

Nervous times



**TIMBER AUCTIONS
MARKET REPORT**
Oliver Combe
Timber Auctions

2018 will be remembered as a very good year for the growers, prices and demand reached unprecedented levels. However, there are signs that maybe prices have plateaued towards the end of the year and we now need to plan for a period of consolidation.

Uncertain domestic demand but erratic supplies maintain price levels

Short-term demand for all timber products remains good as the weak pound has protected domestic producers from the impact of the global timber market slowdown.

The pattern of supply seems to be split north and south of the central belt of Scotland.

To the north, supplies remain strong and have possibly exceeded demand allowing processors to get raw material prices under control which has led to modest falls in standing timber prices from the heady days of spring 2018.

Sawlog prices have fallen by around £10 per tonne and a fall in the global price of chemical pulp of around 10% has put downward pressure on small roundwood prices.

Whilst there has been some downward pressure on standing prices, overall timber prices are excellent and growers are taking advantage of it to put parcels to the market.

South of the central belt, supplies are

GLOBAL TRENDS



Global demand for timber appears to have declined in the final quarter of 2018 whilst production has continued to increase. This has led to build-up of stock and downward pressure on prices for most finished products in most markets.

Whilst demand in the US and Europe rose there was falling demand in China, Japan, UK and MENA region leading to an overall decline in traded volumes of 2.5% compared with 2017.

Chinese demand slowed noticeably in the tail end of 2018 as domestic spending slowed down, this had a knock on effect as the main suppliers looked to place surplus volume into other markets.

So demand began to decline noticeably in the third quarter whilst production was running at full capacity, this is most noticeable in the USA and Canada.

Lumber production in the USA increased by 4.4% and in Canada by 7.7% during the first 10 months of 2018 and reached their peak just when the seasonal slowdown occurred in October 2018.

Overproduction had led to falling prices since June 2018 with major grades falling by up to 40% in the last three months of the year

The major producers were quick to

react to this collapse in prices with reduced production to reduce stocks and stabilise prices once the market started to slowdown.

After three months of falling prices there are now signs of a firming of framing lumber prices on the US market.

The Scandinavian and European producers have reported a similar slowdown to the US market but have reacted to slowdowns in China, Saudi Arabia, Egypt, China and Japan by increasing sales to Europe and the USA.

Some estimates have Finnish export volumes declining by 10% and Swedish by 6% in the second half of 2018.

Despite the difficult market conditions at the end of 2018 the fundamental market drivers of increased wood use for construction, industrial products and energy have not gone away and will continue to underpin market growth,

It appears that after a market correction in late 2018 the global timber market will return to growth in mid 2019 and the ongoing increase in demand will continue to put pressure on available raw material supplies and ultimately continue to drive up timber prices.

more erratic, demand is stronger, distribution costs are lower, there is more competition and more diversity of markets, all of which is keeping prices at record levels.

The pattern of timber sales being front loaded in the year carried on in 2018 with

large volumes offered in the first six months of the year followed a pronounced reduction in the second half of the year. With the private sector now being the dominant force in the timber market this has major implications for timber processors who are

£ per tonne delivered to customers in Wales, central and south England (January 2019)

Product	Lower price	Upper price	Trend
Log 18	£80.00	£95.00	=
Bar 14	£75.00	£85.00	↑
SRW	£60.00	£65.00	↑
Fencing	£65.00	£75.00	↑
H Wood firewood	£60.00	£70.00	↑

£ per tonne delivered to customers in north England and Scotland (January 2019)

Product	Lower price	Upper price	Trend
Log 18	£75.00	£90.00	=
Bar / pallet 14	£65.00	£75.00	=
SRW	£45.00	£65.00	= ↑
Fencing	£55.00	£65.00	= ↑
H Wood firewood	£50.00	£60.00	↑



HARDWOODS

forced to buy hard in the first half of the year and then sit on expensive timber until they can work it in the second half of the year.

So at the start of 2019 timber purchasers inventories have fallen back due to reduced supply at the back end of 2018 and they now have to buy timber for the spring upturn in demand.

This has led to some very strong prices being achieved in Wales and North England, recent examples being £77t standing for a mainly spruce parcel with a high sawlog content in North Wales and £58t standing for a spruce parcel containing small sawlogs, pulpwood and biofuel in the Yorkshire Dales, £69t for Douglas fir clearfell in the Marches with difficult access and £63t for a nice Douglas fir thinning parcel in the Marches, even pine is selling well.

These prices are right up with those achieved in the spring of 2019. It may be that these are price spikes caused by buyers desperate to secure volume but the general consensus is that supplies are very tight and this is holding prices up.

The biomass market in particular seems to be struggling to secure volume and I am continuously taking calls from biomass supply companies looking to purchase standing or roadside timber. Roadside stocks of small roundwood is non-existent in England and Wales and most crops are forward sold. Whilst the high prices have brought more timber to the market in 2018 it was not enough. The current situation is

Oak continues to dominate the hardwood trade, global supplies remain tight and demand is increasing particularly from France where the wealthy and millennials have developed a taste for oak furniture leading to a surge in demand. This has occurred when oak is becoming increasingly fashionable in most developed economies leading to a perfect storm of rapidly rising demand and constrained supply.

While the USA remains the major supplier, France has jumped ahead of Russia to become the second largest supplier of oak to China.

French log exports to China rose by 35% in 2017 and have a similarly meteoric rise in 2018 and now account for 80% of all France's oak saw log exports.

This has had the effect of reducing supplies available for the French mills and for the UK whilst increasing prices that UK buyers have to pay, this coupled with the fall in value of the £ has caused a double whammy.

UK processors have increasingly had to secure their raw material from the UK which in turn has led to UK oak saw log prices virtually doubling in the last 5 years and demand being very strong for all grades of oak.

As the menace of Chalara becomes more real for woodland owners we have

seen a noticeable increase in the amount of ash being offered to the market. The best quality material is being taken by UK mills, the exporters are taking the 2nd grade saw logs and the firewood markets are well prepared for the processor sized material below 40cm diameter which leaves the oversized poorer quality material as a potential problem. Hopefully the board mills and biofuel industries will see this as an opportunity they can capitalise on and will look to integrate ash into their supply mix.

Beech and sycamore saw log demand remains very flat with only the very best material attracting interest. Sadly firewood is often the best bet for 2nd and third grade stems of saw log size. The wise growers will hold onto these stands as fashions do change and the we hope demand for these species will pick up.

There is now concern as to whether there is enough oak sustainably supply the current levels of demand and maybe now is the time to look at alternative species such as sweet chestnut and Douglas fir to replace oak in some markets.

The firewood market remains very good, stocks in the supply chain are very low and the current spell of cold weather is bound to see an increase in sales so hold onto your seats!

Roadside hardwood prices (£ hft) January 2019

	Oak planking	Oak beam	Oak fencing	Oak cordwood	Export ash & beech	White ash sawlogs	Export sycamore	1st grade firewood
High price	£10.50	£10.00	£6.00	£1.40	£3.25	£4.50	£5.00	£2.60
Mid price	£9.00	£8.00	£5.00	£1.25	£2.75	£4.00	£4.00	£2.25
Low price	£8.00	£7.00	£4.00	£1.00	£2.00	£3.00	£3.00	£2.00

These prices are for guidance purposes only and are based on historic market information

a golden opportunity for woodland owners to bring woodlands back into management and thin or fell compartments that previously had been ignored. When the high prices for conifer energy wood and hardwood firewood are taken into account it should be possible to thin almost any block and produce a reasonable cash surplus.

There is also considerable merit in smaller owners working with their neighbours to consolidate or group together their timber sales to reduce working costs and increase the volumes available to maximise revenue.

Whilst buyers remain concerned about the very high price of raw materials and are seeing their operating margins being eroded there is simply not enough timber coming to the market to meet current demand so lack of supply is holding the market up.

Summary

Availability of supplies remains the key driver in the market but Brexit uncertainty is now starting to impact on demand and business confidence and is looking likely to put downward pressure on price.

It has never been more important to have an effective timber marketing strategy and to offer timber to the "open" market.

TIMBER AUCTIONS



If you wish to discuss parcels of timber you would like to market, please contact Oliver Combe on 07771 958975, oliver.combe@timberauctions.co.uk for free independent marketing advice.

The future is timber, but is it bright?



by **Harry Stevens**,
timber buying
director Tilhill /BSW

What will 2019 hold for the buyers and sellers of standing and roadside timber? Unfortunately, my crystal ball stopped working several years ago, and after a quick consultation of what Nostradamus had to say, I find that I am back to looking at the recent past to try and predict trends through the start of this year.

2018 was characterised by an extremely strong demand for all roundwood products, which included all allied products within the wider fibre basket, such as recycled fibre. As a direct result, prices rose strongly for all product categories, from small roundwood through to sawlogs. This dynamic has also influenced standing sales prices, which reached record levels. Indeed, even poorer quality or badly presented parcels received strong interest.

The market's strength has continued since October with small roundwood users continuing to buy heavily in order to build stocks prior to the onset of winter. Meanwhile, the number of available parcels gently declined, especially across southern Scotland and Wales and most notably toward the end of the year.

Demand also remained robust among the individual product categories. The panel board sector enjoyed strong end product prices both nationally and internationally where, for example, OSB demand had climbed strongly. These price increases are mirrored with chipboard and MDF. Consequently, all plants are running at full capacity.

The biofuel sector has sustained a strong demand which undoubtedly will continue as a substantial number of new entrants constantly come into the market. Indeed, by some measures it would appear that there is a further two million tonnes of new demand either commissioning or due to commission through 2019.

Although this is based largely on burning recycled fibre, it seems likely, either directly or indirectly, to place further pressure on the small roundwood market. However, we should remember that some small-scale biofuel plants are clearly finding life difficult with the existing market prices for raw material so it is possible that we may see plants mothballed or even exiting the market if prices continue in the current trend.

Sawmills have had a busy period in the run up to Christmas: UK demand may have been unremarkable but so too were import volumes. Domestic mills therefore had a large demand gap to fill. Their willing-

ness to do so has been boosted by strong price rises for carcassing and fencing timber through 2018 which allowed sawmills to remain profitable in the face of sharply rising sawlog prices.

However, the current situation regarding the exchange rate makes it hard to see the sawn market moving further. Indeed, there are indications that imported supply may increase over the medium term which could exert some downward pressure on the market. Initial indications for the market in the early part of 2019 indicate solid demand for sawn and panel products so, at the very least, standing timber prices are likely to remain static and may edge up yet further.

I have not mentioned the Brexit word yet, but I am afraid I must. Should we see major movements in currency this will completely alter the dynamics of the market.

Any weakening of Sterling will have a positive impact on demand for UK products. Conversely, a rise in Sterling will improve the competitive position of imports and negatively impact on both sawmills' and panel products which would force producers to try and reduce their raw material costs.

The market is always difficult to predict but this is one of the most uncertain periods I can recall in my 25 years in the round timber sector.

www.bsw.co.uk/www.tilhill.co.uk

Timber prices continue 'to reach for the sky'

The significant rise in UK timber prices experienced at the end of 2017 and first half of 2018 has levelled off but, experts say, values have remained at this elevated level.

Bidwells' latest Timber Price Database tracked returns from the sale of almost 800,000m³ of private sector coniferous timber grown in Scotland, Northern England and a small amount from Wales, between April and September 2018. Data submitted from the 121 coniferous transactions, with a standing value to the grower of £29.8m, suggests that prices have risen slightly during this period.

"Although we have recorded a rise in values during the six months of analysis, it's probably more accurate to say that values have been maintained at their previously high level," says Raymond Henderson, head of forestry with Bidwells property consultants.

"Continued weakness of Sterling remains a major factor in UK-grown timber prices but high global demand and tightness of supply suggests no reason why the big picture will change in the foreseeable future."

Mr Henderson acknowledged that we are experiencing an unpredictable political environment but is confident that the UK timber market will continue to perform:

"We do, of course, live in strange times where informed projections are apt to be overtaken by events and the ongoing uncertainties created by the unfolding drama of the UK's withdrawal (or not) from the EU make crystal-ball gazing murkier and less certain than ever. That said, the fundamentals of timber sales should not alter too drastically regardless of our membership of the European club."

The overall uplift in the Scottish for-

estry sector, in no small part bolstered by Scottish Government's enthusiasm for the industry, has impacted on the forestry team at Bidwells. More staff have been, and continue to be, appointed to meet the rise in demand for forestry sales and acquisition.

"The upsurge in the sector has resulted in our team here at Bidwells experiencing high levels of demand for our professional services, including sales and purchasing. Thus, our department has been expanded and we are delighted to welcome Angus Grey to our Perth based forestry team. Angus has experience in both operational forestry and regulatory requirements which will complement our existing expertise."

A copy of the latest Timber Price Database report can be downloaded here:

www.bidwells.co.uk/timber

Spirited bidding sees good results at hardwood auction

There was a packed sale room for the 31st Annual Hardwood Auction by DJ&P Newland Rennie in Cirencester. Keith Spencer took the rostrum and conducted spirited bidding which resulted in a highly successful day with 97% of volume on offer being sold. The highlight of the day was a new sales record of £515 per m³, realised twice and £505 achieved once. These prices over doubled the previous 30 year

record of £242 per m³ achieved last year.

The auction day morning was devoted to two speakers, Dougal Driver of Grown in Britain and Gillian Clark of Forestry Industry Safety Accord, who both gave very interesting and well received talks.

The auction was again divided into Standing Sales, Felled Logs and Softwood with oak continuing to be the predominant hardwood species.

Full auction results available on www.djandp.co.uk

For details of the next sale, the 32nd, apply to Keith Spencer or John Jenkins at: DJ&P Newland Rennie, 87 Monnow Street Monmouth NP25 3EW
Tel: 01600 712916

SECTION RESULTS

Standing Sales

Eight Lots reached a top price of £64 per tonne for beech from Collingbourne, Wiltshire with a 1.29m³ mean tree size measurement and sold to Woodgate. A mixed broad leaf stand in the Dean 13-36 dbh made £40 per tonne purchased by Mendip. Other prices were in the range of £31- 34 per tonne.

Logs

There were 32 Lots of logs of which just four lots weren't oak. There were seven outstanding lots from Clipsham in Leicestershire with the best oak lots achieved £515 (twice) and £505 (once) purchased by Brooks and Sommerscale respectively. These lots were among top quality, much of which fell into the planking bracket. However good lots were making £300-£350 per m³ including from Millichope Estate, Shropshire and FC at Hazelborough, Northants.

Dean oak reached £185 per m³ sold to Pontrilas and New Forest over £130 per cm, Chiddingfold made £170 per m³ and Cumbria at £125 per.

In other species ash achieved £90 per m³ again from Clipsham and sweet chestnut £75 per m³ from Sherwood.

Firewood

Three Lots made £60 per m³, for MB from Dartmoor and oak from the Dean sold to Tilhill and Woodgate respectively.

Softwood

Four Lots with Douglas logs from Wyre at £105 per m³ sold to East Bros. and E. Larch Logs at £70 per m³ sold to Aldridge.

Pictured right from top: **Lots 8, 23 and 46**



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