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Why are there such massive price increases?

An attempt at an explanation

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Fresh laminations for glulam have passed the € 300/m³ mark. In Italy and Germany, the price of the finished product (visible quality glulam beams) rose from € 400 to around € 600/m³ within six months. The KVH price is expected to reach € 450/m³. What is going on? Why are prices currently going wild? Why is something which was agreed on Monday often not valid anymore on Friday? Why are there differences of up to € 50/m³?

The lumber market has become an extreme buyers' market. Some sellers are not used to this negotiating position and overshoot. The result: In some cases, quarterly prices already made way for weekly prices.

Here is an attempt at an explanation in bullet points:

Global softwood lumber demand is going to exceed production in 2021. Not all regions will be able to satisfy their demand completely. For the first time ever, annual demand could pass the 350 million m³ mark.

- The industry passed winter with very low stock levels and there was a regional scarcity of log wood. Sawmills have low stock levels, as do intermediaries and processing companies. Stocks are low in Europe, the US and China. The following request is a good example: A Canadian packaging producer contacts a German SME sawmill over lumber. Currently, there is an incredible market dynamic with nearly all wood products.
- US prices can reach € 400 to € 500/m³ free German sawmill, which has major repercussions on cutting in Central Europe. The desired cutting pattern contains more and more lumber for the US. As someone put it last year: "Fewer and fewer 17 mm-sideboards are falling down." (The same is true for other products, such as raw wood for

KVH.) Currently, the US price is at € 514/m³ free German sawmill. Exactly one year ago, it was at € 250/m³. If sawmills earn € 500/m³ ex works for bare lumber, many price relations are shifting.

- As a result, German softwood lumber exports to the US rose by 54% to around 2 million m³ in 2020. Europe as a whole shipped over 3.5 million m³ of softwood lumber across the Atlantic – volumes that are missing somewhere else.
- After the Covid-19 shock in the first quarter of 2020, there was a strong global recovery of demand at the end of the third quarter.
- "Home improvement instead of vacation" led to a massive growth of the DIY market. German foreign trade, for example, recorded a 28% increase in garden wood sales, while planed timber sales were up 20%, and sales of flooring and products for additions rose by 12%. All DIY assortments and products for outdoors grew massively – worldwide.
- In the past years, many new CLT productions were started up in Central Europe – which substantially changed the lumber market as well. Since 2010, softwood lumber production in both Germany (2010: 21.1 million m³; 2020: around 25 million m³) and Austria (2010: 9.8 million m³; 2020: 10.3 million m³) "only" grew by 14%. According to Holzkurier's research, cross-laminated timber production tripled in the same period, from 340,000 m³ in 2010 to just over 1 million m³ in 2020. That alone brings about a massive change in lumber flows, since at least 1.25 million m³ of lumber are needed to produce 1 million m³ of CLT.
- Processing companies which could so far rely on their supply now see it as being at

risk, among other things because Scandinavian timber companies partly find more lucrative sales opportunities in the US and China than they do in Central Europe.

- Central European processing companies started the new year with piles of orders but with below-average stock levels. A real increase in production is not possible anymore in many segments (e.g. glulam) because it is often close to capacity or there is a shortage in material and/or staff.
- Even China is slowly turning towards green building – which the Winter Olympics in 2022 are to symbolize. China's demand for softwood lumber is going to grow again this year. It could reach 70 million m³ in 2021 and already 75 million m³ in 2022. Also, China will have to accept much higher softwood lumber prices this year in order to fully satisfy its demand.
- The stop to log exports, which is being gradually implemented by Russia, also changes the traditional flow of wood – which particularly affects China, Finland and the Baltic States.
- The current regional, but also seasonal, shortage of log wood changes lumber flows as well. For example, timber companies in the south of Austria, which are usually self-sufficient, have to buy additional wood for processing which has repercussions beyond a regional level. Contrary to previous years, even short standstills (e.g. Holzindustrie Mosser after a fire), unusual events (e.g. roof collapse at Brüder Theurl) or construction works (e.g. Pfeifer Group's glulam plant in Imst) cannot be compensated immediately by other companies.
- Due to the tense situation in supply, buyers tend to place multiple orders ("someone is surely going to deliver it"). As result, demand is partly overestimated and there is the risk of an order bubble.
- In 2020, there is a strong demand coming from the European timber construction and prefabricated house sectors (In 2020, the German timber construction sector saw its sales rise by 14% despite the lockdown; December 2020 compared to December 2019: +42%).
- Those who fail to increase prices, are "flooded" with orders. Conversely, planned delivery schedules cannot be met when buyers are even willing to pay excessive prices. //