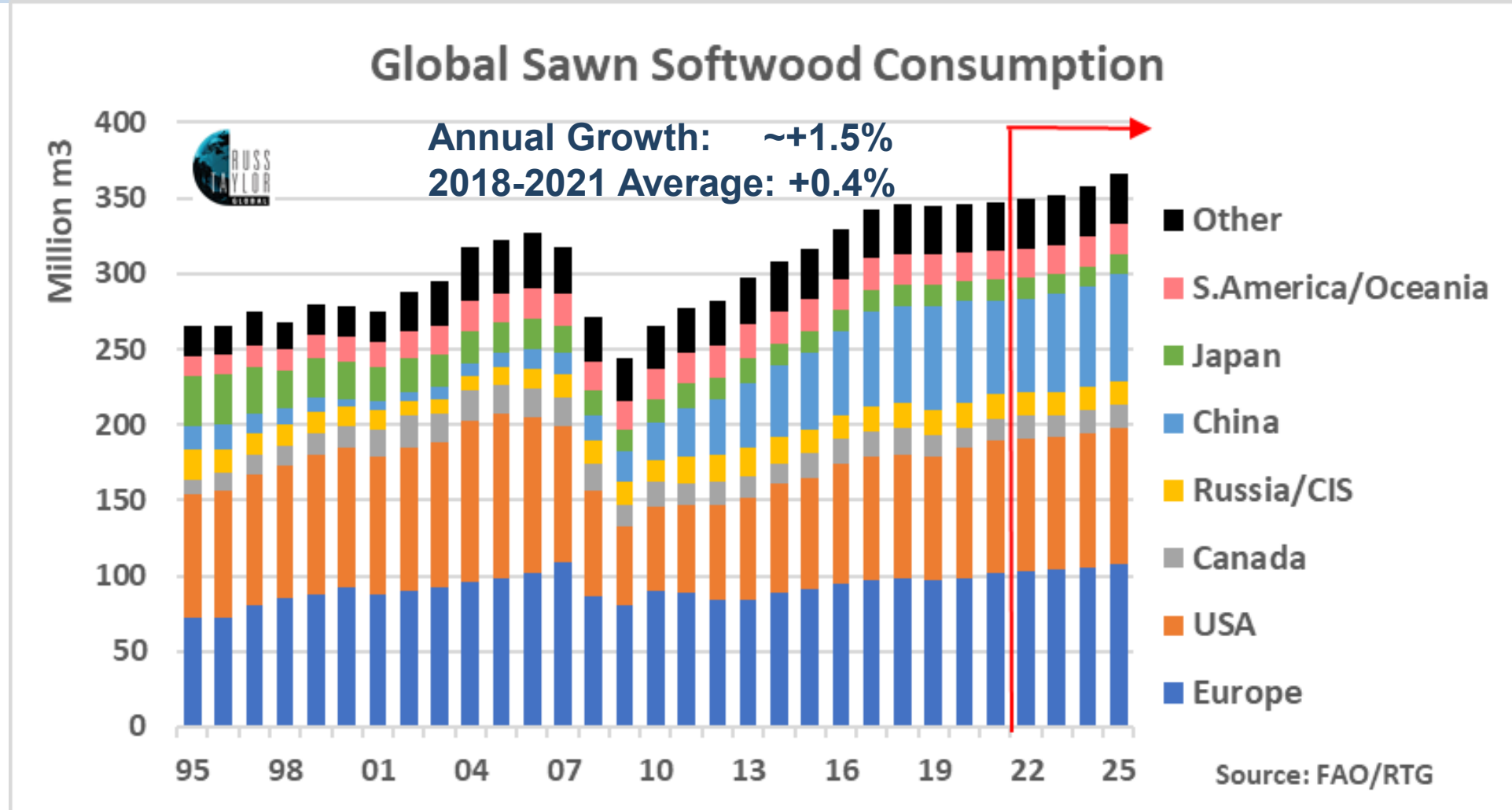
2018: +1.0%

2019: -0.2%

2020: +0.2%

2021: ~+0.5%

2022: ~+0.5%



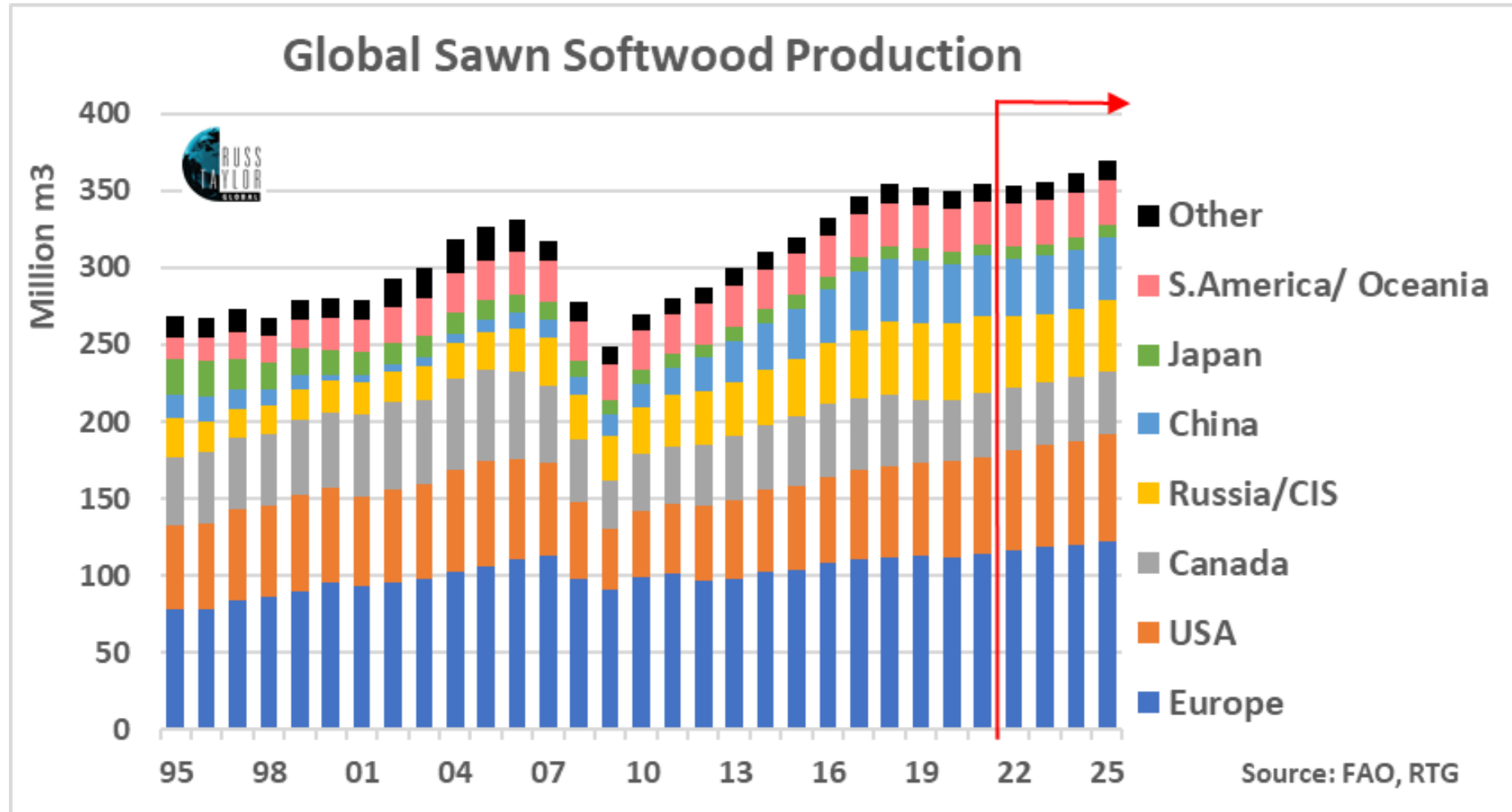
**PRODUCTION:**  
 When **Europe** is grouped as “one region”, the next 5 producers are:

- **USA,**
- **Canada,**
- **Russia,**
- **China & Japan**

**2020: -0.8%**

**2021: ~ +0.5%**

**2022: ~ +0.2%**



## 2. Current Situation: Russia, Belarus, Ukraine

**Europe and EOS member countries in Europe:**

- **Bans all wood imports from Russia & Belarus = conflict timber**
- **Trade ban = ~10% (8.5 million m<sup>3</sup>) of sawn softwood timber consumption in Europe from Russia, Belarus and Ukraine**

**PEFC and FSC – “Conflict timber” in Russia and Belarus**

**Russia: bans exports to “unfriendly” countries in Europe, USA, etc.**

**Other countries like the US/UK are drafting similar regulations/bans.**

**Russian ships/trucks – no access to “unfriendly” countries**

**Russia has proposed nationalizing foreign-owned factories that shut down operations in the country...**

**Key questions:** Can Europe make up an 8.5 million m<sup>3</sup> deficit?

**What lumber volume can Russia export to “friendly” countries?**





# Global Softwood Lumber Exports (2021): ~98.5 Million m3

1 Billion Bf, nominal = 1.6 Million m3, net; 1 Million m3, net = 0.62 Billion Bf, nominal

## Major Trade Flows in 2021:

- Canada to USA 21 million m3
- Russia to China 12-15 million m3 (CC & ROSSTAT)
- Europe to ME-NA 8 million m3
- Russia/Belarus/Ukraine to Europe 8 million m3
- Europe to USA 4 million m3
- Other Includes intra-Europe trade ~46 million m3
- Total SW Lumber Exports 98.5 million m3

## From Russia:

- Russia to China 12-15 million m3 (CC & ROSSTAT)
  - Russia to CIS 4.6 million m3
  - Russia to ME-NA 1.5-2.0 million m3
  - Russia to Europe 5.0 million m3
  - Russia (to Japan, Korea, US, etc) to Other 2.5 million m3
  - Russia SW Lumber Exports 28.7 million m3
- 7-10 MMm3 lost

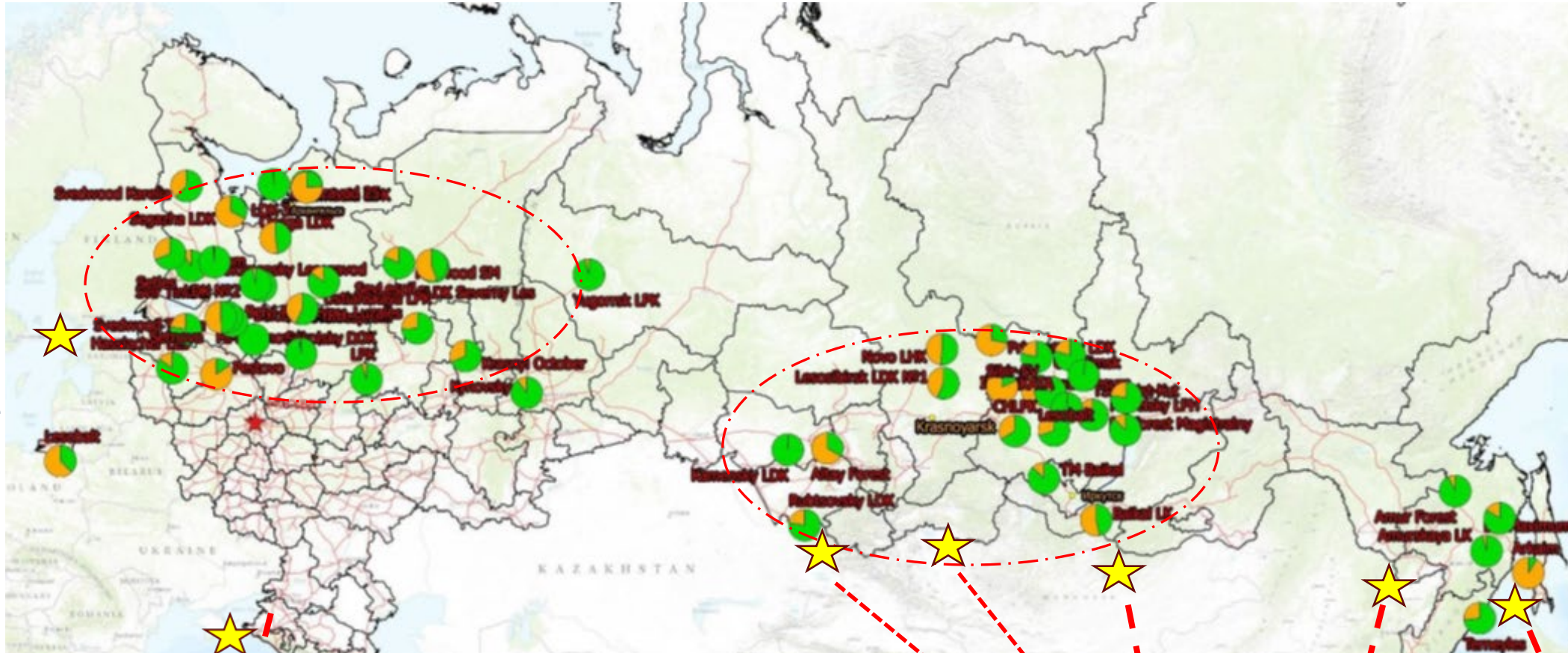


# With Export Sanctions, Will Logistics for Sawmills in NW Russia Allow for Lumber Transport across Russia to China?

NW Russia mills cut off from Baltic Sea Ports!

Is the Trans-Siberian Railroad an option – or the only option?

Can China ramp up capacity at land borders?

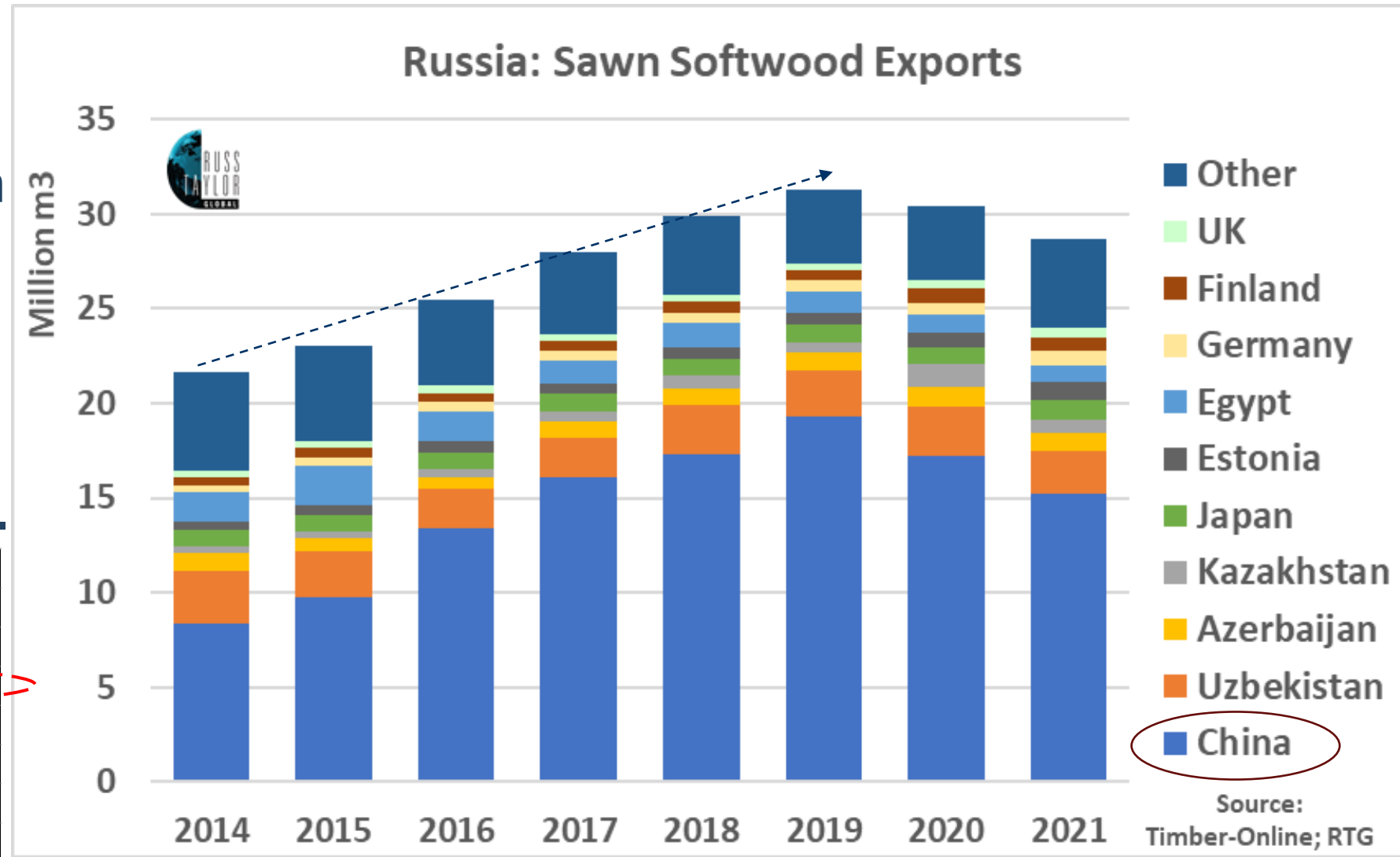


★ = Export ocean & land ports

**China**  
(with possible trans-shipments onward?)

# Russia: Sawn Softwood Production & Exports have Increased Steadily

- **China exports = most of growth.**
- **The log export ban should increase sawmill capacity.**
- **Ruble devaluation has benefited Russian exporters.**



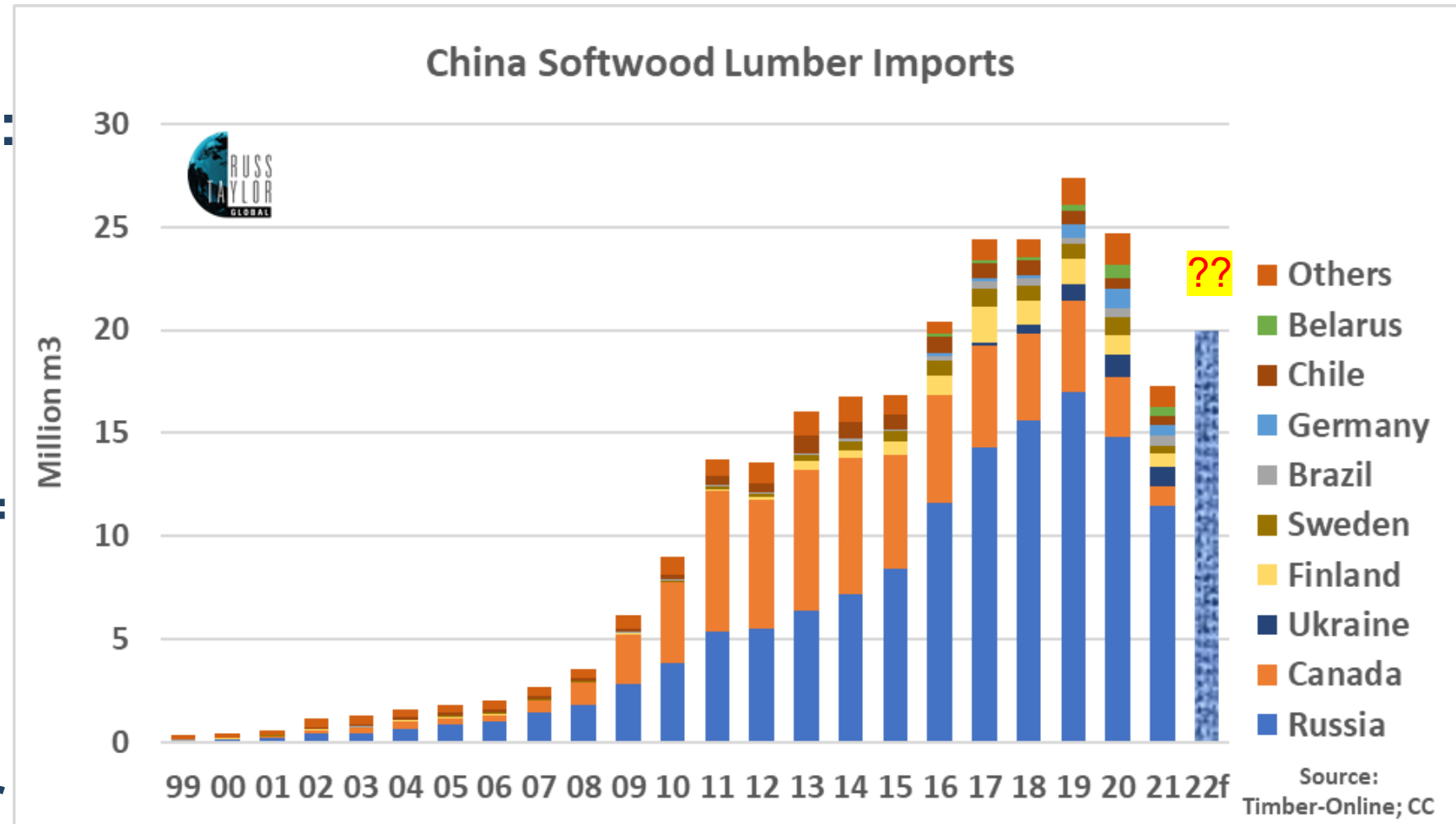
	2020	2021	% Share
China	17,211,203	15,241,706	53%
CIS	5,773,690	4,798,754	17%
Europe	3,750,000	4,482,000	16%
ME/NAf	1,952,402	1,909,114	7%
SubTotal	28,687,295	26,431,574	92%
Other	1,776,926	2,274,799	8%
TOTAL	30,464,221	28,706,373	100%

# 3. China Softwood Lumber Imports: European Exporters Could Reduce Exports to China in 2022 & Russia Could Increase

Softwood lumber imports in 2021 lower from high import prices:

- Russia = #1
- Ukraine = #3
- Belarus = #8
- Total: **13 million m3**
- Europe collectively = **3.2 million m3** (2<sup>nd</sup> after Russia)

Russian tax on >10 cm squares + green lumber



It depends ... on assumptions!

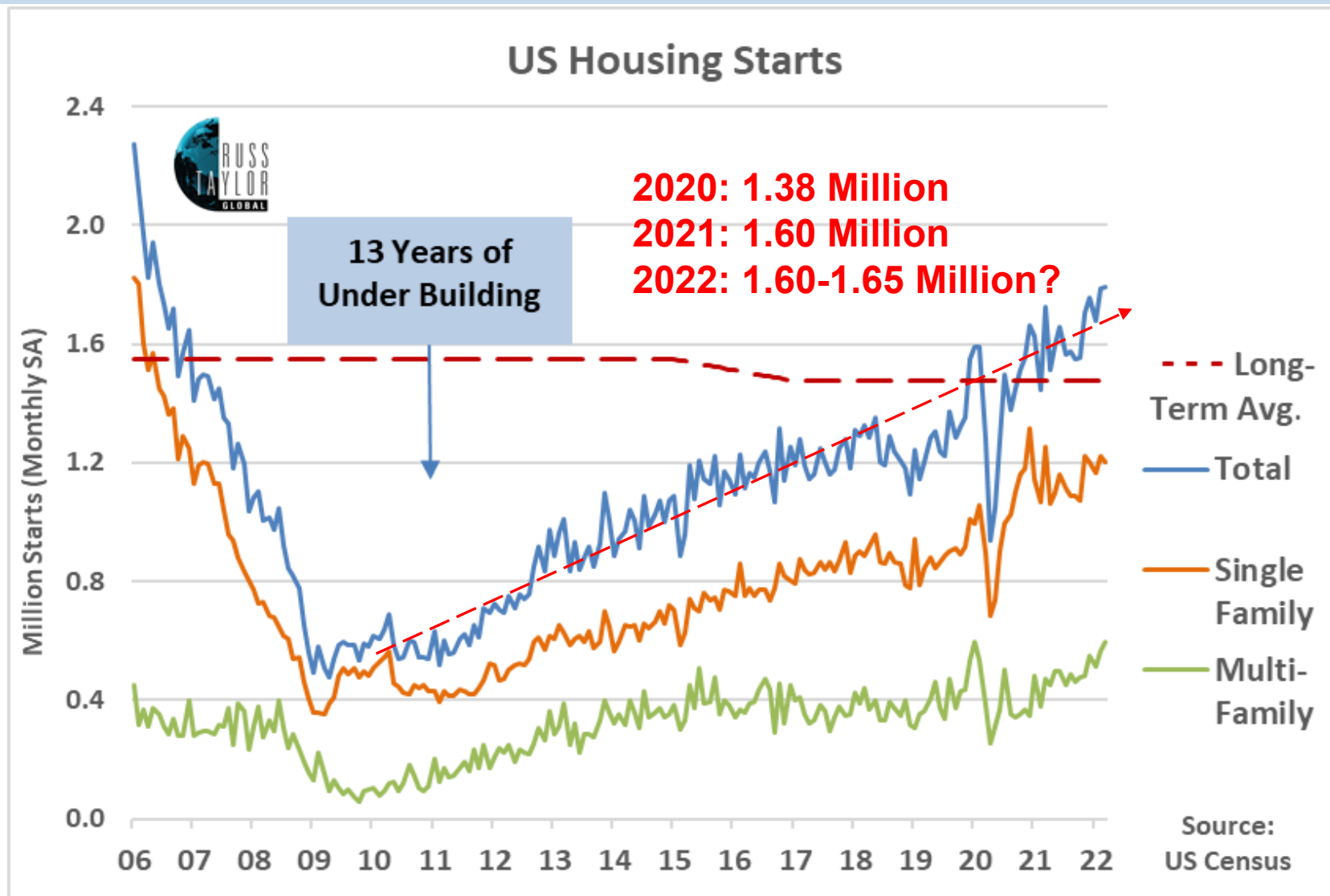
- **If:** European production & consumption in 2022 = **same as 2021**, **then:** Europe will be short: ~8+ million m<sup>3</sup> (5 Billion bf) of rough lumber.
  - Planing and further processing plants = most impacted in Baltic States, Finland, Germany.
  - Planing mills in Baltics & Scandinavia: could decrease exports to US to offset shortage in Europe: Unlikely!
  - Europe could also reduce exports to China & ME-NA countries.
- Russia may heavily rely on China for bulk of 25 million m<sup>3</sup> exports (or will re-export) but can they remain competitive?
- China imports: will be heavy on lumber and light on logs in 2022.
- **Global lumber (& log) prices will rise until supply/demand balance.**



# 4. U.S. Total Monthly Housing Starts Seasonally Adjusted at Annual Rates (SAAR)

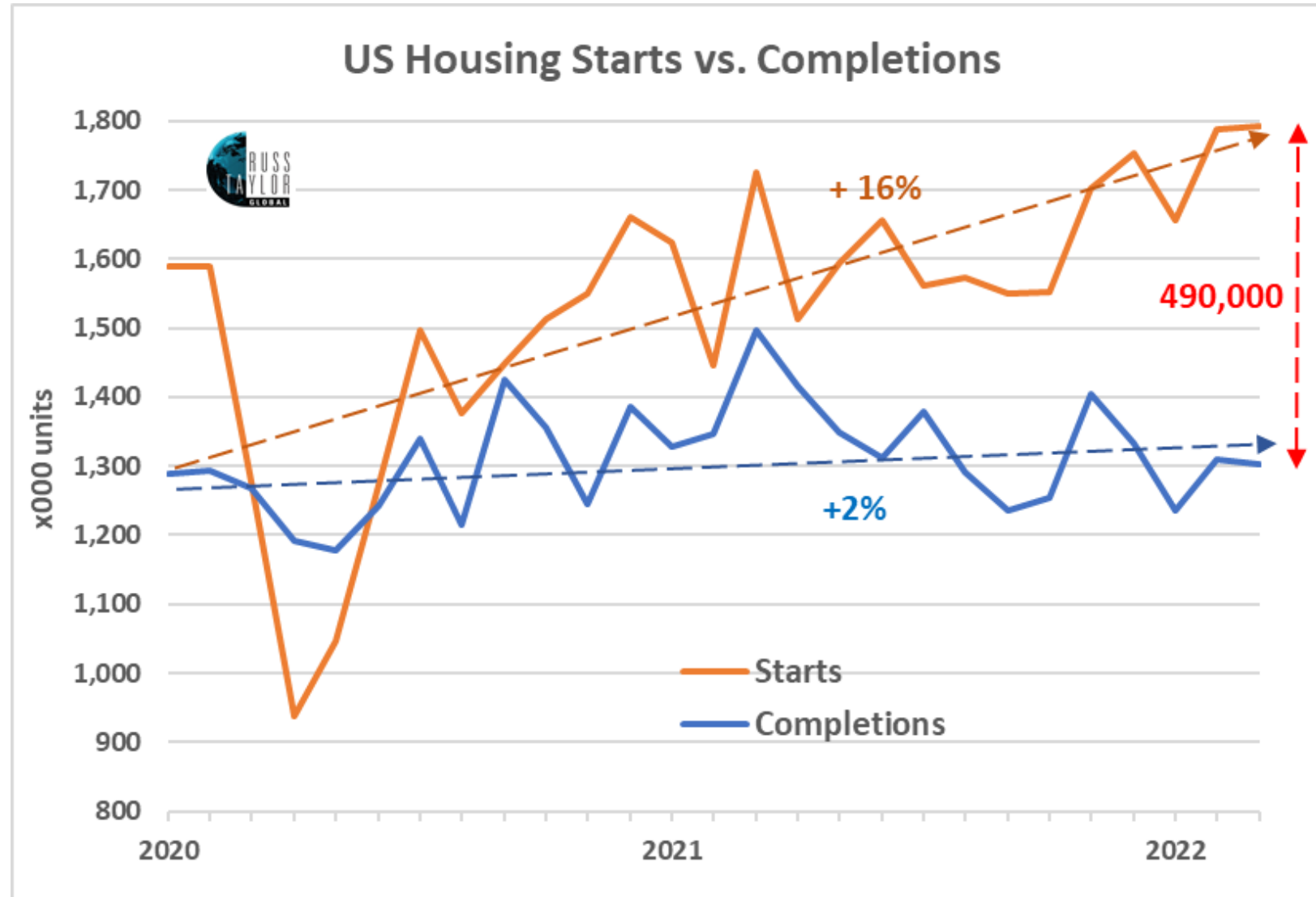
## US housing starts:

- “normal” is considered to be 1.5-1.6 million units
- Starts have been below 1.55 million from 2007 to 2021.
- The last 20 years have averaged only 1.25 million starts.
- A severe **under building** has occurred over last 13 years



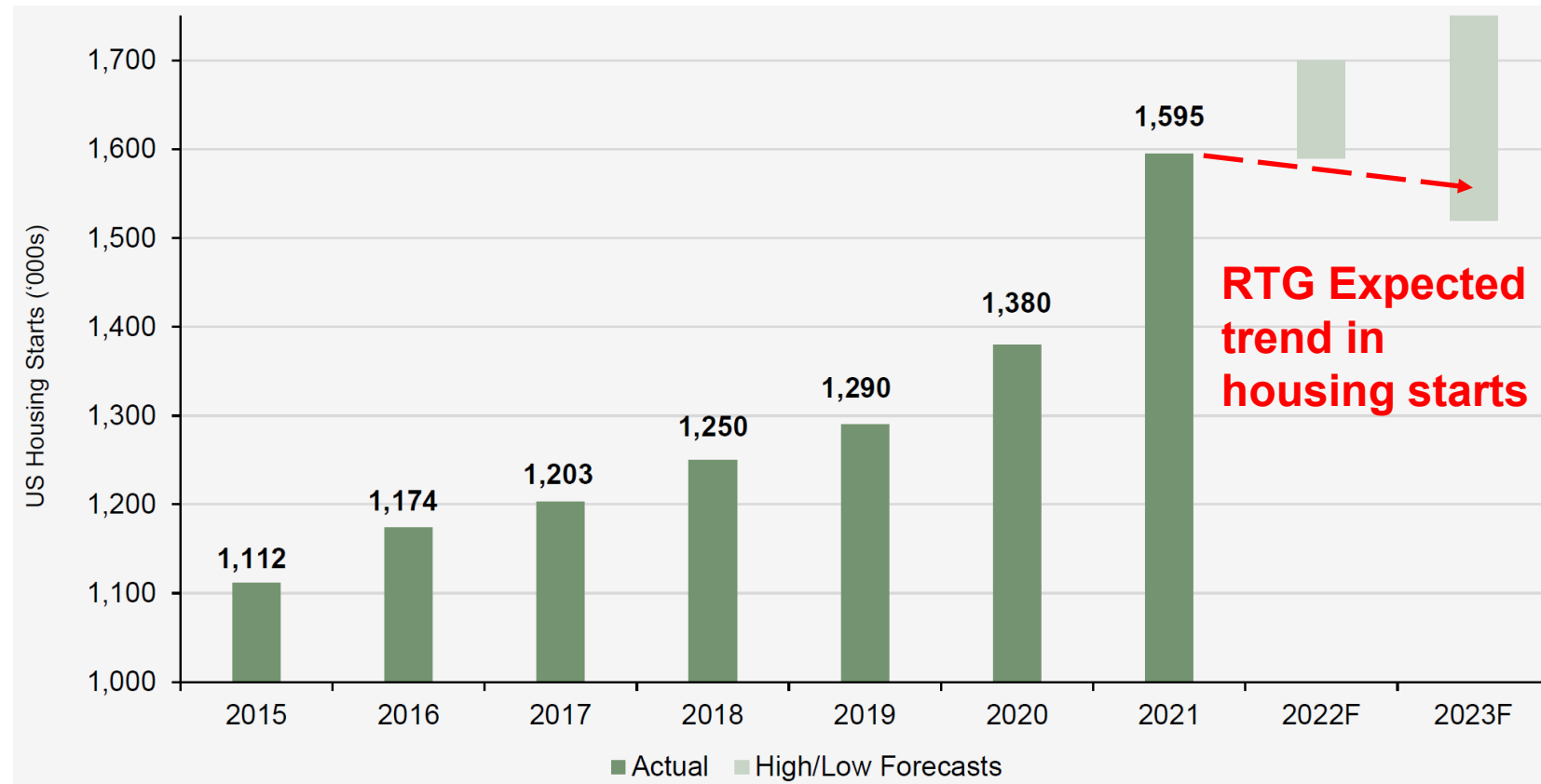
# US Housing Starts: Not Sustainable due to Completions

- The 54-year average difference is **42,000** units.
- The level at which starts outpaced completions reached **490,000** units in March — the fifth-largest deficit on record (dating back to 1968), and the largest since a 698,000-unit difference in February of 1984.
- Either Starts slow or Completions increase, but...



# US Housing Starts (estimates by FP Analysts & Economists)

- **New US residential housing forecasts continue to be all over the map!**
- **I expect only a modest increase at best in 2022, and maybe a drop.**
- **Housing starts are taking many more months to complete due to shortages.**







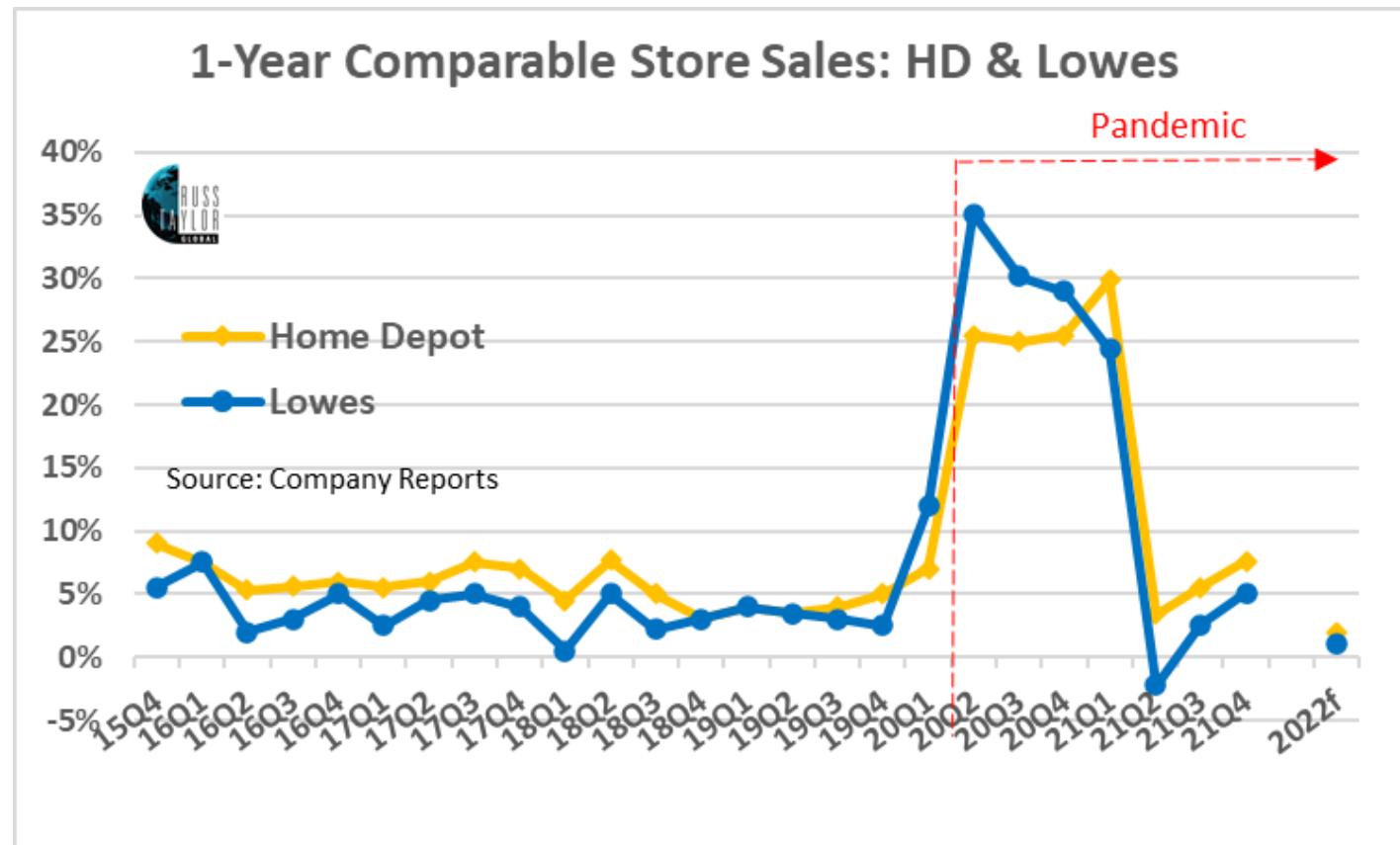
# US Housing Market Quotes

- The single-family sector is where analysts foresee the **headwinds building** amid 30-year mortgage rates that now top 5%, the highest level in more than a decade.
- The March index measuring builder confidence in single-family construction slipped two points to 77. While still a historically strong reading, it marked **a fourth straight monthly decline**.
- Despite low existing inventory, builders report sales traffic & current sales conditions have **declined to their lowest points** since last summer as a sharp jump in mortgage rates & persistent **supply-chain disruptions** continue to unsettle the housing market.
- The housing market **faces an inflection point** as an unexpectedly quick rise in interest rates, rising home prices, and escalating material costs have significantly decreased housing affordability conditions, particularly in the crucial entry-level market.
- The housing market is **at a crossroads** — “a function of the unstoppable force, demographics, meeting an immovable object, affordability and supply-chain challenges.”

# US Home Centres: Repair & Remodelling Comparable Store Sales still Surging

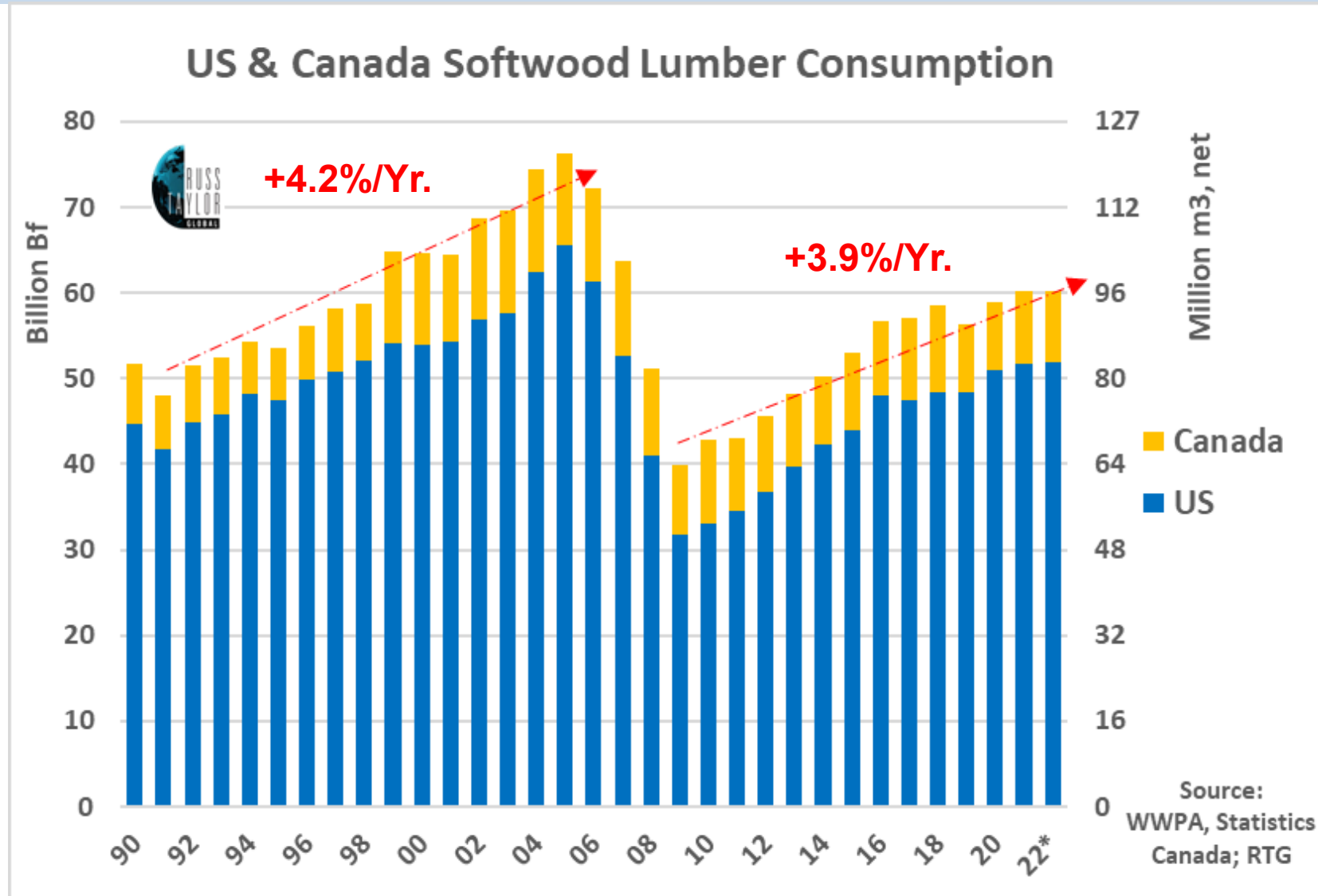
- From 2020-Q2 to 2021-Q1, Home Depot's & Lowes comparable Y-o-Y sales were 25-35%.
- Collapsed in May 2021 from record-high building material prices and as vaccinations kicked in.
- R&R demand growth rebounded in 2021-Q3 & Q4 but is forecast to be flat (in volume) in 2022.

Home Depot & Lowe's:  
Quarterly Comparable Sales Growth (%)



# US & Canada Softwood Lumber Consumption Trends

- **US sawn softwood consumption growth has been soaring since 2019.**
- **2020 pandemic kick-started US R&R & new home starts.**
- **The rate of demand growth in 2020-H2 and through 2021 was huge – should slow in 2022**





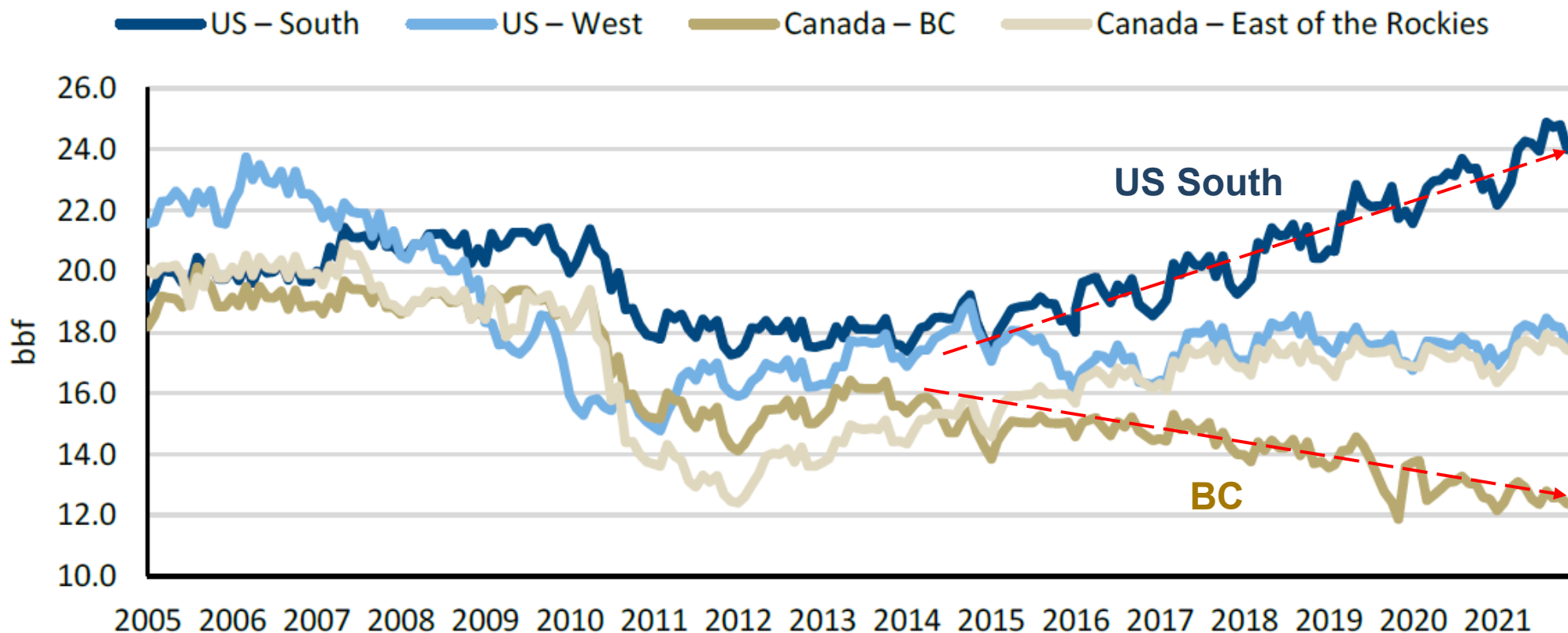
# North America Softwood Lumber Capacity Trends

**Since 2014: Only US South has grown – by 40%. Since 2018: capacity is +20% but lumber output is only up 11%: 3MMm3!**

**BC: down by 30% & falling.**

**US West/ Canada East: Flat.**

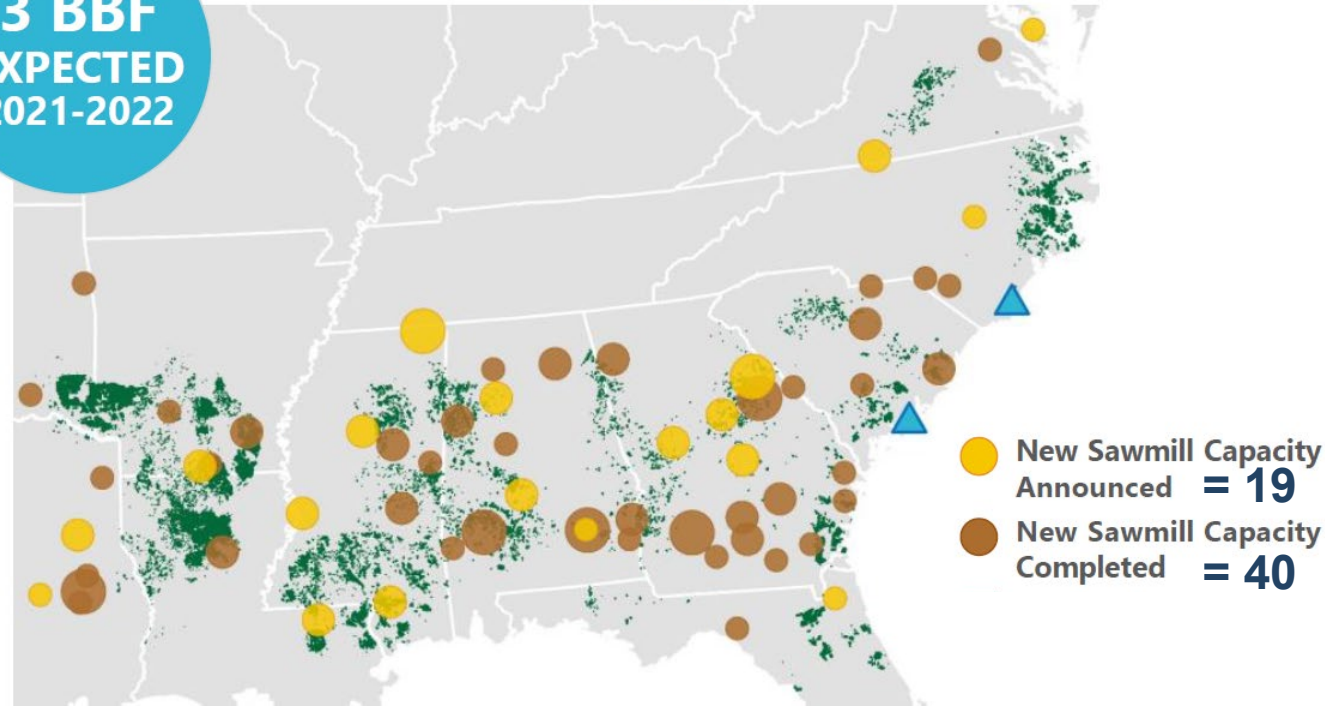
North American Softwood Lumber Production Capacity (Trailing 3-Month Average)



source: WWPA, RBC Capital Markets

- **US South: 2018-2022: ~ 13 million m3 (8 Billion Bf) of new capacity (60 Projects)**

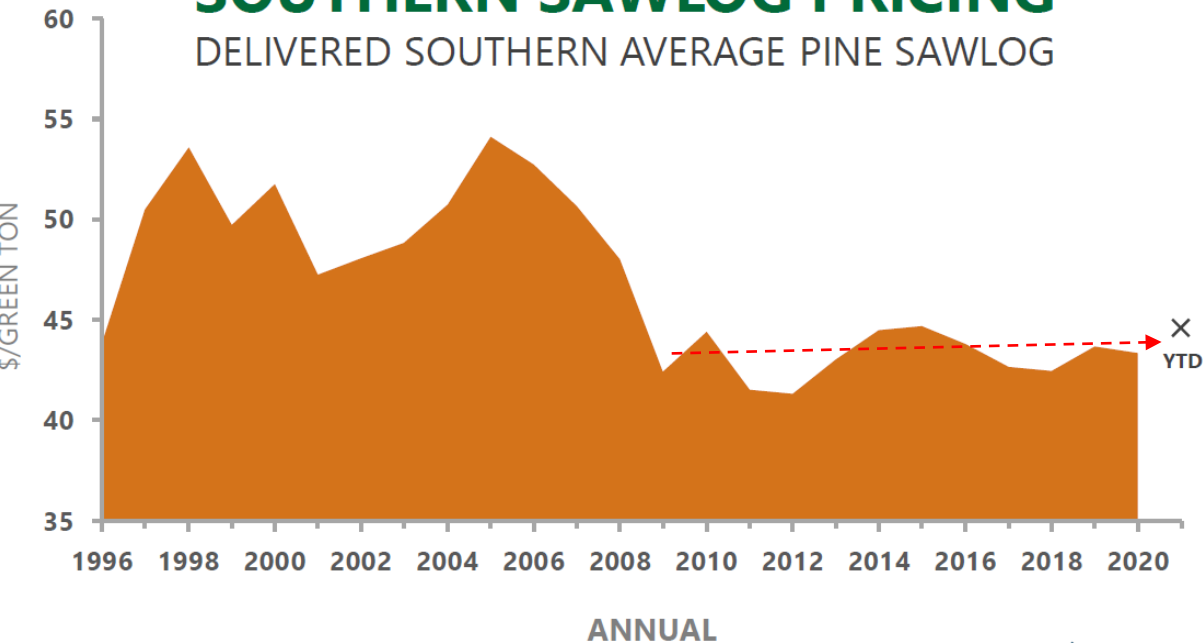
**5 MMm3** U.S. SOUTH CAPACITY ADDITIONS  
2019-2022  
**3 BBF** EXPECTED  
2021-2022



Source: Forisk

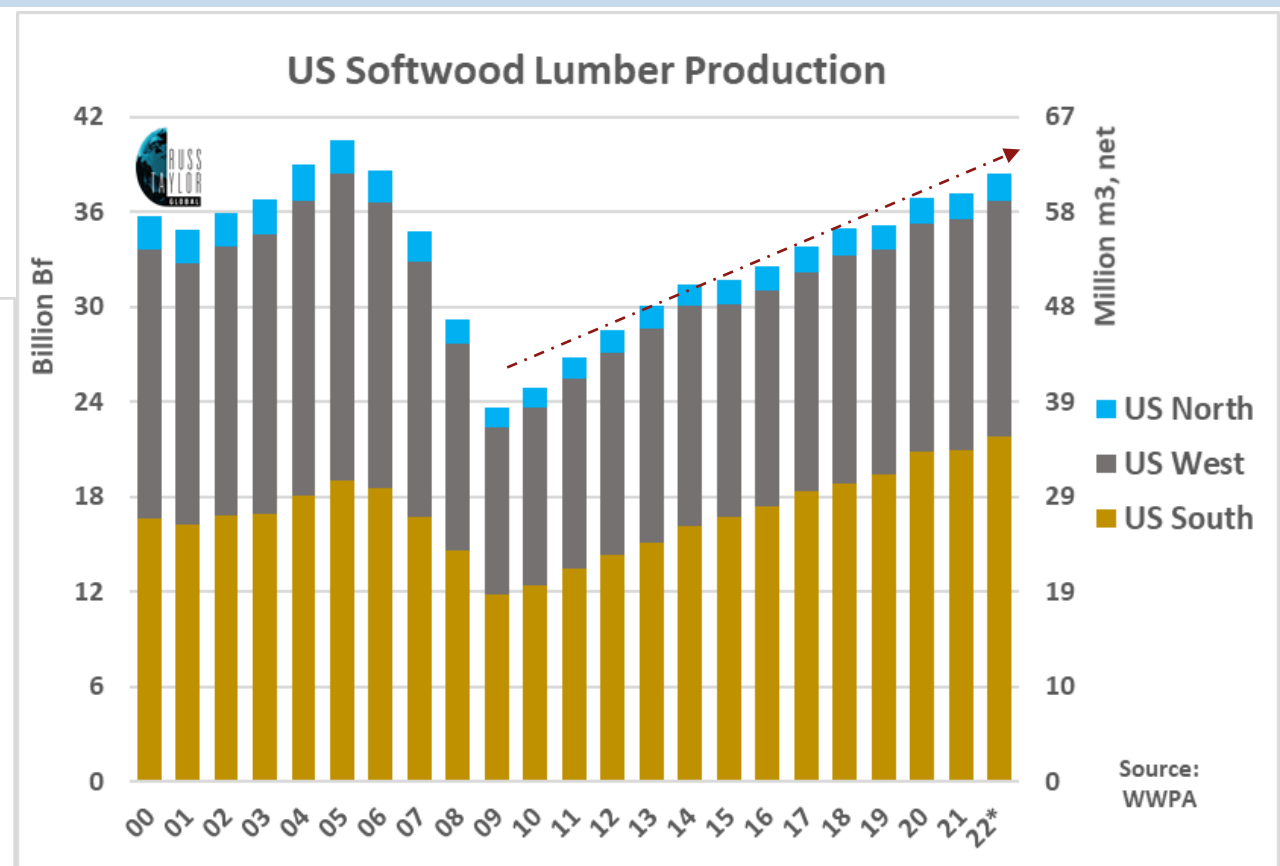
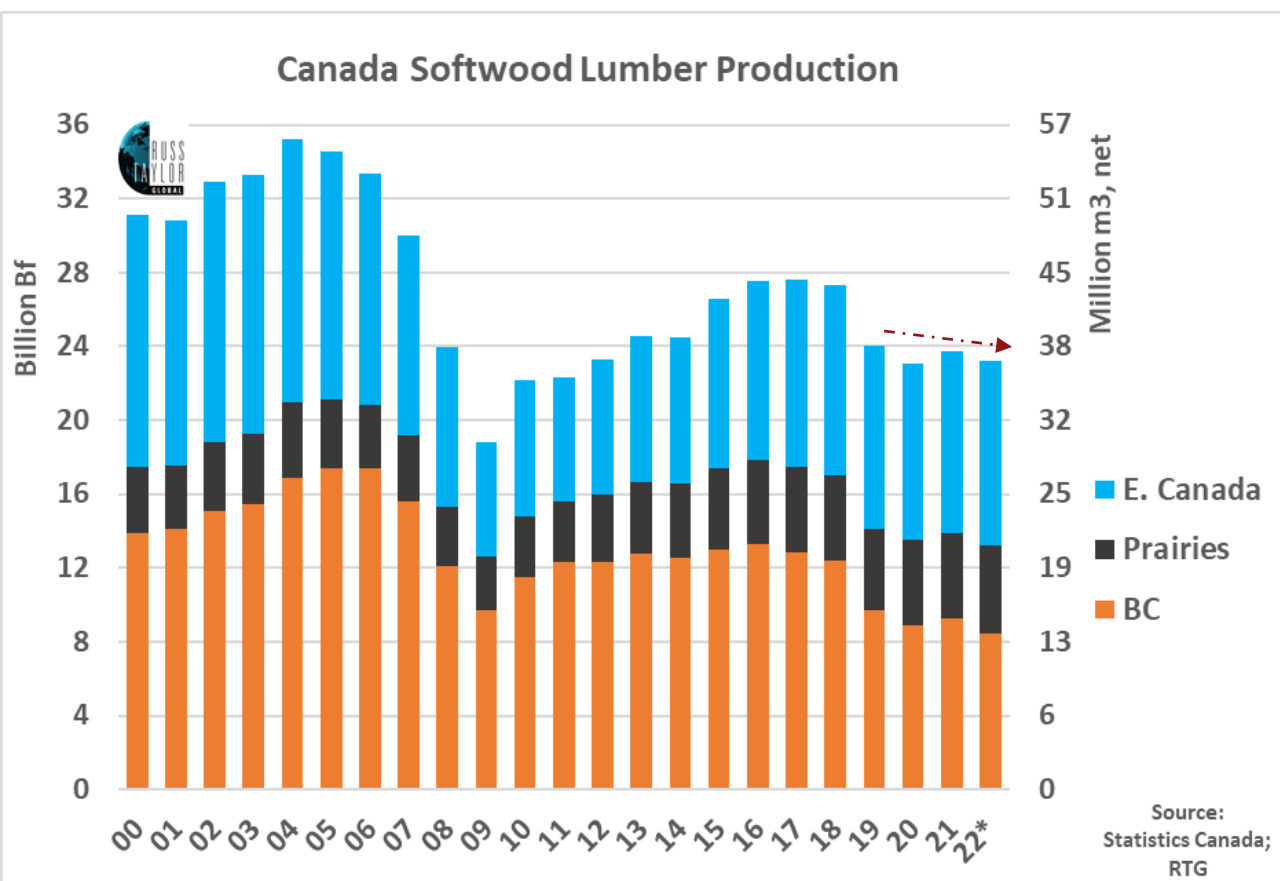
## SOUTHERN SAWLOG PRICING

DELIVERED SOUTHERN AVERAGE PINE SAWLOG



# North American Softwood Lumber Production

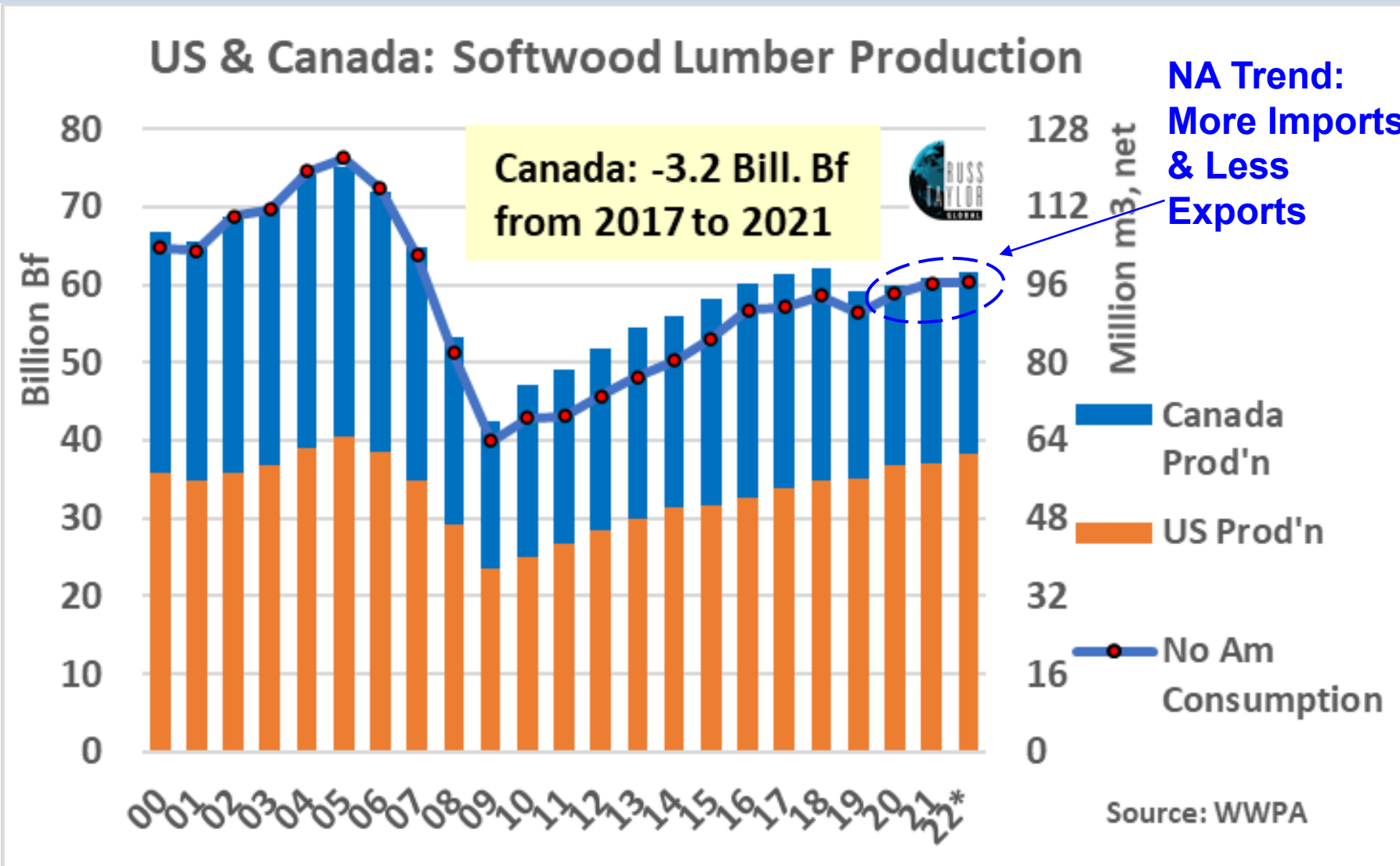
- US output steadily increasing – in US South.
- Canada = lower; BC much lower



- BC output peaked in 2005 – since then, 40 sawmills have closed (mainly from the MPB) = ~50% drop in output to 2021.



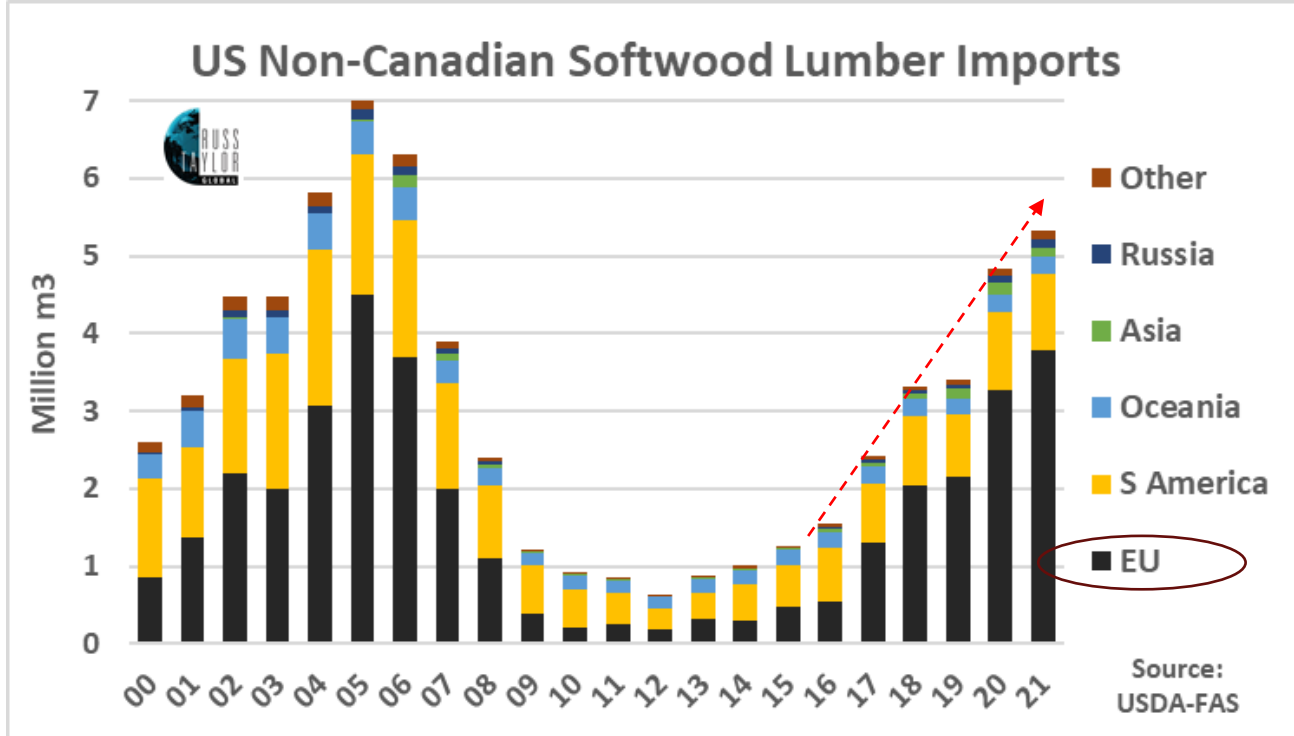
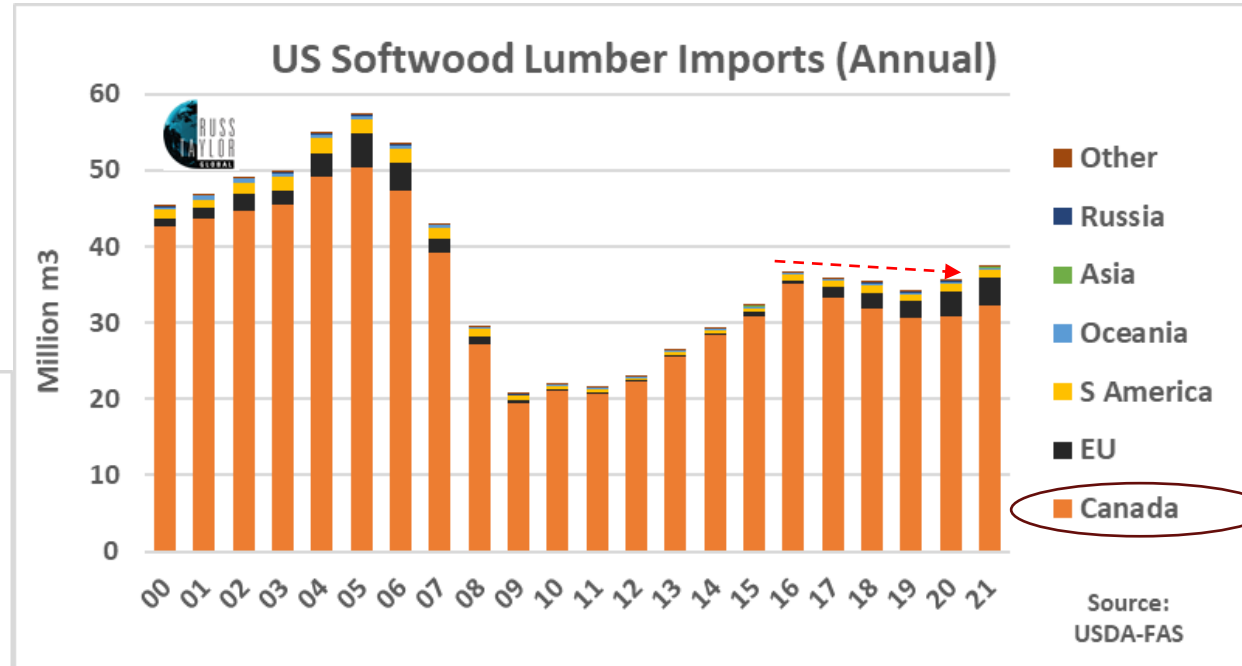
- From 2005 to 2019, North American output = **-23 million m3 (-15 billion bf)**.
- Canada/US have both lost sawmill capacity.
- More sawmills are being built, but almost all in the US South.





# Europe's share of US Lumber Imports Increasing

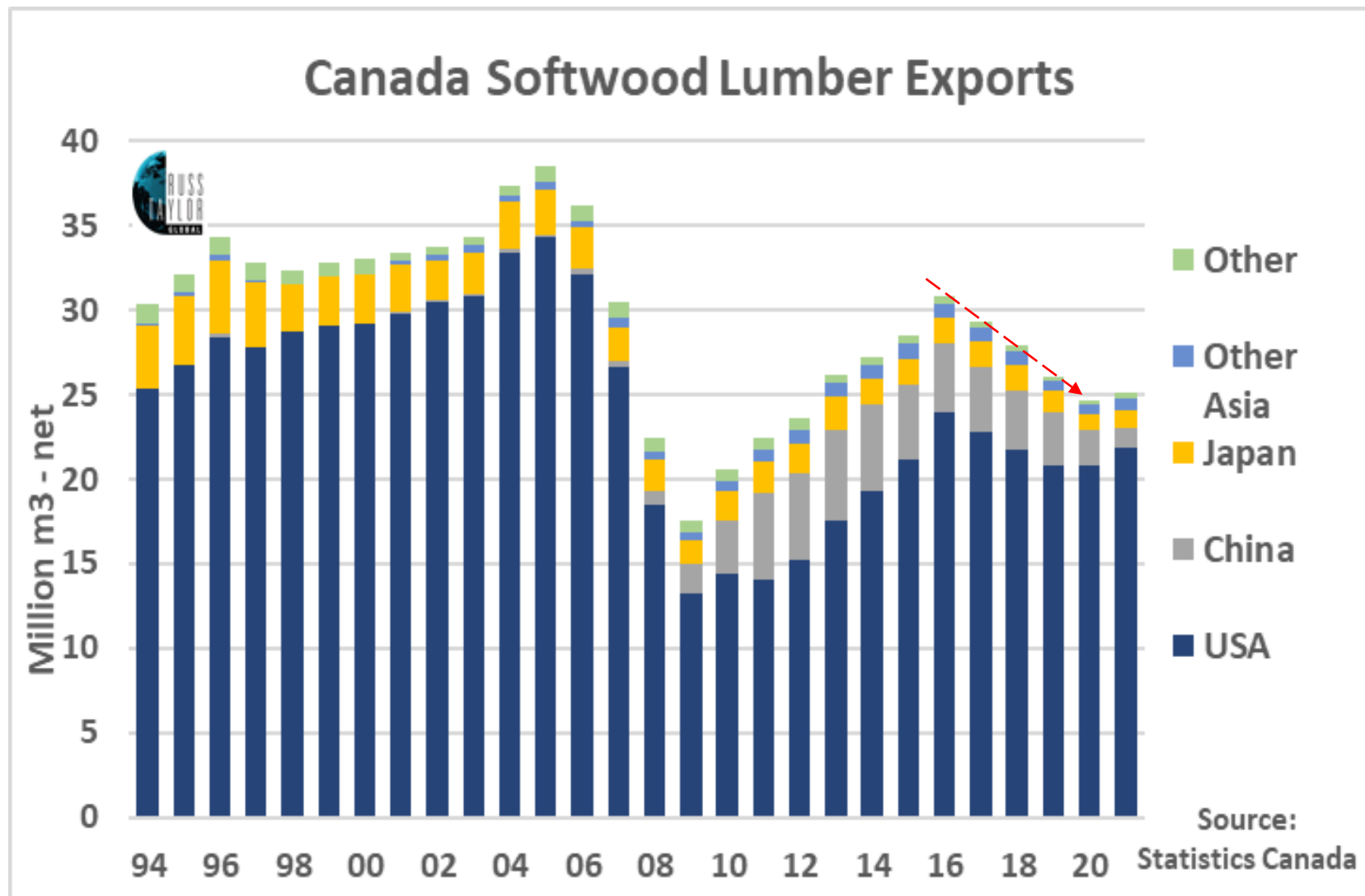
- **Canada dominates US imports but market share has dropped from 97% to 86%**
- **Europe = 10% and rising**



- **Canada = 86.0%**
- **Europe = 10.0%**
  - **Germany = 5.1%**
  - **Sweden = 1.7%**
- **S. America/Oceania = 3.0%**
- **Asia = 0.3%**
- **Finland = 0.3%**
- **Russia = 0.3%**

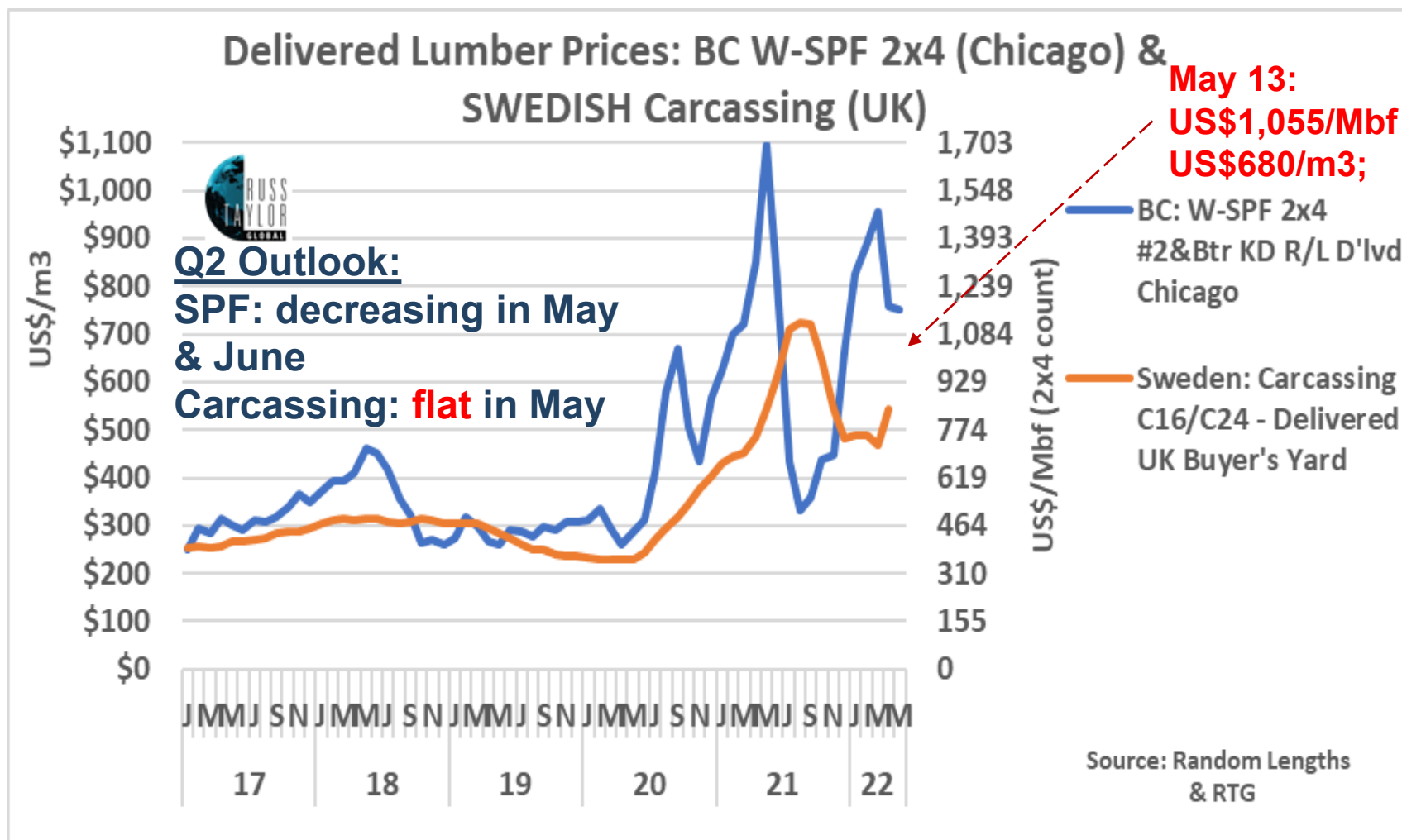
# Canada Softwood Lumber Exports Lower = More than 70% of production is exported

- Canada lumber prod'n & exports peaked in 2005.
- The **US** dominates.
- **China** is eroding – 7 million m3 in 2013 to 1 million in 2021.
- **Japan** was lower in 2021 but should be steady going forward.



# 5. Delivered Lumber Prices: W-SPF to Chicago & Sweden to UK (equivalent to US East Coast)

- Swedish Freight & Mark Up to UK about the same as freight to US East Coast.
- Still a big gap between selling in Europe vs. USA.
- 2021: SPF Chicago AVG. = US\$962/Mbf (\$622/m<sup>3</sup>; €575/m<sup>3</sup>)
- **AVG. 2022f: About the same!**



# 6. Summary

- **Global Supply & Markets:** in disarray in 2022 from Russia-Ukraine war, plus COVID, plus supply chain/logistics, plus inflation, plus, plus, plus...
- Europe: Higher sawnwood prices in Q2; supply & demand balances in Q3?

## North America DEMAND:

- Through 2022, expect new US residential construction to be strong but slowing, while R&R already slowing until Q3.
- US sawn softwood demand up 1.5% in 2021; 2022: 0-1%?; 2023: recession?

## North America SUPPLY:

- Canada is “supply constrained” (BC beetles, fires).
- There could be a glut of ‘less desirable’ Southern Yellow Pine lumber.
- High lumber prices in 2022 until supply chain balances out.
- For US and Canada, lower offshore exports are expected.
- **Uncertain times ahead! Many uncontrollable factors and wild cards at play**



# Global Supply Analysis Underway with our New Report



As part of our global supply and demand analysis, our team will first be offering a comprehensive report on ***Canada's Timber & Lumber Supply & Outlook***

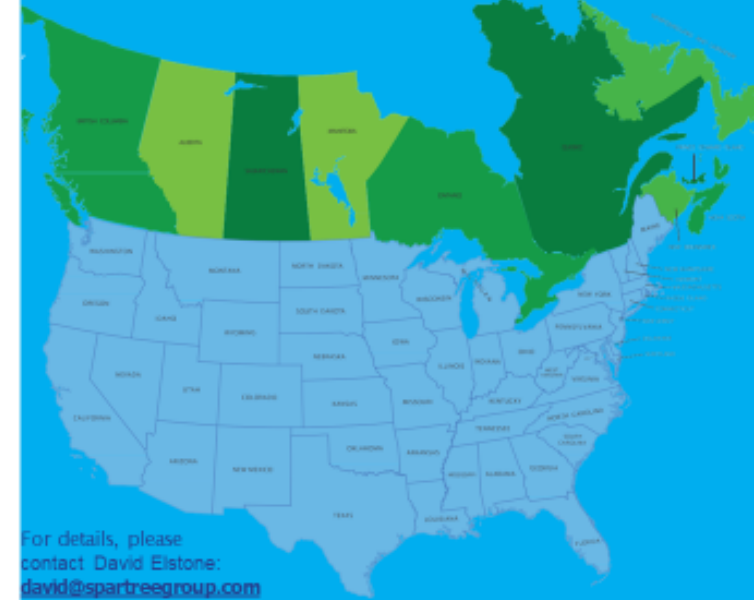
This report will focus on Canada but will include an in-depth look at the global supply and demand for softwood logs and lumber

**Send me your email to be on our list!**

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A lumber supply gap is emerging in North America. Where the **incremental supply** will come from remains unclear! Some growth will come from the US South, but can Canada fill the void or will more **off-shore imported lumber** be needed?

This report profiles the timber and lumber supply outlook in **all Canadian regions** and assesses their potential to supply the North American market during a period of robust demand.



#### PROJECT TEAM

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Spar Tree Group

ROB SCHUETZ  
Industrial Forestry Service

#### TOPICS ADDRESSED

- 1 BC Timber Supply & Lumber Production/Outlook
- 2 Canada Log & Lumber Supply & Demand & Outlook—By province
- 3 An overview of US Log & Lumber Supply/Demand & Outlook
- 4 Global Trends: Log & Lumber Supply & Demand and Potential Import Sources for the US Market
- 5 North American Supply Gap—How long will it last?



# Thank You!

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