

## **Plywood margins are good, but supply a struggle**

The good news from the majority of European hardwood plywood importers interviewed March 2021 was that they were making money. They reported demand ranging from firm to booming across the market, from the construction and DIY sector to merchants and furniture makers. Moreover, customers were willing to pay a healthy price.

“If you can’t make a good margin in the current climate, you never will,” said one importer.

Another reported their customers ‘accepting the real value’ of plywood and timber generally. “Traditionally most view plywood as a stack it high, sell it cheap commodity, but the market situation is such now that they’re having to pay more like its true worth” they said. “There’s strong demand and less opportunity to play suppliers off against each other. We’re experiencing less negotiating from customers and less bad debt. It’s definitely a seller’s market.”

The less good news for importers is the manufacturing and supply situation. Demand is growing globally, while output is constrained by a range of factors. Notable among these is manufacturers either running short of staff due to Covid-19 and still operating pandemic safe work practices or taking time to gear up production as lockdown rules are relaxed. The result is extended lead times, importers only being able to obtain a percentage of usual order volumes and gaps in some specifications. Manufacturers’ prices also continue to climb and while, to date, the market seems to have been able to absorb them, some fear there is increasing danger of overheating.

The other key concern in the sector is soaring freight rates, notably in containerized trade. With global container distribution disrupted by the pandemic, shippers out of Asia have been naming their price. Importers report five- and six-fold rises over the last six months, some even more.

“I’ve never known such high container rates in my entire career,” said one trader. “It’s just not realistic or sustainable, and at some point there has got to be an adjustment, which could itself create market turmoil. It’s becoming quite a dangerous situation.”

After the first wave of the pandemic last year, European plywood importers reported business starting to recover from May onwards.

“It was slow to start with, obviously, we did a fraction of our trade from March through May and, ultimately, we weren’t able to make up the difference. But from June-July onwards we’ve seen exponential growth – it just hasn’t stopped,” said a UK-based importer.

“A lot of latent energy built up in the market during the first pandemic lockdown and when it was relaxed that pent up demand was unleashed. Construction projects that were paused came back on stream and new ones started up. And we didn’t see much of a slowdown during the subsequent lockdowns due to second and third waves of pandemic in November and January – nothing like March-April 2020. We think that’s because businesses by this

time had adapted to pandemic work practices, notably in construction, so were able to maintain higher output levels.”

In some European countries, the building sector was also reported ‘barely to have slowed down’ through the entire course of the pandemic and so was well placed to pick up the pace as their wider economies emerged from lockdown.

“In Germany and the Netherlands in particular we saw only a marginal decrease in activity,” said one agent-importer.

Some importers said they also saw the effect on sales of the widely reported international upturn in home improvement and refurbishment.

“It’s been a worldwide phenomenon, people staying at home in lockdown and on furlough have taken the opportunity to improve their properties. Either that, or they’ve felt they’ve had to adapt their houses to living/working spaces, anticipating that, even after the pandemic, they’ll be spending at least some of the week working from home,” said one importer. “This has meant more remodeling, loft conversions, extensions and also garden office building.”

Within this sector, and construction more broadly, a UK company also detected a growing preference for timber as a natural, low environmental impact material.

“Surveys have shown that there’s growing consumer focus on a healthy indoor environment and the effects of construction forms and materials on well-being, with timber and wood structures and products shown to be more beneficial in these areas,” said a spokesperson. “It makes sense that the pandemic has heightened awareness and concern around these topics.”

The refurbishment market and use of timber in construction are also expected to be given a further boost in coming years by the EU’s ‘Renovation Wave’ initiative, launched October 2020. Forming part of the EU Green Deal, its target is to improve housing energy performance, helping the EU achieve carbon neutrality by 2050, while also delivering improved home environments.

Another plywood importer reported benefiting from increased infrastructure spending, notably in Germany.

“It started before the pandemic, but it looks now as though it’s also being used as a tool to help jumpstart growth as economies emerge from health crisis,” said a spokesperson. “In addition, the lockdown has also facilitated projects, such as bridge and road building, as there’s been less traffic. It seems these have been brought forward to take advantage.”

These comments on the building sector are supported by latest forecasts from Euroconstruct. After contracting 7.8% in 2020 (less than forecast earlier last year), it predicts construction in the 18-country Euroconstruct area will grow by 4.1% this year, 3.4% in 2022 and 2.4% in 2023 to reach an annual market value of €1.73 trillion, €28 billion ahead of the pre-corona 2019 level. Residential building is forecast to grow 4.7% this year and civil engineering 5.2%.

Market sectors that remain depressed include shopfitting and the exhibitions and events business. However, merchants and distributors are reported to have offset loss of trade here with more sales into housebuilding and repair, maintenance and improvement markets (RMI).

“What has also cushioned the blow has been sales of wood sheet materials into healthcare and retail markets for pandemic safe-distancing and protective screening and partitions,” said an importer.

After being hit hard at the start of the pandemic due to the wider downturn in manufacturing, plywood demand from packaging manufacturers has also improved, say some suppliers.

Furniture production seems to be a more mixed picture. One importer said they were experiencing ‘robust recovery’ in demand from the sector. Another however, reported their customers still on short time or in temporary shutdown, with workers on furlough, although they anticipated a robust rebound post lockdown.

“Furniture making seems to be less suited to online sales as customers want to see and feel the product, so producers have been really affected by shops being closed,” they said. “But they also report high levels of inquiries, which they anticipate translating into orders once showrooms reopen. Many consumers have saved money in lockdown, due to not taking holidays or going out, and furniture is one product area where they’re expected to spend it.”

While selling into a recovering market has been one thing, sourcing the material in sufficient volume to meet rising demand and ensuring prompt delivery has been another.

“Buying plywood and shipping it from nearly all sources has just become very hard work, particularly since the autumn,” said one importer.

While Chinese hardwood plywood suppliers are reported to have generally returned to pre-pandemic production levels, some manufacturers in Indonesia and Malaysia (despite EU+UK imports from the latter rising in 2020) are reported to still to be struggling. “One of our leading Malaysian suppliers is still only at 50% of normal production due to safe distance work practices and so many staff being in isolation,” said an importer.

Another said that increased competition from US buyers was adding to supply difficulties out of Asia. “It’s partly because of the boom conditions in US construction, and also some American buyers having diversified their supply base away from China to other Asian producers during the trade dispute,” they said.

Asian manufacturers’ prices overall are reported up around a further 10% in 2021. This is partly in response to growing demand, in domestic as well as export markets, but also to an extent poor weather disrupting log supply. And, of course, adding to inflationary pressure on sales prices are the surging freight rates from the region.

In a recent report in the UK Timber Trades Journal, a hardwood importer reported being quoted as much \$15,000-\$16,000 on containers out of Indonesia. European plywood

producers don't seem to have come across those levels but are now generally facing rates of \$7000-\$8000 from China and \$8000-9000 from Malaysia and Indonesia.

"That compares with between \$1500-2000 last October," said an importer. "While the market has been absorbing price inflation recently we can't sustain this sort of increase long term – and if prices go much higher we could be in a very difficult position."

The situation has prompted many importers to switch wholly or partly to breakbulk, citing costs out of Asia of \$90-100/m<sup>3</sup> to EU and \$100-110/m<sup>3</sup> to UK ports, compared with \$135-150/m<sup>3</sup> for containers. However, said one, this is not necessarily a straightforward alternative.

"For one thing, breakbulk shippers are now at capacity, with services heavily booked, and they're responding to increased demand by raising their rates," they said. "In addition, you have to be shipping large volumes to make it most cost effective, which for us is OK from China, but more difficult from Malaysia and Indonesia. The alternative is to piggy-back on other cargoes, which can be complex. Shippers also want payment the moment the vessel is loaded, breakbulk delivery tends to be slower, then you may find customers don't want to take this sort of volume all at once. They wouldn't want ten containers in one go, but perhaps ten over six weeks. Similarly, they wouldn't want an entire break bulk load. So then you're into issues of storage and you could find yourself financing a shipment for three to four months. That's a drain on cash flow you shouldn't underestimate."

Importers agree a container rate correction will have to happen. The critical questions are when and by how much. "We can't see things changing for two to three months, then we'll be into our July/August peak buying season, exacerbating the situation," said one importer/distributor.

"As much a worry as freight rates continuing at current levels, or rising further, is a sharp and sudden correction" said another trader. "At the moment, due to the tight and uncertain supply situation, customers are placing forward orders to July, August, even September. If rates drop rapidly, some businesses could be looking down a deep dark hole. Big stockholding importers and distributors especially could be faced with very painful depreciation levels. So managing stock right now is difficult and taking long-term positions very risky."

The birch plywood trade has its own issues. A rising wider plywood market, plus raw material shortages have prompted Russian producers to increase prices this year by 20%-25%.

"The mild winter impacted the harvest resulting in mills running short of particular qualities, and now we're into spring, the situation is expected to become even more difficult," said an importer. "In addition, due to demand for construction lumber, we've seen some shift of harvest from birch to pine."

Underlining the stress in supply, one Ukrainian mill was reported to be asking customers to submit orders and specifications, then pitching one bidder against another.

By [Forest Industries Intelligence](#)

For [ITTO Market Information Service](#)

31 March 2021 4 | 7

Also hanging over Russian plywood is the prospect of EU anti-dumping duty. “It’s creating a lot of uncertainty as we don’t know yet whether it will happen, when or how much it might be,” said an importer. “We’ve warned customers that we may have to put any retroactive duty on their account and, obviously, the further ahead you buy, the greater the risk. The result has been a rush on birch plywood for delivery by May or June and added price pressure.”

There are stresses too in the softwood plywood market. Prices on French, Russian, Scandinavian and Chilean are all up and delivery times are now stretching into September/October. More recently Finnish has risen 8% and Eastern European 20%+. Some suppliers are also reported to be adopting hard-nosed sales tactics. “One Belarusian producer has cancelled all outstanding orders twice in the last three months and told clients they have to pay a new price or lose their shipment,” said an importer. “This is previously unseen behaviour and puts a lot of importers in a very difficult situation because they, of course, have commitments to their customers.”

The sharpest price rises have come in Brazilian Elliotis, fueled partly by curbs on production due to the pandemic, but mainly by surging US demand. “Prices have doubled since October to \$400/m<sup>3</sup>. Effectively US buyers have priced it off the European market,” said one importer. “And the trend is still upward. Recently we heard \$450/m<sup>3</sup> being quoted.”

In response to the intense demand for softwood plywood from their regular sources, some European companies have started opting for Chinese product instead. “It’s not the same quality, but it’s available and cheaper,” said an agent/importer.

In the UK, of course, the plywood trade has also had to deal with Brexit. New customs procedures, plus having to put all timber and wood products from the EU through illegality risk due diligence under the new UK Timber Regulation, were reported to have caused delivery hold ups in January and February. However, as new processes have bedded in, log jams seem to have eased.

Another concern for EU suppliers to the UK and UK suppliers to the EU was the prospect of having to pay duty twice on plywood imported from elsewhere. Where UK companies have sales operations in EU countries and vice versa, the solution has been to ship in direct to the destination market. One UK company has also been using its Northern Irish operation to supply the EU. “As Northern Ireland remains part of the EU single market for goods, it circumvents the problem,” said a company spokesperson.

The general view is that the impact of the pandemic on overall EU+UK plywood imports in 2020 was less than anticipated at the start of the health crisis. The total volume was 4.28 million m<sup>3</sup>, down 6%. This followed a 5% fall in 2019, but the contraction still left levels at a historic high, with 2020 the fourth strongest year for plywood imports into the region in the last two decades (see Chart below).

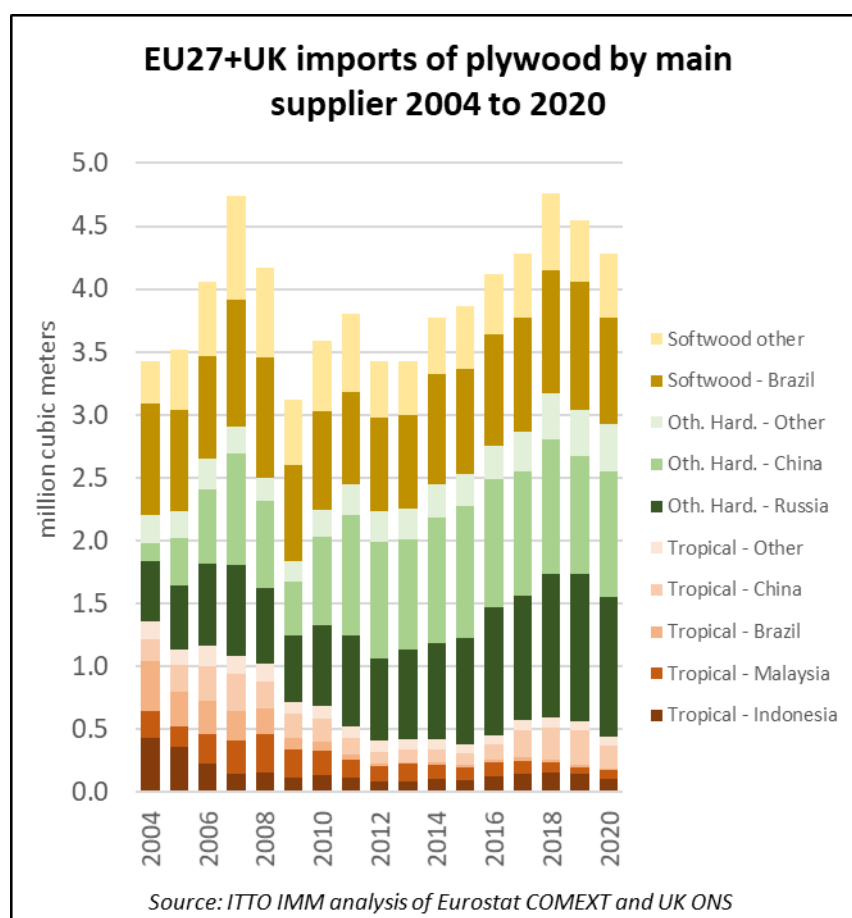
There was, however, a significant loss of market share for tropical hardwood plywood products, which declined 22% to 441,000 m<sup>3</sup> reducing its proportion of sales from 12% to

10%. Although imports increased 24% from Malaysia to 72,000 m3, they declined from other leading supply countries including Indonesia, down 27% to 104,000 m3 and China, down 31% to 187,000 m3.

Tropical hardwood product primarily lost share to non-tropical hardwood plywood from China, including both mixed light hardwood (comprising mainly eucalyptus and poplar) and birch products.

Total EU27+UK imports of non-tropical hardwood plywood increased 1% to 2.49 million m3 in 2020. A 6% increase in imports from China to 998,000 m3 offset a 5% decline in imports from Russia to 1.12 million m3.

EU27+UK imports of softwood plywood fell 10% to 1.35 million m3, mainly due to a 17% decline in imports from Brazil to 842,000 m3.



Looking forward, the general consensus in the European trade is that for some months, some believe right up to Q4, the supply situation will remain challenging and, as one importer said, 'selling plywood will remain easier than sourcing it'. But, they added, at some point the situation must change.

“Currently everyone is buying everything they can get hold of and price is seemingly not a consideration,” they said. “But what goes up must come down and we will see a market adjustment; when the heat comes off US demand for Elliotis, or the Brazilians face more

By [Forest Industries Intelligence](#)

For [ITTO Market Information Service](#)

competition in the American market, or when plywood prices more widely reach a point where customers start to resist, and Asian freight rates fall, as they eventually must. We can only hope that the correction, when it comes, is gradual, so businesses can manage the transition to more normal market conditions and are not left holding an excess of overpriced stock.”