

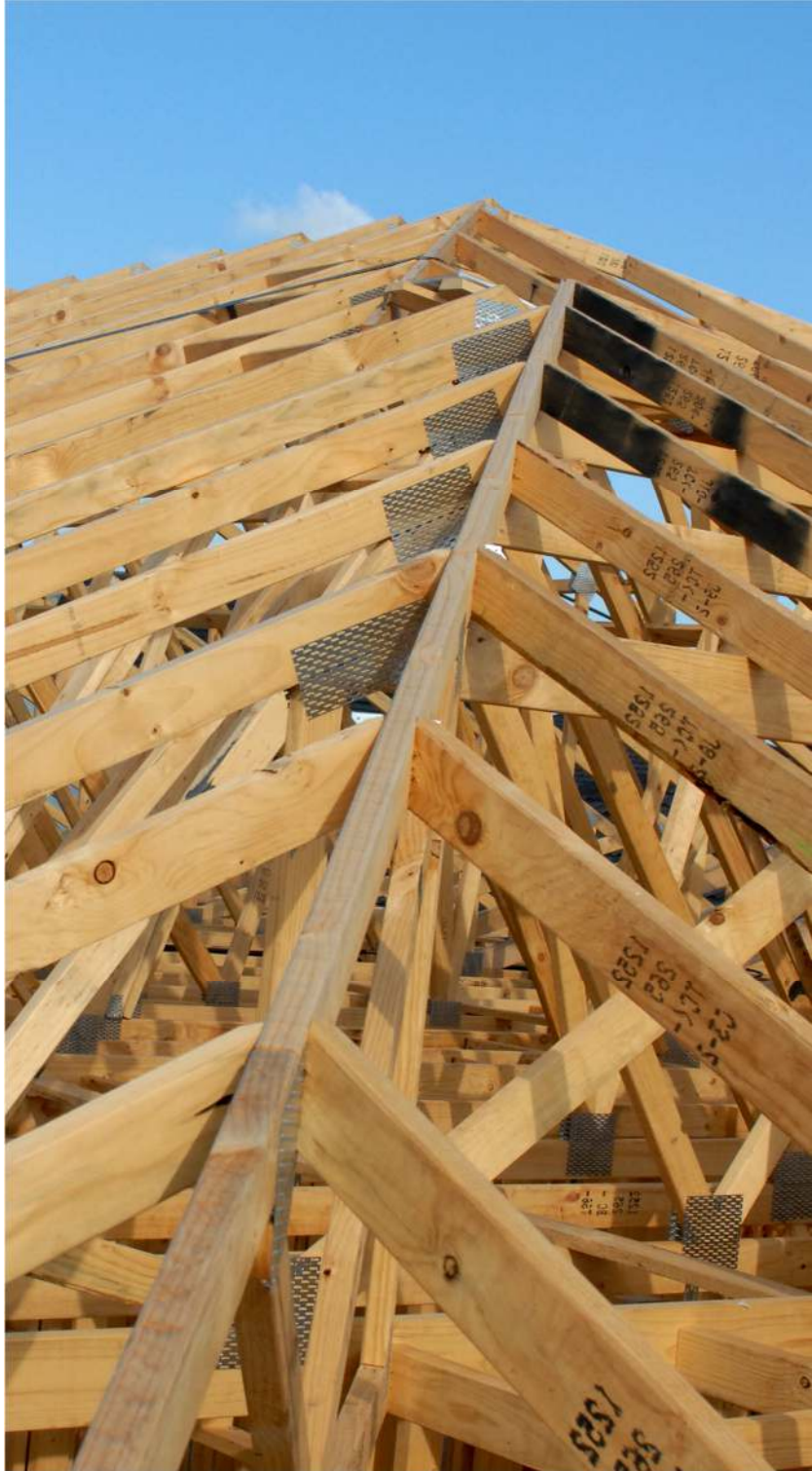


## Briefing #4:

# There is no timber shortage

*Australia does not face a shortage in sawn timber in coming months, or anytime in the near future. This is why.*

*Prepared by IndustryEdge:  
September 2020*



*“Whatever a fabricator’s mix of domestically produced and imported sawn timber, they need to secure their own supply.”*

## There is no timber shortage

*Australia does not face a shortage in sawn timber in coming months, or anytime in the near future. This is why.*

A rumour will get around the world before the truth gets up in the morning. This is all the more the case in the internet age, but that doesn't make the rumour more likely to be true.

IndustryEdge has been asked repeatedly in recent weeks about the stories of a timber shortage and how fabricators, builders and others can address that.

It is important to address these matters head on:

### There is no timber shortage.

Other than short-term supply shortages because global supply chains have been disrupted by the pandemic, there is no looming timber supply shortage. We expect that the disruptions, and the occasional inability to supply some products because of the global disruptions (timber is not alone obviously) has been hyped into stories of a 'timber shortage'.

In the industry, those stories – conflated by successive re-tellings – create unnecessary concern and worry at a time when there is plenty of uncertainty already.

In this analysis, we demonstrate that:

- Demand – in the form of new housing – is relatively stable for now
- Supply (local production and imports) of sawn timber in Australia has remained stable
- Some supply has been disrupted (delays and the like) by the pandemic
- Imports are the 'flex' volume in the Australian market
- Import supply will only be insufficient if buyers will not pay international benchmark prices

It is important to note that longer term, the national failure to plant more trees is a strategic challenge. That existing situation was made worse by the 2019-20 bushfire season, which created short-term supply disruptions and put softwood log supply out of balance around the country. Industry and government effort on this front is expected to deliver increased plantings over the next decade, while discussions continue to reduce the literally millions of cubic metres per year of log exports from Australia.

### **Demand for sawn timber remains relatively strong – for now**

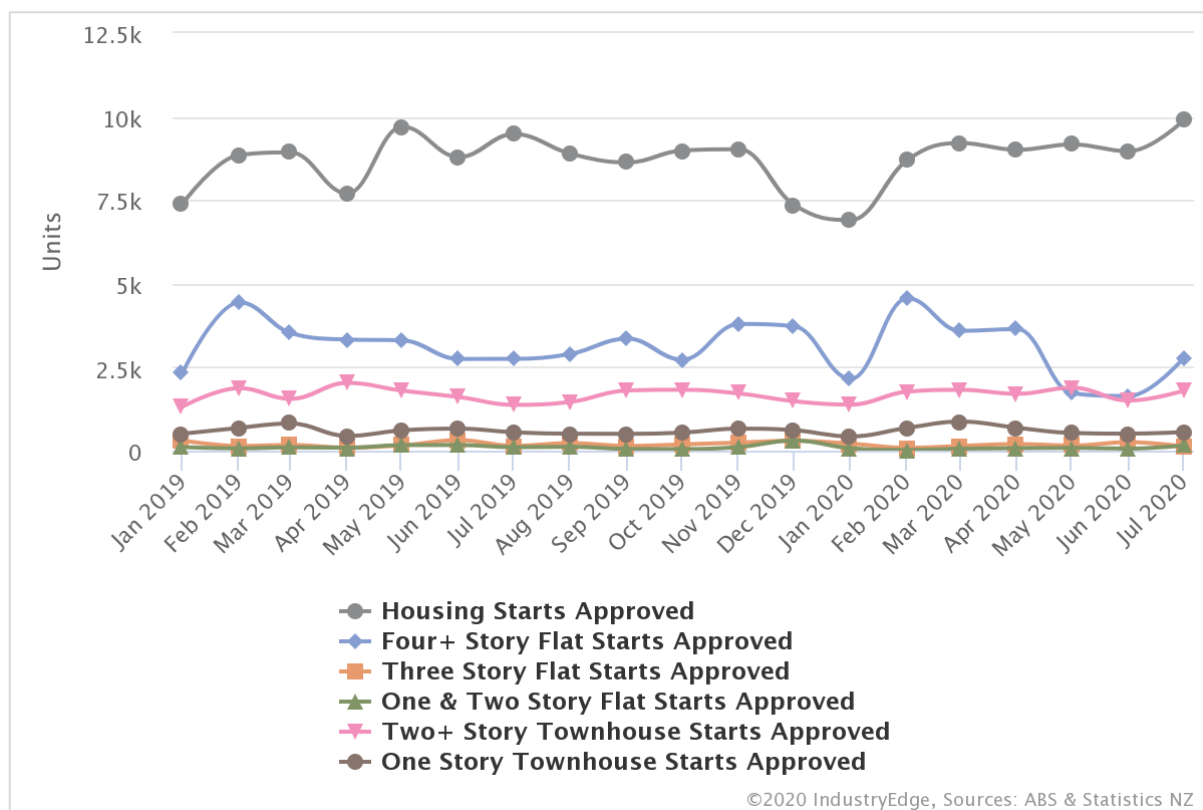
First, we need to take a look at housing approvals. Housing approvals overall have been quite strong, as the chart shows.

In fact, free-standing house approvals lifted to their highest level since November 2018 in July, reaching 9,894 separate approvals. That was a 10.4% lift on the prior month. The chart

also shows total approvals were up, fuelled by apartment approvals growth in New South Wales. Australia's total housing approvals in July were up 18.4% on the prior month.

Maybe more important than the monthly data, on an annualised basis, approvals are 5.0% lower than a year ago, at 171,880 separate approvals. That is hardly a disaster on the demand side!

### Australian Housing Approvals by Type: Jan '19 – Jul '20 ('000)



In some respects, the housing sector is the miracle worker of the Australian economy. Despite expectations that the pandemic would see the housing sector stall, it clearly has not. In large part, its current resilience must be put down to two factors: pent up demand and the sector's responsiveness to stimulus.

When Government puts the right money into supporting new housing, the sector typically responds quickly. In this case, the HomeBuilder program seems to have hit the mark, being just sufficient to tip the scales for enough households to see them make commitments to new builds.

However, no amount of stimulus can create demand. Demand is not really 'desire' for a new house, because all that does is churn the market, even where the new house creates building activity. Demand comes from increased 'need' for housing.

As we have discussed in these briefings previously, the real driver of housing 'need' comes from population growth and the creation of new households. For the last decade, most population growth has come from net overseas migration.

Migration has obviously stalled and is likely to be low for the next two years, at least. Though love will always find a way, it is also quite difficult right now for the existing population to meet one another, couple up and create their own households.

We also have to recognise that there will be no 'bounce-back' from this recession. Unemployment will be high for some years, wages growth was already under pressure and has stalled. Where exactly will the money come from to create the new demand, down the track?

In short, the main drivers of demand for new housing, other than pre-existing demand, have stalled. The implications of that are serious, but still a little distant, because it takes time for the pipeline of work to be resolved. We cannot put a date on it, but some time in 2021, the crunch will come.

There are potential solutions to these demand-side issues, but regardless, we are not looking to a boom, anytime soon.

So, that takes us back to the supply-side.

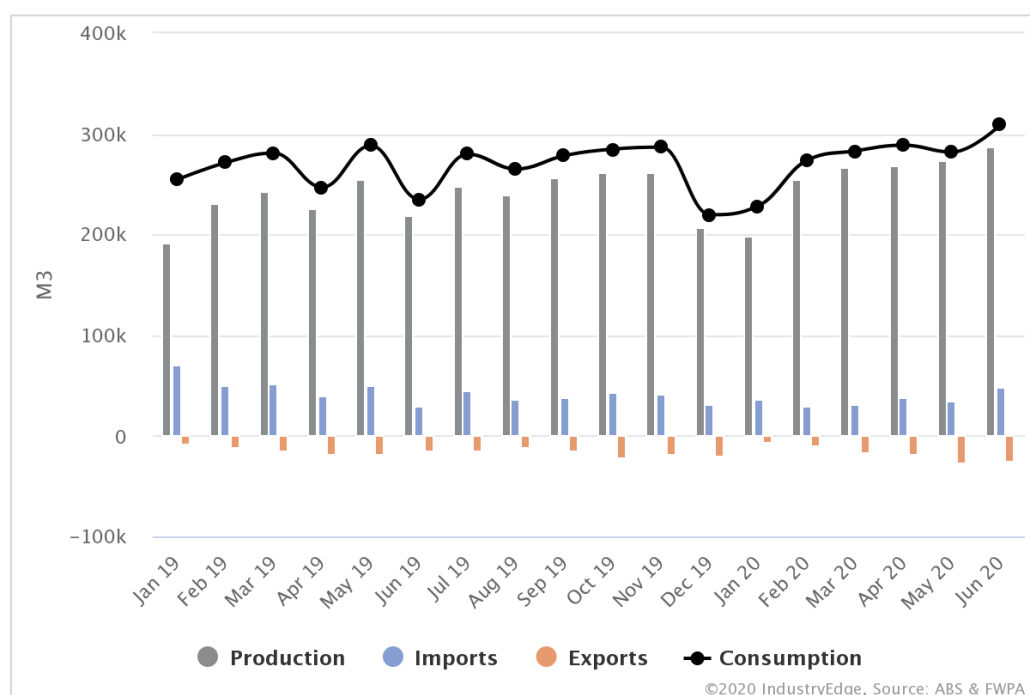
### Timber supply is under no threat

All expectations were that the first half of 2020 would see a modest recovery in what until then had been declining new housing commencements. That actually occurred, regardless of the pandemic, because of the pipeline of new housing commitments.

The growth is not stellar. It was never going to be. Given much of the building supply chain was already busy, a steady increase in building activity, that has been more than satisfactory.

We can see in the chart here that timber supply followed the housing market. The chart shows is sales of locally produced sawn softwood (the grey bar), imports (the blue bar) and exports (the orange bar). The black line is consumption.

### Australian Sawn Softwood Apparent Consumption: Jan '19 – Jun '20 ('000 m3)



What we might want to take note of in this chart is that as consumption rose, both production and imports increased.

In fact, in June 2020, production (actually sales of Australian produced sawn softwood reported to Forest & Wood Products Australia) was almost 31% higher than in June 2019, hitting a near two-year high of 287,000 m3. In the same month, imports lifted almost 57% compared to a year earlier, to hit around 48,000 m3.

The point here is that as demand increased, supply increased to meet it.

As that occurred, in some cases there were short periods of actual shortage in the supply chain. The reasons are before our very eyes:

- Bushfires in Australia disrupted local production and capacity to supply
- Production and port closures in Europe delayed some shipments
- Global shipping lines have merged and ‘blanked’ some voyages
- Shipping containers were banked up at Chinese ports (which took two months to resolve)
- Closed borders, domestically, continue to create challenges, and so on.

Normally ticking away pretty much consistently, the metronome of global and local trade is currently moving asymmetrically – it is out of step from one market to the next. It will continue to be that way for some time.

We need to consider these disruptions as ‘moments’ rather than trends. We should be clear that the disruptions will continue as the pandemic and the global recession create demand and supply challenges in different ways, at different times, in different regions.

So, to gain a real understanding of the likely timber supply chain and the demand and supply balances at play in it, we have to look beyond the moment and examine the trends.

### **Imports of sawn softwood are growing – in line with the market**

It is important to consider the role of imports in supplying sawn timber in Australia. The market has considerable maturity and imports have in recent years had at least three roles.

First, there is a consistent base-load of imports that can be seen in the charts. IndustryEdge considers that is around 30,000 m3 per month or roughly 360,000 m3 per year.

Second, imports above that base-load level are part of the ‘flex’ volume to supply the domestic market as its demand changes on both a cyclical and seasonal basis. To be clear about the role of imports, in 2019-20, imports accounted for just 15.1% of total supply of sawn softwood in Australia.

Third, import prices are one of the main global signals of market conditions and positions available to buyers and sellers. In general, when import prices are rising, global markets for sawn timber are stronger. When prices are falling, global markets are weaker.

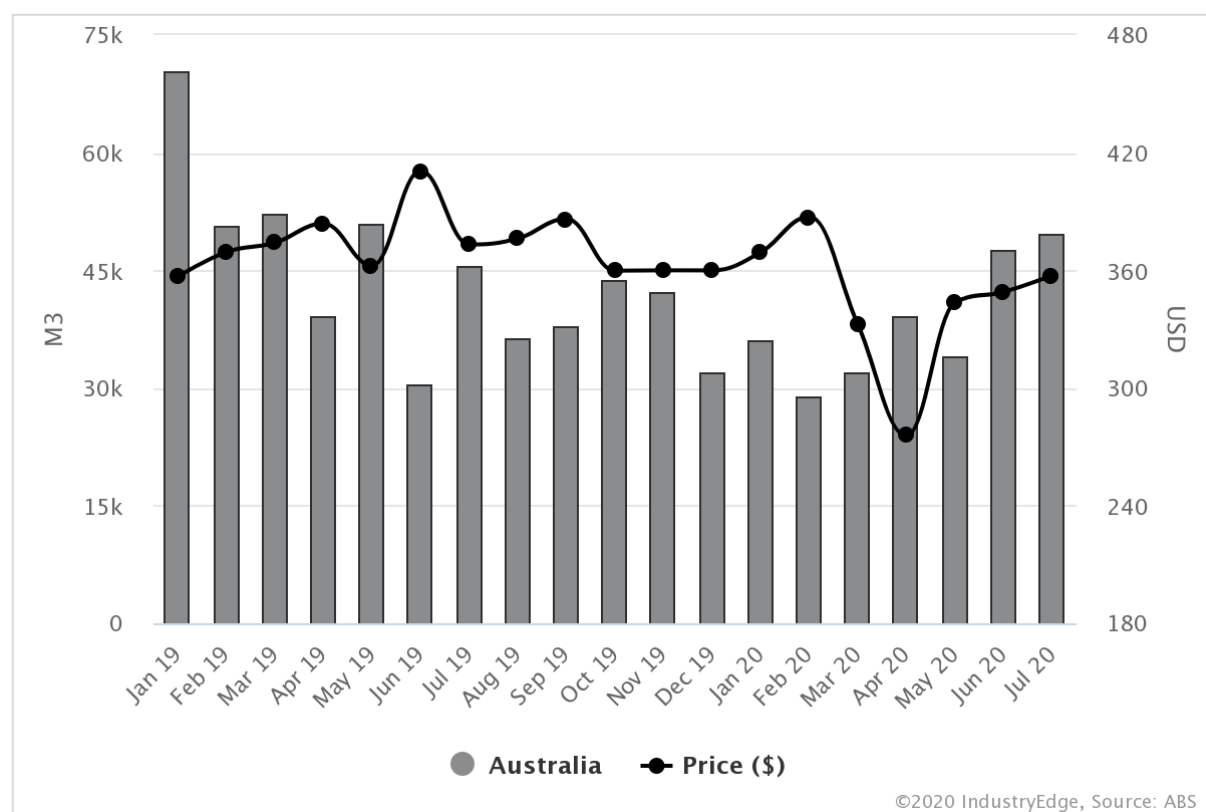
## Market signals provided by prices

Disruption to imports of sawn timber aside (you cannot control a supplier or a port that has to close for two weeks of a ship that doesn't sail), it is vital that fabricators and other buyers understand the sawn timber market, and the signals that imports provide to the market.

The chart here shows Australia's imports of sawn softwood up to July, and it shows prices in US dollars. The data is available, by country and by grade and in all currencies, on [IndustryEdge's Wood Market Edge online](#). When this analysis was written, the data for July had been available for less than four hours, ensuring the information available to the market is up to date.

What the chart shows is that sawn softwood imports are rising, and so is their price. This tells us that as much as there is increased local demand, international conditions are improving and prices are on the rise, as a result.

### Australian Sawn Softwood Imports: Jan '19 – Jul '20 ('000 m3 & USD/m3)



When import prices are rising, as they have been in recent months, the signal is clear. The importer can get that price for the timber in other markets. If the buyer doesn't pay that price, the importer will go to those other markets.

At the moment, a resurgent US housing market has pushed sawn timber demand and prices up higher. Importers to Australia have options to supply those markets and history says they will do so if they cannot realise the same prices.

So, the 'flex' in the import volume is driven by both local demand and comparative international pricing. Pay the legitimate international price or the importers will find a market that will pay it.

Albeit within the local market, the same applies for domestically produced sawn timber, which after all, accounts for 85% of total consumption.

### **No shortage of sawn timber – support your supply chain**

There is no shortage of sawn timber, and there is not one just around the corner.

As a participant in a global market, Australian businesses need to ensure they protect their supply now, and into the future. Whatever a fabricator's mix of domestically produced and imported sawn timber, they need to secure their own supply.

Doing that means taking account of global market conditions and reflecting those in their supply arrangements.

Not everything is within our control right now, but supplies of sawn timber can be controlled.

### **Understand the timber market better**

Now more than ever, housing supply chain and timber businesses need to know the international market prices, follow import volumes and prices and keep their understanding of the market movements constantly up to date. IndustryEdge's Wood Market Edge online – where the charts in this analysis were created – provides that service on an ongoing basis.

Contact IndustryEdge at [info@industryedge.com.au](mailto:info@industryedge.com.au) to book a demonstration of Wood Market Edge online.