

Timber demand and supply in the UK

Market Statement

Timber Development UK

July 2022



Timber
Development
UK



The invasion of Ukraine by Russia has begun to hit home in the latest market statistics, as seen in the supply of raw materials, the price of energy, and on consumer confidence and spending - begin to become apparent.

A raft of economic sanctions have been imposed on Russia by the UK following the invasion of Ukraine, including a ban on all Russian vessels in UK ports, their removal from SWIFT payment system, the imposition of an additional 35% duty for wood products, the phase out of Russian oil, gas and coal imports, and, recently, the legal ban on imports of “revenue producing goods”, including timber, from 23 June.

Our import data shows the timber industry responded quickly to the Russia-Ukraine conflict and our calls for action, immediately reducing imports across the core product categories from Russia, with contracts now drawing down to an end. We expect indirect Russian imports to be close to zero in mid to end Q3 as the remaining material is flushed out of the European supply chain.

While the direct import of timber from Russia is a relatively small part of the market, the effects of this conflict are being felt right

across the economy. With inflation climbing to record levels, and amidst a wide range of macroeconomic indicators, another big ‘R’ word looms large in the minds of many in the UK. This has not been helped by our precarious political situation following the resignation of Prime Minister Boris Johnson.

Despite this negative economic picture, the timber industry remains strong. One more competitive advantage of timber products is that they are relatively low-energy to produce, particularly when compared to high energy, and carbon intensive products such as cement or steel. With a rise in energy prices among the most significant impact of the Ukraine crisis, these products are likely to face significant inflation.

With a need for products to be both low-energy and low-carbon, the case for using timber continues to grow in strength.

A handwritten signature in black ink, appearing to read "Nick Boulton".

Nick Boulton
Head of Technical and Trade Policy
Timber Development UK



Photo credit: Leyton HHouse, via Wood Awards.

KEY INSIGHTS

- The volume of timber imported by the UK in Q1 2022 was 2.5 million m³, nearly half a million m³ behind the record imports of Q1 2021.
- This decrease in volumes follows on from a downward trend seen towards the back end of Q4 2021. While this trend may have been sparked initially by market saturation for timber products, loss of consumer and business confidence is now the primary cause.
- While direct imports from Russia are relatively low, demand for timber products is likely to be significantly impacted as a result of the impact of the crisis on consumer confidence, along with high energy and material costs.
- Market data shows that the timber industry has responded to the Russia-Ukraine conflict by following sanctions and significantly reducing imports across all the main Russia import categories.
- Imports of softwood and hardwood plywood, the two main product categories from Russia, are down 74% and 30% respectively, when comparing Jan to Apr 2022 with the same period in 2021.
- Construction output is forecast to grow by 2.8% in 2022. This is a sharp revision down by the CPA from their forecast just a few months ago which predicted 4.3% growth. Growth in 2023 has also been revised down to 2.2%, from 2.5%.
- The price of timber stabilised across Q1 2022. With the supply of timber products expected to tighten over Q3 2022, this will likely keep the price level.

SUPPLY

Q1 2022 shows relative calm after record year

After a year of record volumes of timber being imported into the UK, Q1 2022 followed a more subdued trend.

- Two and a half million m³ of timber was imported in Q1 2022.
- This is nearly 0.5 million m³ behind the record imports of Q1 2021.
- However, to add context, this is a higher import volume than either 2018 or 2019.

The downward trend seen towards the back end of Q4 2021 reversed as we entered 2022 with Jan, Feb and March all seeing increasing volumes over the previous month, reflecting the strong construction demand seen in Q1.

However, by April import figures saw a decline as demand in the construction and retail sectors began to hesitate causing the supply chain to once again approach saturation. This resulted in difficulties of moving timber through the supply chain amidst port congestion and a shortage of HGV drivers.

The invasion of Ukraine by Russia, inflation, downgrades to consumer confidence, and political instability in the UK are all beginning to have an impact on the market - which will likely begin to be strongly reflected in the overall supply picture in Q3 and Q4 2022 as import volumes tend to closely follow overall construction output, which in turn closely follows overall GDP figures.

Core import categories

Softwoods: Import volumes decreased by 24.8%, when comparing Q1 2022 to Q1 2021. Softwood imports were nearly half a million m³ lower in 2022 compared to 2021. Imports came primarily from Sweden, Latvia, Finland, Germany, and Ireland. The dominance of the softwood sector on the overall import picture is clear as despite volume increases for both Hardwoods and Plywood, the loss of softwood volume remains the headline news.

Hardwoods: Import volumes increased by 29.9%, when comparing Q1 2022 to Q1 2021, to reach 162,000m³. Latvia has overtaken the

US as the largest single supplying country of Hardwoods, accounting for 24.6% of imports. This was largely due to their use in the pallet supply chain, where it has substituted for more expensive Softwoods. This is followed by France which also overtook USA in volume to account for 13.8% of the market, with USA falling to 8% by volume. However, the USA continues to lead all other countries by value - at £15m for 13,000 m³. with the lack of available supply imposing upwards price pressure on the smaller volume of available material.

Plywoods: Imports increased by 11.9% when comparing Q1 2022 to Q1 2021, reaching 477,000 m³. Hardwood ply volumes were driven mostly by China, which continues to be the dominant source of hardwood ply products. Russia's prominence as a source of hardwood plywood has quickly fallen away amidst trade sanctions. Brazil, China and Finland continued to be the main sources of softwood plywood. Supply of Particle Board, OSB, and MDF remained relatively stable in Q1 2022.

Risks to supply

The Russia-Ukraine conflict remains a core risk to supply. While direct imports from Russia are relatively low, as detailed in our previous market statement, they are critical to certain sectors of the market. With the direct import of Siberian Larch and Russian Birch Plywood now illegal, the market will tighten through Q2 with buyers competing strongly for the smaller volumes available in Q3. These smaller volumes of Birch Plywood and Siberian Larch will be available from Finland and Latvia, from Germany and Belgium, respectively. The conflict also has major macroeconomic impacts on demand and business confidence.

While logistical issues have subsided from public consciousness, they remain an issue of concern for the market. Shipping costs and container prices remain expensive, particularly between Europe and Asia, and shortages of drivers persist throughout the UK and Europe - if not at the extremes of 2021.

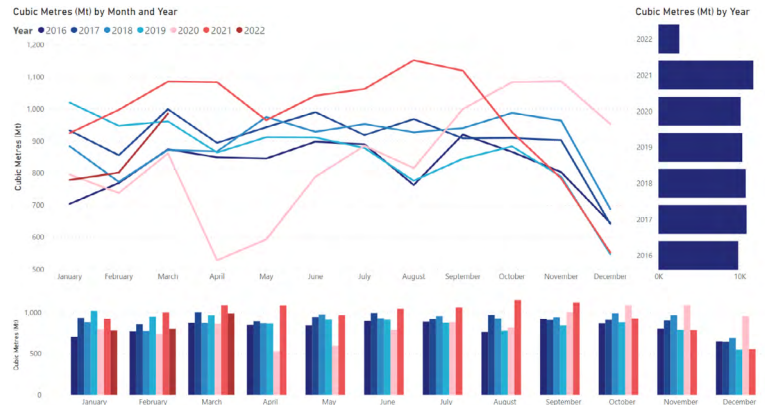
Brexit related issues also continue to affect. The UK Government is seeking to redraw the

Northern Ireland protocol, as this area quickly returns to being a major source of dispute between the EU and UK. This may be elevated to the World Trade Organisation, but even if it is not, it is difficult to see how any of the UK proposals will increase trade or decrease the workload being placed on timber traders trying to engage in this market

There was also confusion amongst timber traders as to exactly what the July changes in customs and plant health checks meant in practical terms for our sector. Fortunately, the further delay in implementation announced by the Brexit opportunities minister means more time is now available preventing potential port delays and allowing for clearer communications from UK Government

Implementation of UKCA marking for many wood products has been helped by the change in UK position on the acceptance of test results carried out in European laboratories. However, the Construction Products Association is still warning of significant risks across many products groups if greater clarity is not given to industry in the next few months.

TOTAL TIMBER IMPORTS FROM 2016 - 2022



2.5 million m³ of timber was imported in Q1 2022

Explore these statistics in full through our **Timber Supply dashboard:**

www.ttf.co.uk/statistics/dashboard

TIMBER IMPORTS FROM RUSSIA ACROSS CORE PRODUCT CATEGORIES

Softwood



Hardwood Plywood



Market data shows that the timber industry has responded to the Russia-Ukraine conflict by following sanctions and significantly reducing imports across all the main Russia import categories.

Imports of softwood and hardwood plywood, the two main product categories from Russia, are down by 74% and 30% respectively, when comparing Jan to Apr 2022 with the same period in 2021.

As you can see in the graphs, both of these categories quickly fell in March and April, and by the end of Q3 2022 we expect this will approach zero as remaining timber is flushed through the system.

DEMAND

Construction output strong in Q1 2022, but unlikely to persist

Construction output reached a record high in Q1 2022, just surpassing the previous high set in Q1 2019. According to the latest data published by the ONS, construction output was up by 3.8% when comparing Q1 2021 with Q1 2022, and was up by 7.4% year on year. This growth was driven by infrastructure and other commercial activity.

While construction demand remained resilient in Q1 2022, this is unlikely to persist. The stability of the construction sectors recovery in 2022 has always remained subject to inflationary pressures - which at 9.1% as per the Consumer Price Index in June, is now at its highest rate in 40 years.

The overall picture for the economy is overwhelmingly negative across a range of macroeconomic indicators:

- **Greater barriers to trade** and a more complex regulatory environment following Brexit
- **Depreciating currency** "10% plunge in the value of the pound this year" [[bloomberg](#)']
- **Cost of living crisis** as 88% of adults in GB report an increase in their cost of living in May 2022 [[ONS](#)].
- **Consumer confidence down** 41 points in June 2022 - lowest since the index began in 1974 [[Gfk](#)].
- **Business confidence down**, with only 17.6% of respondents positive, and 13.7% negative in recent polls.
- **IMF projects global growth to slow** from 6.1% in 2021 to 3.6% in 2022 and 2023.
- **Political instability in the UK** with Boris Johnson deposed by his party in July 2022.

Consumer spending and confidence, which in the UK accounts for 3/4 of GDP is under stress as wage inflation, rising energy costs, the costs of raw materials (up 21.9% in Q1 2022 according to BEIS figures), along with a lack of business confidence all begin to hit home.

Demand is likely to slow as a result of the Russia-Ukraine crisis and the resulting high energy and material costs.

Key construction markets strong but face uncertain future

Private housing: There were 42,350 house building starts in England in Q1 2022, a 1% increase compared with Q4 2022, but a 7% decrease compared with Q1 2021. Housing completions climbed to 43,160 in England in Q1 2022, a 3% increase compared with the previous quarter. However, again there were 11% fewer house building completions in Q1 2022, compared with Q1 2021 [[link](#)].

Repair, maintenance and improvement (RM&I): The private RM&I market remains at historically high levels, but prospects are more uncertain towards the end of the year, as it may see the greatest direct impacts of rising inflation.

Future trends

The CPA Construction Industry Forecasts - Spring 2022, released in May 2022, predicted construction output will grow by 2.8% in 2022, a sharp revision down from just a few months ago of 4.3% growth. Growth in 2023 has also been revised down to 2.2%, from 2.5%. The forecast includes predictions that:

- Private housing output rises by 1.0% in both 2022 and 2023
- Private housing repair, maintenance and improvement to fall by 3.0% in 2022 and 4.0% in 2023

These numbers reflect a rapidly changing world following the invasion of Ukraine, which is significantly impacting the global recovery from COVID-19.

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 still have an accumulated £200 billion of savings over the pandemic, so the finance remains available for renovation projects and home purchase - but the lows seen in consumer confidence means this remains unlikely.

PRICE

Prices remain firm in Q1 2022

The significant price rises seen in 2021 reversed significantly in Q4 2021, however as we can see from the graph below prices of imported structural timber remained at a high level in Q1 2022 with a slight increase for April.

These prices have been reflected in **BEIS Construction Building Materials statistics**, with the price indices of sawn and planed wood around 185 from January to March 2022. While this is 38 higher than a year ago, the prices are lower than September 2021 which peaked at 229.1.

Is this price trend likely to continue?

Although demand is likely to steady because of a slowing RM&I and private housing market, continued price pressure is to be expected as high-interest rates, inflation and logistical costs continue following the Covid-19 pandemic.

Q3 and Q4 2022 will also feel the full impacts of the EU sanctions on Russia and Belarus

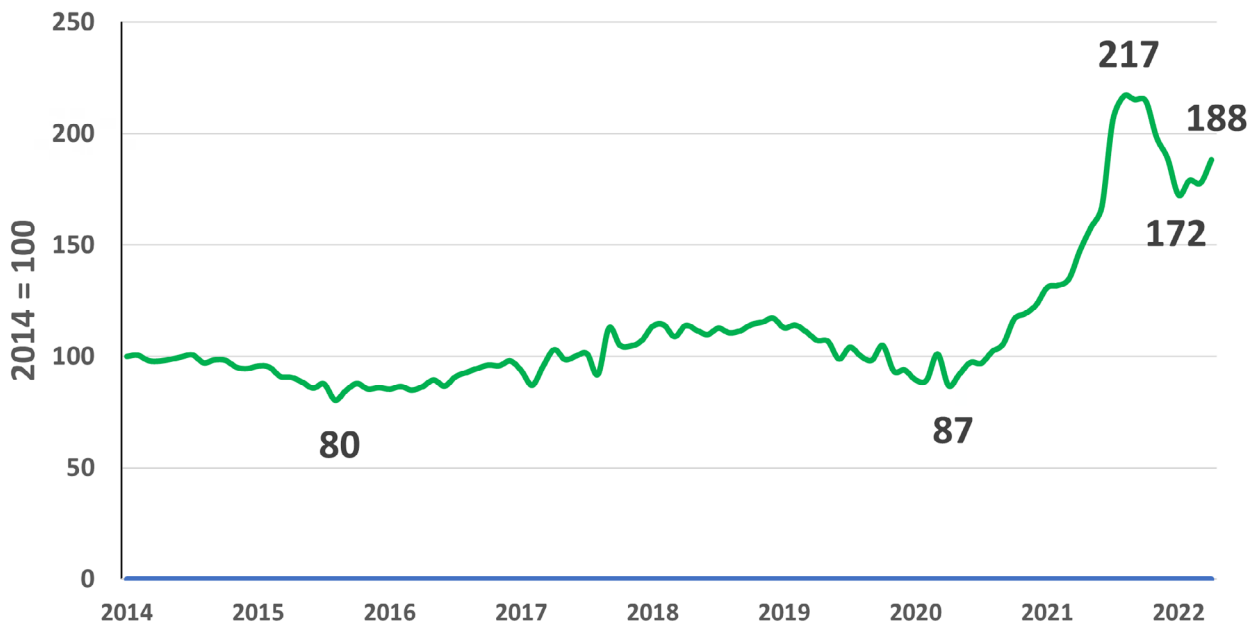
which it is believed previously provided around 10% of wood fibre in Europe. If demand in Europe remains strong, then this will be significant. However, it appears more likely demand across Europe may start to ease as the year progresses reducing the potential impact of the loss of the supply from Russia and Belarus

Certain products such as Birch plywood and Siberian Larch Cladding are likely to experience direct price rises as a major source of the product is now cut-off from the international market.


Heavy sanctions have also been imposed on the import of Russian oil and gas which has significantly increased energy prices in the UK and across Europe. This is making logistical and construction costs expensive.

Although timber will be affected by high energy prices, it is less energy intensive than other construction materials. High energy prices are heavily impacting concrete and steel due to the large energy inputs required for manufacture.

TDUK Structural Timber Imported Price Index January 2014 - April 2022



About this index: This is an historic price index based on average cost at point of import for selected commodity codes, not including engineered wood products. These figures are an indicator of market movements and not intended to reflect actual price paid or offered. The value of goods used for customs purposes is usually the transaction value, that is the price actually paid or payable for the goods. This is the invoice price plus the cost of transport and insurance. The sterling values are indexed based on the cost price at January 2014.

The background of the page is a photograph showing several large stacks of timber planks. The planks are arranged in neat, overlapping rows, creating a strong sense of depth and texture. The lighting is natural, highlighting the grain and color variations of the wood. In the foreground, there are some green plants and a thin wire, possibly a fence or support line, which adds to the outdoor, forest-like atmosphere.

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.

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PHOTO CREDIT FOR FRONT AND BACK COVER

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