

Confidence wanes in a period of uncertainty



TIMBER AUCTIONS MARKET REPORT
Oliver Combe
Timber Auctions

Externally, the domestic market is now starting to feel the impact of the slowdown in the US and China, most noticeably in the carcassing and pallet wood sectors where producers are placing stock into the UK to compensate for reduced sales.

Brexit is going to have an impact:

- The political uncertainty seems to be reducing the confidence of companies to invest.
- There is increasing uncertainty in the currency markets.
- What tariffs will be levied on timber in the new trading agreement
- How border checks and cargo documentation will be handled post Brexit

The net outcome is increasing uncertainty and reduced confidence especially in markets like timber which are dominated by imported goods.

Carcassing timber

Swedish kiln dried C24 material is now readily available from importers at prices that are very competitive against the UK producers. This is leading to reduced demand and we the potential for price reductions as stock levels start to build. The Baltic mills are also starting to place C16 kiln dried material on the UK market in direct competition with the UK mills.

Spruce saw log supplies have improved

over the last six months and prices have started to ease back by between £5 and £10 per tonne, although the last round of Forestry Commission tenders has only seen very modest falls in roadside log prices.

Mixed conifer logs are also plentiful and we are now seeing price reductions in these categories.

Pallet and packaging

The pallet wood market remains reasonably strong; however, there are now “offers” available on narrow boards and block wood, a situation that we have not seen for 18 months. Some producers are seeing build ups of slower moving product lines and are now taking a much more pragmatic approach to pricing. The pallet and packaging mills have really been squeezed over the last 18 months by the saw log mills and the small roundwood processors: they have had to endure restricted supply and high log prices and any reductions in their finished product prices will be damaging to their businesses.

It should also be noted that pallet manufacturers are concerned if we crash out with no deal:

- Third country status means that UK/EU trade where timber is used as a carrier (pallet, box, drum etc) would be subject to ISPM 15 plant health requirements (ie required to be heat treated or kiln dried) This would apply to traffic in each direction across the Channel.
- Approximately 75% of pallets are not heat treated, including the pool pallets. There is no surplus capacity in the industry if this were to happen. Now, the pallet confederation Timcon



and their European counterparts Fefpeb have had single and joint discussions with Defra and their EU counterparts.

Everyone recognised a) that risk is very low and b) authorities won't be able to inspect every single consignment carried on/in timber. However, it is one of these issues that if anyone decided to play strictly by the rules, it would wreak havoc on trade.

Fencing and landscaping

The fencing market has had a very brisk start to the year due to the dry winter and excellent weather in February with some mills reporting gaps in the yard and re-

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

Product	Lower price	Upper price	Trend
Log 18	£75.00	£90.00	= ↓
Bar 14	£60.00	£70.00	= ↓
SRW	£50.00	£60.00	=
Fencing	£50.00	£60.00	=
H Wood firewood	£65.00	£75.00	↑

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

Product	Lower price	Upper price	Trend
Log 18	£75.00	£85.00	= ↓
Bar / pallet 14	£50.00	£70.00	= ↓
SRW	£45.00	£55.00	=
Fencing	£50.00	£55.00	=
H Wood firewood	£50.00	£60.00	



GLOBAL TRENDS

Globally, the sawn timber market appears to be coming back into balance with supplies having increased and demand stabilising.

The global economic outlook remains positive and all the forecasts indicate that timber consumption will continue to increase.

However, in the short term, there are some stormy waters to navigate through.

The US market went through a noticeable slowdown in late 2018 and although there has been a modest rally in early 2019 prices are still some way off their peak in early summer 2018.

This has made the US a less attractive market for European and Scandinavian timber which in turn has meant more timber being pushed in to Europe and the UK at lower prices. A very modest upturn in the strength of the pound has also encouraged importers back into the UK market.

China has also seen a modest slowdown in timber imports which has in turn taken heat out of the market.

Increased supplies in central Europe as a result of storm damage and beetle

infestation has led to a noticeable decrease in roundwood prices in the catchment area for the large German and Austrian mills.

They in turn have ramped up production of sawn softwood including pallet wood and have begun to displace the Baltic mills who in turn have started to bring material into the UK again.

So, import levels of Scandinavian and European carcassing as well as Baltic pallet wood have increased noticeably at the start of 2019 and put pressure on both prices and demand levels for the UK producers.

The key question is how long this situation will continue; the lower roundwood prices in Central Europe and based on a glut of storm and beetle damaged timber, the clean up effort is well under way and this may not be a long-term problem. Timber prices remain high in Scandinavia so producers are very aware of the need to maintain selling prices and appear to be using the UK as a release valve to move surplus stock until other global markets improve.

stricted availability of prime fencing sizes such as posts, rails and wide boards.

The price increases of the last 18 months have certainly increased supplies of roundwood for the fencing mills in the west and north but the situation on the east coast remains much tighter.

With the currently high log prices all sawmills will be looking to reduce roundwood prices as soon as they see their yards filling up and their bought ahead situation improving.

10% reductions seem to be in the offing, but is there enough supply for this to happen in the medium term?

Spruce supplies have certainly improved but redwood (larch and Douglas fir) is still in short supply in central and south England and across into Wales.

Availability is currently good but there still remains concern about the available volumes for early summer.

Small Roundwood

The insatiable demand for small roundwood does at last appear to be slackening off, prices of £50 roadside and £60 per tonne delivered have opened the gates again of private woodlands and led to increased supply. The backlog of felling licences has worked through and although

there appears to be more timber coming to the market, much of it is smaller scale mixed woodland with low stocking rates and of variable form and often with difficult working so in most cases timber comes out slowly.

Whilst many processors have now managed to build stock in their yards and some are even looking at restricting deliveries their bought forward position is still weak and this is maintaining prices at current levels for lower grade material.

The strong availability of cheap roundwood in central Europe has seen board prices fall in Europe and made it more attractive to import board than push production in the UK. It is likely that the major board producers will slow UK production down and import material from their European plants as long as this situation lasts and try to get their roundwood prices under control.

The sheer diversity of demand is a key factor here in maintaining prices and although we may see a softening of prices by 10% in the short term it is difficult to see that supply can continue to keep up with demand unless prices hold.

Timber availability

The high prices have been a huge boost

to the economics of woodland ownership especially in the larger more easily worked blocks where the economies of scale come into play.

It is in the smaller mixed woodlands where there is still more volume to come to market but it is a difficult and lengthy process getting it harvested. Contractor resource is a key issue; whilst there are plenty of harvester forwarder gangs there is a shortage of good chainsaw operators and machinery for working in the more challenging sites.

The upturn in the small roundwood market is key to making these sites viable but we really need the prices to hold up together with the saw log and firewood prices so that the contractor resource can gear up for these difficult sites.

Hardwood saw logs

After the excitement of the autumn there does appear to be some sanity returning to the oak saw log prices. The Westonbirt hardwood auction in November saw record prices for some three exceptional parcels of planking grade oak in Northants. £520 m³, £18.50 hft (twice) is a truly remarkable price level. A bit of investigation reveals two sawmills with very low stocks and a poor bought ahead situation getting 'auction fe-

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Roadside hardwood prices (£ hft) March 2019

	Oak planking	Oak beam	Oak fencing	Oak cordwood	Export ash & beech	White ash sawlogs	Export sycamore	1st grade firewood
High price	£13.00	£11.00	£6.00	£1.50	£3.25	£4.50	£5.00	£2.60
Mid price	£11.00	£9.00	£5.00	£1.25	£2.75	£4.00	£4.00	£2.25
Low price	£9.00	£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

>> ver' and trying to see each other out of the market!

Whilst oak saw log supplies have increased in the southwest and west of England there still appears to be a shortage down the east coast and prices remain very strong

Currently, good quality French oak is being delivered into the UK for around £350m³, £12.50hft, this will take some of the heat out of the prices for beam oak although there is still good demand for better UK planking and larger beam oak logs.

Beech saw log prices have firmed as the 'exporters' have begun to take an interest in this species and draw material away from the domestic mills, good quality white beech is fetching £3 to £3.50 hft at roadside (£80 to £90 per tonne).

Ash supplies have increased considerably as growers begin to take steps to reduce the impact of Chalara, whilst export ash prices remain around £2 to £3 hft there is still domestic demand for really good quality planning ash at prices of £4 to £6 hft.

Poplar demand is mainly for export and when coupled with the biomass user's ap-

petite for poplar chip wood this had encouraged owners to get on and fell poplar.

Firewood

Shortage of supply has driven firewood to record levels with £65 per tonne at roadside and £75 per tonne delivered being achieved in some hotspots, sometimes more, yet there still seems to be a shortage of material.

The mild winter has reduced demand but stocks throughout the supply chain remain very low as a result of reduced hardwood harvesting activity last year and it will require a noticeable increase in harvesting activity to build stocks up to a sensible level.

The falling price of heating oil, availability of imported firewood and the current domestic price ceiling of £100 per loose m³ for dry hardwood logs would lead one to think that the firewood price is at or very close to its peak and once supply increases it should stabilise.

It will be interesting to see if the insatiable demand for industrial biofuel starts to compete with the firewood sector or will new harvesting and recovery methods de-

velop to better utilise the tops and branch wood that the firewood sector currently does not use.

Most of the easily worked and accessible prime firewood stands have been worked already and with most hardwood species it is only realistic to thin once every ten years. We have had the "feast" and worked all the material that is genuinely available to the market and are now facing the famine as we wait for these stands to put on increment for the next thinning intervention or for the owner to decide to clear fell.

To bring extra volume to the market will involve working smaller more difficult stands, less desirable species mixes and producing a greater spread of assortments, fortunately the strong market for chipped biofuel makes this more commercially viable than ever before.

The current market is a great opportunity for owners to bring woodlands into management and improve crops as well as demonstrating "commercial activity" in their woodlands.

Compartments that have previously been unviable due to difficult working conditions, long extraction or poor crops are now an area of opportunity.

Summary

It would appear that across all sectors the market has peaked and that we are now in for three to six months of stabilisation if all external factors remain the same.

Whilst there appears to be a softening of the market in Scotland and Borders where supply of timber is more in balance with demand there still remain concerns over availability in England and Wales. We are now seeing the "spring rush to the market" but will there be enough and what will be left to work in winter 2019/20?

Brexit remains the big unknown, a lengthy delay in the process or a second referendum could lead to a strengthening of the pound by 10 to 15% which would then start to impact on domestic timber prices.

Hopefully "Felling licences online" will be user friendly, efficient and will speed the felling licence process up so we do not experience the horrendous backlogs of last year again.

We shall wait and see!

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.

Looking south as market springs into action



FOREST MARKET REPORT

Tanya Gato,
John Clegg & Co

The forestry market in the southern half of the UK is notable for the variety of its properties. There is something for most tastes and budgets, from commercial lowland pine, upland spruce, and attractive broadleaved woodlands of all shapes and sizes.

The last 12 months have seen continuing demand in all categories, but a spike in interest on the more commercial properties, along with strong and high-speed bidding, is a new feature. Against a backdrop of an increase in timber prices of around 30%, this is a logical market response, which was felt particularly in the second half of last year. As an example, Twelvemans Plantation in Devon, a 59ha woodland comprising mixed aged Sitka spruce and 49 or so hectares of bare land, originally guided at £1.05m, sold for well in excess of the revised guide of £1.3m at a closing date; excluding the bare land and un-plantable ground, the guide figure was revised upwards from £1558 to £1794 per stocked hectare.

This trend has been illustrated further during the last two months with sales agreed on other commercial properties, including Cockley Moor, Cumbria, 44ha, (guide £490,000; £1824/ha); Plas Esgair, Powys, 75ha, (guide £800,000; £4326/acre); Cwm-Byr, Powys, 73ha (guide £640,000; £1444/ha), all sold well in excess of their guide prices.

Similarly, the market appears to have woken up to the potential capital growth available in restock land and the younger forestry crops with values in the range £1000-£1300/ha being achieved. Three examples are Pennal Forest in Gwynedd, comprising 78 acres of young restock crops all under 10 years old, guided at £916/ha; Cym Yr Ychen, 102 acres in Powys, guided at £2871/acre and Ulpha Park Plantation in Cumbria, 29ha comprising almost entirely crops under five years old, guided at £907/ha, all receiving final offers above guide price.

Softwood crops continue to outperform their hardwood equivalents in most woodland size categories, bar the very smallest woodlands where affordability for entry

level buyers and amenity drivers come into play. As ever, privacy and isolation are key attributes sought by purchasers in broadleaved and amenity woodlands. Heavy public use has a marked negative effect on price and saleability on even the most attractive properties. Conversely, scenic woodlands, where owners will be able to have quiet enjoyment, are still attracting a premium. A prime example in the past few months is that of Walcot Wood in Shropshire, an attractive mixed woodland comprising around 26 acres, set in an historic landscape. The final selling price achieved was substantially above the guide of £2164/ha, illustrating that well cared for properties in good locations, can hold their own on capital values against the commercial holdings.

A few new developments and market drivers have underpinned a buoyant southern property market in the past 12 months. The commissioning of the Estover CHP plant in Kent in the summer of 2018 has undoubtedly introduced competition and increased prices for lower grade timber of all species. This is especially beneficial to broadleaved woodlands, creating an outlet for material which might previously have been unsaleable or harvested at a loss. In turn this offers woodland owners opportunities to remove and replace underperforming crops and improve crop quality by thinning, both of which benefit capital values.

Improvements in haulage logistics in the harder to reach parts of the country appear

to be feeding into improved timber prices in the south west. As a result, the property market in Devon and Cornwall, which has previously lagged behind the rest of the southern market on values, has improved noticeably. Ausewell Wood, a substantial property of 138ha, combining mature commercial crops, young crops for capital growth, native woodland and a scenic setting on the banks of the River Dart in Devon attracted bids at a closing date in excess of £2m, well above its guide price of £1.7m.

We note with interest that Forestry Commission England appears to have returned to acquisition mode, although in the current fast-moving commercial market, where some sales are being agreed in under four weeks, it may be difficult for them to place competitive bids quickly enough to gain a foothold.

A new dimension to the forest market is farms with permissions in place for large-scale planting, a market segment which, in England and Wales, had previously seen almost no activity for the past 20 or so years. Barriers to new planting are starting to be addressed by the regulatory authorities; the appointment in late 2018 of a forestry investment zone manager in the borderlands of Cumbria may be a sign that the FC, Natural England and the Environment Agency are genuinely seeking to streamline the planting application process while balancing the needs of wildlife and community. The success or otherwise of the two-year pilot may unblock the log-jam, enabling forestry investors to take up the government's challenge to step up tree planting in England, or will highlight the difficulties of reconciling competing land use objectives on this crowded island. Either way it should be welcomed as a positive statement of intent.

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Walcot Wood, Shropshire

Hardwood follows softwood trends



TIMBER MARKET REPORT
Tim Leavers,
Euroforest

In my early days as a harvesting manager with Forest Thinnings, I remember being told that hardwood timber trading was a 'dark art' that those who practiced it were magicians in comparison to the softwood traders. Facing the challenge of uncovering these hidden practices, I decided, therefore, that reporting on the hardwood market might be less demanding and more helpful than trying to second guess now, what will be known, (by those of you reading this) about the 'final' outcome of the Brexit negotiations.

The hardwood market appears to have many similarities to the current softwood situation. The overall picture is one of rising demand, strong order books, reduced supply and improved prices. This is set against a global background, with the flow of wood inexorably moving east and south from Europe, coming to rest in the growing economies and populations of Asia and the Middle East.

Oak

With limited quantities of good quality oak coming from home grown sources and only then at what appear inflated prices, processors are feeding a strong customer demand, for oak frame buildings, furniture and joinery, with second lengths of French oak. With the barrel stave market buoyant, in France, volumes harvested reducing, the UK can compete for the rest against a lively market for sawn cants to Asia.

As a forester said to me this week 'The English oak is a little like our aging population, still hanging on longer than ever, extremely valued by some of the family, and neglected by others.' The value of healthy oak has resolutely kept pace with inflation. There remain many significant stands of late Victorian oak available in the UK to satisfy the 75,000m³ market but the reticence in bringing it to market is there, for

a number of reasons, but remains the owner's prerogative to choose to sell or not. Financial return is not a driver for everyone. Quality English oak will always find a market, but the small local market, just down the road, one day, might no longer be there if starved of supplies.

Ash

The demand in UK terms from the sawmills is finite, with adequate volumes of ash available to keep it sated. Some early excitement over thermally modified ash, thus increasing demand, has calmed and found a place in the market, an excellent product, but not with the sales anticipated at its introduction. As one importer said, "Ash just doesn't seem to spark the public appetite as much as oak, it's take-up as a cheap alternative for interior purposes doesn't look like happening any time soon". Asian demand for UK ash is ongoing, containers are leaving the UK bound for the Middle East, India and Vietnam on a regular basis. Export prices remain fairly static, but the underpinning of the ash log price by a strong demand for processible firewood, provides a base that is a starting point in any negotiation. Ash dieback (*Chalara*) is with us. The expectation from all the pundits is a widespread resurgence of the disease this spring. The resulting influx of timber can be absorbed by the export market; but the ash logs must be felled while the quality remains.

Beech

I will never forget standing, with John Workman, on his estate near Stroud gazing at the magnificent maturing beech soon to be felled for furniture production here in the UK. What of the market and what about beech? The furniture is now manufactured on the other side of the world and limited quantities of roundwood are sent there from the UK. The export price is being pushed up by firewood with a limited interest in the logs here in the UK, but

with some potential for further price rises throughout the year. The future of quality beech logs on these islands is inextricably woven into the tale of the grey squirrel!

Poplar

Poplar packed into containers (4-10.5m x 35cm minimum mid-diameter), is also finding a resting place in the Far East. The shortage of supply and insatiable demand for home grown conifer logs means that poplar is bought as a low-grade substitute for pallet and packaging. However, the hottest market for poplar is as biomass, where merchants are putting and selling all grades together. Moisture contents are an issue, but the rapid price increase, for logs, suggests that keeping the home fires burning, is driving up the value of poplar logs too.

Small roundwood

Firewood prices are inexplicably high, a warm wet winter following late autumn sunshine. Then the prospect of an abundance of ash for those who are prepared to wait. None of this should lead to a high firewood price. There is some indication merchants are forward buying in preparation for threatened changes to the regulations over seasoned wood. Firewood prices may well fall as the ash finds its way to the market. Firewood continues to be very species specific with limitations on size imposed by processing machines. Biomass demand is growing, bolstered by government incentive schemes.

Contrastingly, not fussy about quality and widespread across the UK, all manner of species in naturally sculptured shapes, is being fed into chippers. Neglected and undermanaged woodlands are opening up in response to the better than ever returns. These strong prices and the year round demand all help to provide an encouraging prospect for the hardwood market.

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Forecasts reinforce case for planting

Stuart Goodall reports from
Timber Trade Federation UK
Softwood Conference

Forecast UK consumption for 2019
Low growth now, but an optimistic future ahead was the headline message coming from TTF's UK Softwood Conference in London on 06 March, which examined the UK, European and global market for timber.

Speakers forecast a modest increase in UK softwood consumption in 2019 based on estimated growth (by Construction Products Association) in housing starts of 2.4% and GDP growth of 1.4%. If correct, housing starts in 2019 would be approaching pre-recession levels.

UK disposable income is forecast to be flat at 0%, which alongside weak consumer and business confidence indicates zero growth in the repair, maintenance and improvement (RMI) sector – a key market for home-grown softwood in the UK.

Total UK softwood consumption for 2019 is forecast to rise 2.7% to 10.27million m³. A shade lower than 2017, but the second best year in the last decade.

The European and global perspective

As the second largest net importer of timber in the world, what happens overseas affects the price and availability of softwood in the UK. Looking ahead it is a mixed picture – stable demand in Europe, slowing economic growth in China and potential growth in USA housing starts which would likely draw in timber imports from Europe.

There is general optimism that growing awareness of the attractiveness of timber in

the fight against climate change will drive future consumption, including in China. However, Olle Berg, Head of Marketing and Business Development at Setra Group questioned whether the global economic cycle was set to peak, thereby presenting a contrasting indicator for future growth.

Berg noted that timber production is high in all countries and global softwood consumption is at an all-time high. Chinese consumption has grown by 40million m³ since 2007 within total global consumption of 350million m³.

European supply and consumption (including exports to the rest of the World) is forecast to remain largely in balance in 2019. The only development of note is a recent trend where wood has been regaining lost market share to concrete and steel in construction. This has been particularly notable in higher rise buildings, with Cross Laminated Timber (CLT) seeing significant growth.

The USA went from two million housing starts a year before the recession to 450,000 afterwards. In 2019 the forecast is for 1.4million starts against an underlying demand of 1.8million starts. European imports are forecast to increase by 400,000 m³ to 1.9million m³. Given that British Co-

lumbia's (BC) pest ravaged production is declining, if USA housing starts grow beyond 2019 to 1.6-1.8million then it won't be able to suck in volumes from Canada as it has in the past. BC represents 45% of Canadian production and 85% of its exports.

It was noted that South-East USA production is increasing but its species supply other markets – outdoor not construction.

The increasingly important Asian market, especially China, was described as 'tricky' in 2018. In Q3 and Q4 there was over-supply and stocks building in the ports. Although GDP growth is falling (and sceptics believe the GVA figures are exaggerated anyway), looking forward there is some optimism because of growing interest in building with wood due to its carbon benefits and suitability for prefabrication.

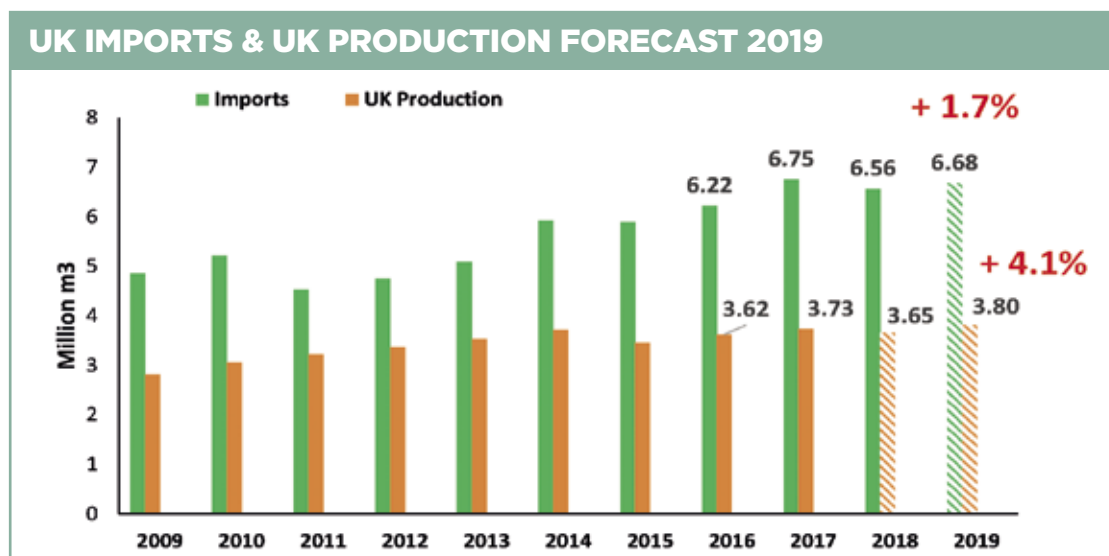
The age profile in China is turning (predicted to peak around 2028), which will impact on future demand and on costs of production – China is no longer a guaranteed source of low-cost labour, that 'role' will increasingly go to Asian neighbours such as Vietnam.

Longer-term, the global outlook is favourable. In the past, wood has lost ground to other materials and consumption per capita has dropped, but that's changed over the last five years. Per capita consumption is increasing globally with the carbon benefits of timber being seen as a key driver.

So, no reason to hang out new bunting this year, but certainly strong reasons to keep investing in planting and woodland management for the future, and a continued cautionary note for mills that domestic supply will remain tight and market prices will keep the squeeze on margins.



Per capita consumption is increasing globally with the carbon benefits of timber being seen as a key driver



FTN WEB RESOURCES



Presentations and graphs from the TTF softwood conference
www.confor.org.uk/ftnweb