

## Global Lumber Prices Resetting – Market Power Shifts To Buyers

By Russ Taylor, President, RUSS TAYLOR GLOBAL

Contact: [russtaylor@russtaylorglobal.com](mailto:russtaylor@russtaylorglobal.com)  
[www.russtaylorglobal.com](http://www.russtaylorglobal.com)

The global pandemic has created a wild lumber market since April 2020. We all know the crazy lumber prices that occurred over this time in the US market, but other international regions are seeing somewhat different trends.

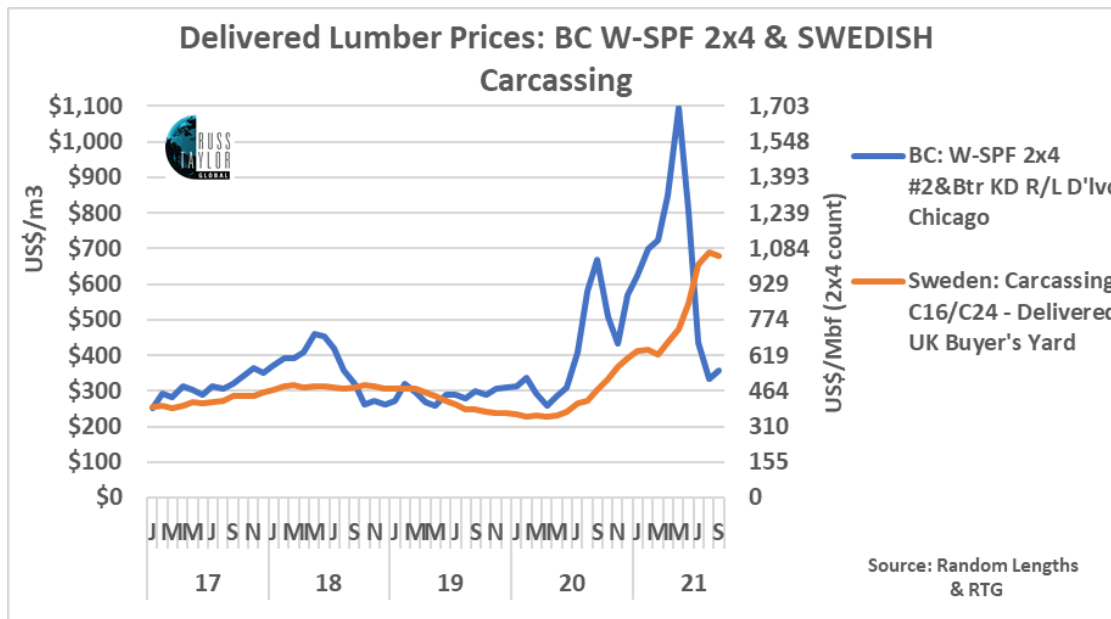


Following the peak of US lumber prices in late May 2021 at US\$1,630/Mbf (using the benchmark W-SPF 2x4 #2&Better R/L, FOB BC mill; US\$1,053/m<sup>3</sup>, net) and the subsequent price collapse through mid-August to US\$385/Mbf (US\$249/m<sup>3</sup>), lumber prices have slowly clawed their way higher to US\$472/Mbf (as of Sept 17). While no one could have ever predicted this super price spike and subsequent collapse, the outlook is for improving US prices into fourth quarter before a likely correction occurs later in the year. In looking into 2022, prices could be in the US \$600/Mbf range at times in Q1 and Q2 before a more balanced supply and demand situation occurs with lower prices. Considering that the peak US lumber prices prior to 2018 was US\$470/Mbf (1999 and 2004; nominal prices), current and projected price levels should look extremely attractive to most North American lumber mills. **However, not in BC, as explained later.**

### EUROPE

In Europe, the situation is like the US but with a different price cycle. While US prices took off very quickly at the start of the pandemic in 2020-Q3, European prices lagged and grew slowly as domestic as well as offshore market conditions took longer to crystallize. Using Swedish carcassing lumber prices delivered to the UK for perspective (see graph), prices increased about 50% through 2021-Q1, before accelerating and peaking in August of 2021. This is partly due to the nature of the European industry where much of the business involves quarterly with some monthly pricing, and this takes some of the wild fluctuations out of the market. Nevertheless, volatile pricing did occur as buyers and sellers realized that there was an extreme shortage of supply in the market and spot market prices soared.

Like the US lumber market, the European prices for some commodity products peaked in August (especially in Central Europe), some peaking in September (as in Sweden), and non-commodity products will likely peak in fourth quarter. With the European market prices lagging those in the US by about three months, the opportunity for Europeans to continue exporting to the US market (that was active and lucrative for much of the last year) has now vanished. On one hand, this is helping the US market stabilize, as European exports to the US have been reduced from negative export returns. High European prices are keeping more supply in the European market and that, in turn, will accelerate the ongoing drop in prices there.



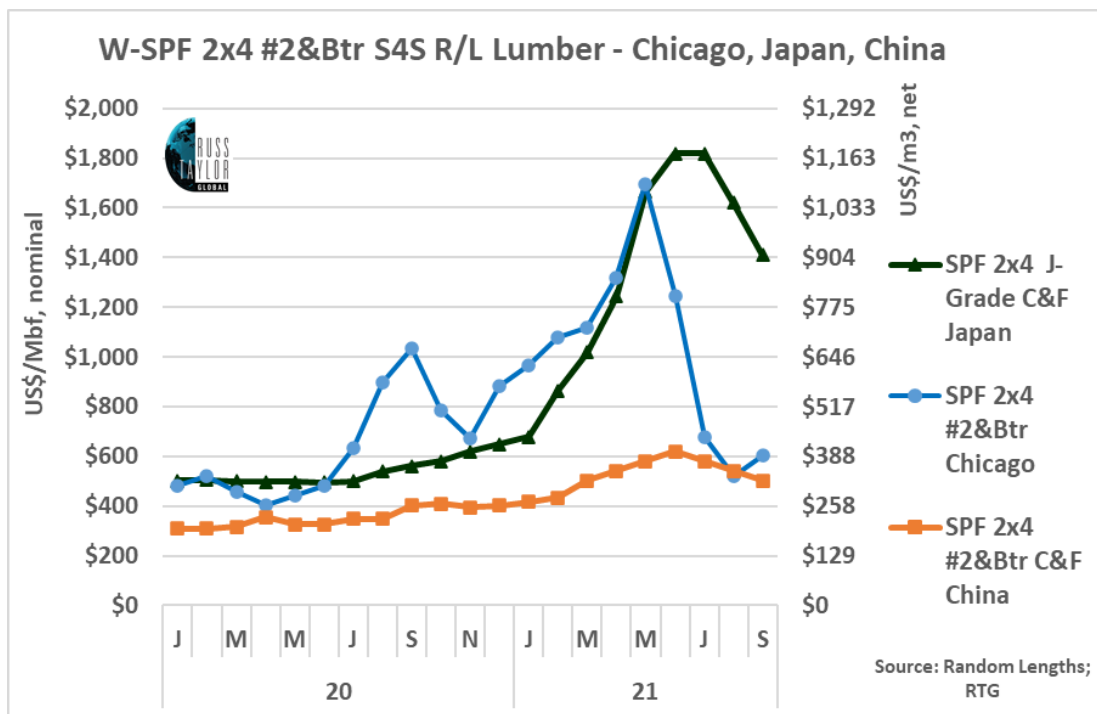
**JAPAN & CHINA**

In Asian markets, a somewhat similar trend to Europe is evident in Japan, where prices peaked two to three months after the US market peak (see graph). Canadian exporters were able to elevate and hold 2x4 W-SPF J-Grade in Japan at very high levels since lumber supplies became tight going into 2021-Q3 negotiations. However, 2021-Q4 negotiations will result in much lower price levels given the huge spread between Japan and US prices currently.

The Japanese have voiced some concerns that the very high SPF prices demanded by exporters for 2021-Q3 may result in a longer-term reduction in the market share of SPF in Japan. Some Japanese buyers were dissatisfied with the prices they had to pay that, in turn, were driven by the spike in US market prices. Japanese buyers were able to find some alternate sources of 2x4 lumber, including Russian and European supply, so the market share dynamics could shift in Japan from this situation. Despite all this, SPF J-grade is still in tight supply.

In China, SPF 2x4 #2&Better prices did theoretically increase by almost 50% (see graph), but very little volume was transacted. The Chinese buyers have diversified their supply to many global sources and were able to find alternatives, including using lumber produced from imported logs at much lower costs than imported lumber. While this did create some supply shortages and low inventories in China at various times in 2021, Chinese buyers were able to avoid the over-priced lumber situation that the Japanese are currently in. Exporters suggest that Canadian exports to China have surged more recently with Chinese buyers back to purchasing imported SPF and other lumber since prices are now affordable.

These price trends highlight how different markets work and how exporters can gain market clout in tight supply situations and, conversely, how the buyers take over when prices get too high, and the market power switches from seller to buyer.



**BC SITUATION**

What does all this mean for BC? For BC Interior SPF mills, they are now rebuilding order files and trying to move prices higher. Late September and early October are usually weak periods for lumber prices, so the fact that prices are moving higher in mid-September is good news. However, the cost structures of the BC interior sawmills are the worst in North America right now, mainly driven by the government’s timber pricing formula (i.e., stumpage) and lag that does not yield fair stumpage during periods of volatile end-product prices.

My estimate of BC Interior breakeven EBITDA prices at the lowest cost mills during 2021-Q3 is in the US\$500 to 550/Mbf range on a 2x4 SPF #2&Better basis (print price); cash costs for these best mills would be up to 10% lower, so around current prices. However, on October

1st, stumpage rates on crown forest licenses are expected to increase by around \$10/m<sup>3</sup> and in December, the US import duties are scheduled to rise from 9% to about 18%. This means that the SPF 2x4 breakeven print price could rise to between US\$550 and \$600/Mbf. As a result, BC mills may be facing further curtailments in 2021-Q4 unless prices rise by up to US\$100/Mbf, or until stumpage corrects to much lower levels starting in 2022-Q1.

BC Coast mills are also negatively impacted by higher government stumpage rates. After high volume shipments to the US market in the last year, Coast mills are shifting to their more traditional domestic and offshore markets and will not feel the full bite of lower US lumber prices (and avoiding US duties) as the Interior is facing.