

Since the start of the pandemic in 2020, timber has seen a highly unusual pattern of demand across all international markets.

Across this turbulent time in the market, it is important not to lose sight of the value proposition that timber represents. In the past five years we have hugely increased the role and volume of timber in construction in the UK, taking a growing customer base on a journey towards higher quality, lower carbon outputs.

Today we are working together as a full supply chain, with Swedish Wood as representatives of the main supplier to the UK market, and with our partners across the Confederation of Timber Industries (CTI) – including the Timber Trade Federation (TTF), the Structural Timber Association (STA), and Trussed Rafter Association (TRA) – to help provide greater clarity, and hopefully help you communicate with your key customers and their key markets.

Nobody could have predicted what the outcome of the pandemic was going to be. Sawmills temporarily closed around Europe and orders were cancelled by importers who believed the market was going to be closed. This trend was quickly reversed, and we have seen since a boom across the construction sector, particularly within the residential market both in housing starts and in RMI.

Consumers stuck at home looked to upgrade their kitchen, gardens, or seek new properties, supported by government subsidies. This boom in turn led to a huge increase in demand, not just in the UK but in every single country across Europe, the US and beyond. Stocks on the ground and throughout the supply chain were soon used up and production has been struggling to keep up with demand ever since.

Throughout this time, as a supply chain we have tried to emphasise to members the importance of communication with customers and suppliers in order to maintain transparency and realistic expectations across the supply chain. In turn, as major timber industry representatives, we realise the role we play in channelling information for the market, and in this report we seek to lead by example - with the most comprehensive look at timber demand, supply, and prices - particularly in the structural softwood market.

Even within this tense supply and demand environment, the value proposition that timber represents remains strong. Versatile, light weight, easy to use in the factory or onsite – and of course the only mainstream low-carbon renewable building material available – timber still presents an outstanding solution across all markets.

We hope you will be able to make use of the data and information in this report and look forward to a more stable demand and supply situation in the near future.

Alex Goodfellow Chair of the CTI David Hopkins CEO of TTF

Mathias Fridholm CE of Swedish Wood



As the largest alliance of associations from across the UK's £10bn timber supply chain, the Confederation of Timber Industries (CTI) is uniquely positioned to explore market dynamics, all the way from the forest through to the end user.

In this joint report we come together with Swedish Wood, who represent the largest suppliers of structural timber into the UK, to give the complete picture, showing both where we are now, and how timber as a commodity market may shift in future.

GROWING DEMAND FOR TIMBER

- Since the Timber Trade Federation issued the last major market statement on supply and demand for timber in the UK in May 2021, the mismatch of demand in relation to available supply has continued with the position tightening considerably and forecast to reach a major bottleneck in Q3.
- The tension in this situation has lead to unprecedented shifts in price in the UK market which we explore in this report, with timber finding itself in the headlines across almost every major publication in the UK, whether you look to the Financial Times, the BBC, the Scotsman, the Times, or the Guardian.
- Questions have been raised in parliament, with the Construction Minister Anne-Marie Trevelyan being asked what steps are being taken to help ensure that

- (a) micro, (b) small and (c) mediumsized construction firms continue to have access to building materials. An important aspect of the Minister's response emphasised the importance of good forward-planning and clear communication within the industry.
- The structural wood supply chain fully endorses the advice of the Minister. In this report we lead by example to help address these concerns and provide reassurance to the wider construction and merchanting sectors, coming together as a supply chain to produce this set of facts about the current market dynamics of structural wood supply in the UK, and dispel some of the unfounded myths which have emerged over the past six months.

Will there be structural softwood available in Q3 2021?

- Timber has been imported at record levels into the UK across the past three quarters, from Q3 2020 to Q2 2021, and the supply chain is doing all it can to maintain this momentum and meet the incredible levels of demand currently being seen in the UK.
- Despite the record level of imports, we believe the short term position will remain very difficult, particularly in Q3 2021, with some manufacturers, merchants and contractors still not having all the wood they need to meet their current requirements.
- We note this is an extraodinarily unusual situtation for many of these businesses, as the UK usually has access to plentiful timber - enough to easily meet the needs of every member of the supply chain.

Can we ramp up timber supply?

- Unfortunately, there is limited capacity in either the UK or supplier countries to rapidly increase supply. Neither trees nor sawmills grow overnight, and as an industry we are committed to providing a long-term, sustainable solution to the housing and climate crises.
- Maintaining our position as the leading low-carbon solution to construction means continued responsible sourcing, with multiple trees planted for every one

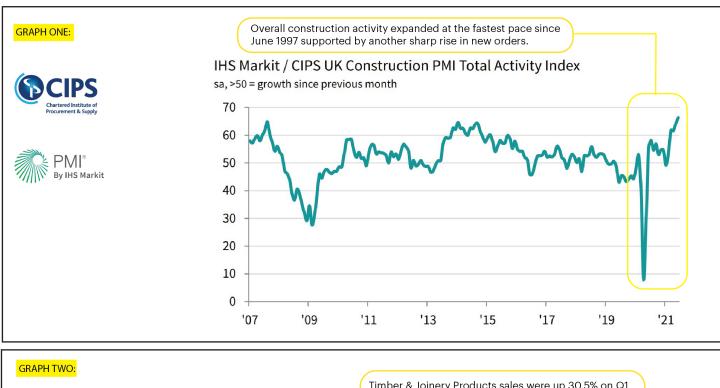
- harvested, and efficient investment into the supply chain.
- Therefore, we believe for the moment the most important action businesses in the timber supply chain can take it to actively communicate and try to manage allocation of available stocks as fairly as possible by getting these out to customers as quickly as current UK logistical challenges allow.
- We believe the current position will change and there is optimism that the current extremes will abate in the nottoo-distant future returning us to a more recognisable demand and supply balance.

What has happened to the balance between supply and demand?

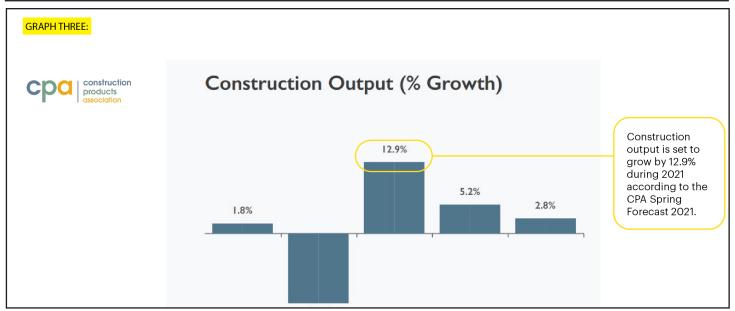
- The current situation has most often been described in the media as a shortage of supply in the structural wood sector. This is incorrect and the situation would be more accurately characterised as a significant imbalance between demand and supply in the UK.
- We have seen many examples throughout the UK construction and merchanting sectors highlighting that demand is significantly higher than at any time since the financial crash in 2007. Below we are outlining just a few of the headline figures;
- » Overall construction activity has expanded at the fastest pace since June 1997, supported by another sharp rise in new orders, according to the latest PMI® data from CIPS/IHS Markit.
- » Double-digit growth of 12.9% for the construction industry is forecast for 2021, according to the Construction Product Association's latest Spring Forecast.
- » Q1 2021 Total Builders Merchants value sales rose by 15.1% compared to Q1 2020. and 6.0% compared to Q1 2019. In the same period, you can also see:
- » Landscaping sales were up 41.4% in Q1 2021 on Q1 2020 and an astonishing 32.3% up on Q1 2019 according to the index, while Timber & Joinery Products were up 30.5% and 15.8% respectively. This means timber products sales have outperformed the index for the last five guarters.

Construction Demand - July 2021

To refresh the understanding of wood-users throughout the supply chain on current market dynamics, Below are three statistical graphics which seek to outlne the current demand situation. Credit is applied to the respective sources of data on the left of each graph.







THE SUPPLY OF TIMBER TO THE UK

Are other countries absorbing structural softwood which was previously sold to the UK?

- This is not true. When the UK went into lockdown in March 2020 many timber supply contracts were cancelled by UK buyers in anticipation that the construction sector would close for many months. These cancelled contracts for April 2020 were understandably sold to other markets such as China and Egypt.
- As Graph 4 from Swedish Wood shows, structural wood supplies from Sweden to the UK were very quickly re-established after April 2020, with volumes very rapidly rising to exceed those of recent years; showing other countries are not absorbing supplies previously destined for the UK.

Is the strength of the US housing market taking wood from the UK?

• The supply of structural wood from Sweden to the USA has been steadily increasing for several years and this flow has continued in 2020 and 2021. While the USA is not taking wood that has been previously sold to the UK, it is true to say that if demand in the USA and the rest of the world was not so strong then potentially more structural softwood could be made available to meet the very high current UK demand.

Was less structural wood supplied to the UK in 2020?

• More structural softwood arrived during 2020, rather than less. This has meant UK softwood imports were able to reach 6.6 million m³ in 2020 and exceed the 2019 import figure of 6.3 million m³. This is quite an achievement given the almost non-existent import for the month of April 2020 of timber into the UK.

Are sources other than Sweden supplying less structural softwood wood to the UK?

· No. While Sweden is the UKs primary

supply source for structural softwood, we have also seen increases from other supply countries. The high level of softwood imports has continued into 2021 and the latest figures available up until end March show imports for all the first three months are higher than any of the four previous years. In volume terms the market leader, Sweden, has exported over 400,000m³ more softwood to the UK in Q1 2021 compared to Q1 2020, a growth of 6%. Latvia has followed suit (+119,000m³), along with Finland (99,000m³), and Germany (+83,000m³).

Is there less UK grown structural softwood available?

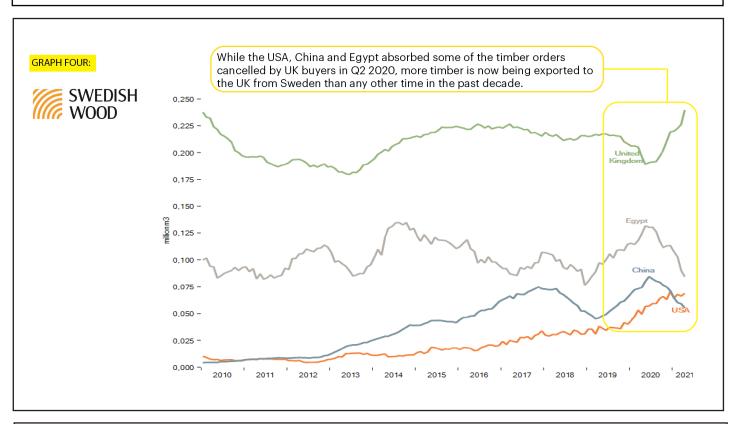
Despite the Covid restrictions and UK lockdowns, the UK structural softwood sector has continued to provide consistent volumes, delivering 3.4 million m³ of sawn wood to the UK construction sector in 2020. While we may have to wait a few months for confirmed figures to be released, from the Forestry Commission sawmill survey we estimate this is only slightly less than 2019 (-2%), and believe the volumes will remain consistent throughout 2021. Due to the significantly increased import volumes the UK market share of the structural wood sector has reduced slightly to around 33%.

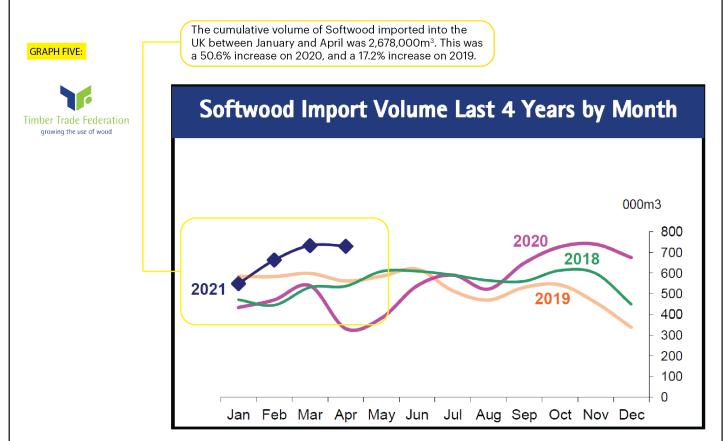
Why does there appear to be so much structural softwood stock at UK ports?

- One of the biggest issues the UK is currently facing is from logistics, with the Road Haulage Association recently stating that the UK needs a further 65,000 Heavy Good Vehicle (HGV) drivers to meet current demand for the movement of goods within the UK.
- This means that while imports of structural softwood are very high and all the wood has been presold on allocation to customers, the supply chain is facing great difficulty in moving these import volumes away from the ports through to merchants, manufacturers and building contractors.
- This situation also means that exporters are now having to consider cancelling or delaying vital shipments of softwood because of the time delays they are facing in the logistics chain at the UK end.

Timber Supply - July 2021

To refresh the understanding of wood-users throughout the supply chain on current market dynamics, below are two statistical graphics which seek to outlne the current supply situation. Credit is applied to the respective sources of data on the left of each graph.





RISING USE OF TIMBER FRAME IN UK RESIDENTIAL MARKET

How is timber frame currently positioned in the market?

- In recent years there has been a positive trend, with housebuilders in England gradually increasing their use of timber frame as many of the market leaders looking to secure their supply chains.
- For example, in 2018 Countryside acquired the Westframe timber frame manufacturing facility, with Barratt Homes buying Oregon Timber Frame the following year. Persimmon Homes also has its own timber frame manufacturing arm, Space4.
- This change has been partially driven by skills and labour shortages, an issue which continues to grow. A report, compiled by the Federation of Master Builders, found that in Q1 2021 38% of builders struggled to hire bricklayers, an increase from 22% in Q4 2020.

How is timber frame likely to perform in the short term?

The Structural Timber Association (STA)
 anticipates there will be some delays in
 2021 for timber frame manufacturers in
 light of material shortages and increasing
 feedstock costs, but we anticipate all of
 their commitments will be achieved as
 supply and demand rebalance.

How is timber frame positioned in the medium to long term?

- Following current market trends, the STA believes their will be continued growth in timber frame, and timber frame will increase its overall share of the residential housing market.
- This forecast is based on their team taking a balanced view between negative and positive market factors influencing the market. This primarily includes;
 - the negative influence being exerted by the combustible building material

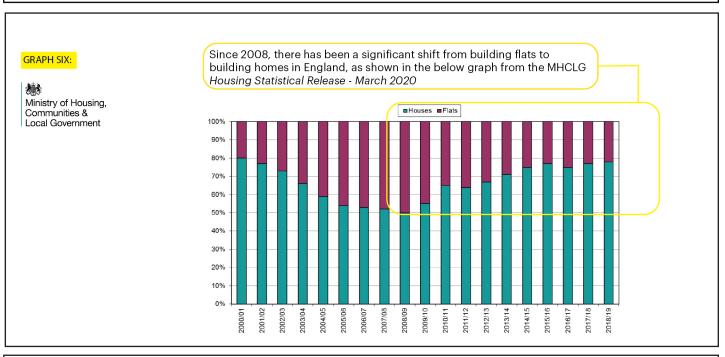
- lobby and related drivers from Government (central and local) to limit the use of timber frame to 11m high buildings, and
- the positive influence of the increasing challenge of Net Zero, where targets are unlikely to be met without a significant increase in the use of timber.
- · Other positive influences include;
 - the directive from Homes England to support Timber Frame as part of the MMC programme.
 - the recognition by Cast Consultancy, working on behalf of Government, that timber frame falls into the MMC definition: Pre-manufacturing (2D primary structural systems): basic framing for walls, floors, doors, stairs and roofs; enhanced consolidation of insulation.
 - the ongoing development of STA's own quality and competency schemes (STA Assure) that respond well to the challenge by Dame Judith Hackitt for the construction industry to prove competency and capability.

Where are the greatest opportunities for growth for timber frame?

- Since 2008, there has been a significant shift from building flats to building homes, which works in favour of the timber frame market and has had a positive impact on the use of timber frame.
- When looking at the regionalisation of the use of timber frame there is still a stark contrast between Scotland, where timber frame remains dominant, and the rest of the home nations.
- In 2019, National House Building Council (NHBC) statistics show that timber frame was used in about 9% of new builds in England, 22% in Wales, 92% in Scotland, and 30% in Northern Ireland.
- With most of the new build market positioned in England where timber frame use is lower in comparison to other home nations, amidst rising pressure to build quicker, and to reduce carbon emissons, there exists significant growth potential.

Timber Frame - July 2021

To refresh the understanding of wood-users throughout the supply chain on current market dynamics, below are two statistical graphics which seek to outline how timber frame will grow in future. Credit is applied to the respective sources of data on the left of each graph.





THE PRICE OF TIMBER IN THE UK

What has happened to the price of timber in the UK?

- Timber prices, and softwood prices in particular, accelerated in 2021, with more than a 50% increase in the average import price of softwood between January and May 2021 seen in the latest published figures available.
- While these price increases have come from a low base in December 2019, they have been significant, and we anticipate prices will follow a similar trajectory on imports contracted through to the end of Q3, which will be shown as further import data is made publicly available.
- When we look at Planed Spruce, which can be viewed as a general indicator of structural softwood prices, we can see significantly higher shifts in price than the market average. This means structural timber buyers will have seen even higher rates of increases for specific products.

How have structural softwood imports been impacted?

- The high demand for softwood since the middle of 2020 has generated significant increases in the volume of imports. By April 2021 imports were 50% higher than in the first four months of 2020. This increased volume, much of it carrying prices at 40-50% higher, has resulted in an overall increase in value when we look at all softwood imports of 105%.
- Falling prices year-on-year before August 2020 were followed by an accelerating rate of price increase. Trade indications are that prices are set to continue to rise for a time yet as supply continues to tighten while the sawmills go through their necessary regular summer maintenance routine.

Why has the price for structural softwood risen so rapidly?

Structural softwood is a globally traded product and the current imbalance

between demand and supply means that an increasing number of buyers around the world are competing for the available wood resource. This is the primary cause for the rapid rise in prices which we are currently seeing. However, structural softwood is not alone amongst construction products in seeing significant price rises, the sector is also facing increases for steel, bricks, and concrete along with plastic building products and paints and finishes.

Are we currently in a price bubble or is the cost of structural softwood likely to remain at these levels?

- Since 2007, while prices have risen and fallen over the last 13 years, the prices we are currently seeing are far outside the bounds of normal levels over the past year. This would strongly suggest that once other factors start to return to more usual levels including a reduction from the very high levels of global demand, and the reestablishment of reasonable unsold stocks on the ground in the UK, then a price correction is likely to follow.
- The average time between the start and end of price rises since 2007 has been 19 months, and between the start and end of price falls has been 24 months. This is shown in Graph Seven. The current period of price rises began in February 2020 and has lasted for 14 months. Perhaps this cycle of price rises will last longer because of supply constraints, but the market will again reach equilibrium.

Does structural softwood still offer a cost-effective solution for the UK housing market?

- Yes, absolutely so! It is unfortunate that
 we are currently experiencing such an
 imbalance between demand and supply in
 the structural softwood sector. However,
 stock availability and prices will return to
 more realistic levels and the fundamentals
 of the value proposition for timber frame
 construction remain unchanged.
- Structural softwood solutions offer excellent savings in build time and thermal performance able to achieve the new 2022 building regulations using the most slender wall footprint compared to competing materials.

Timber Prices - July 2021

To refresh the understanding of wood-users throughout the supply chain on current market dynamics, below are two statistical graphics which seek to outline the current price situation. Credit is applied to the respective sources of data on the left of each graph.

