COVID-19 & EUROPEAN BEETLE IMPACTS ON NORTH AMERICA & CHINA PRICES

First it was a toilet paper shortage at the start of the COVID-19 pandemic and then it shifted to a crisis in finding building materials across North America.

North America lumber

Almost as fast as sawmill and panel plants had curtailed operations in April (about 1.6 billion board feet of lumber curtailments occurred at North American sawmills) due to almost no demand, a boomerang effect took place. Most US states and Canadian provinces deemed house construction an essential service. At the same time, activity in the remodeling market was kindled as homeowners were spending more time at home and the opportunity to start renovations and home improvement projects started to quickly ramp up everywhere. By early May, the supply chain was in shambles, including shipments from Canadian mills that were delayed because of the US and Canadian border closures. At this time, lumber and panel prices began to bounce back from below break-even levels. Since early June, lumber and panel markets have been on fire with rising to soaring prices, led by the repair and remodelling segment. At the time of writing (in early September), the benchmark western SPF (spruce-pine-fir) 2x4 #2 and better lumber had probably peaked at a record US$955/Mbf as compared to a low of US$277/Mbf in early April 2020.

Since April, North American demand has continued to outpace supply for softwood dimension and treated lumber, and studs, as well as OSB and plywood. Mills still had order files extending four to five weeks in mid-October. All lumber as well as panel prices had smashed any previous records achieved (most from 2018). Customer inventories were so lean that in many cases price was no object for many buyers throughout the distribution channel.

North America paper

While work-from-home policies have been a boon for wood product producers, office, business and school closures are devastating another tree product: paper. These shutdowns have clobbered the demand for newsprint and writing paper used in everything from newspapers, schools, stores, restaurants as well as offices. While consumers stuck at home have been buying more paper as well as hygiene-based paper products (and everything else) from Amazon and other e-commerce sites, it has not been enough to offset the normal purchases by companies or from schools.

European lumber in the US

In the current pandemic cycle, were it not for the rapidly increasing and incremental imports of lumber from Europe, it's highly conceivable that US prices would be even crazier. The largest source of non-Canadian lumber imports into the US continues to be from Europe (excluding Russia). European lumber imports grew by only 5 per cent to 2.24 million m^3 (950 million bf) in 2019—this is still a long way off the peak of 4.5 million m^3 reached in 2005. However, total European exports increased by 43 per cent in 2020-Q1. After Canada, Germany was the largest exporter to the US with a total of 1.15 million m^3 in 2019 (+14.4 per cent versus 2018). Sweden is the second-largest European exporter (401,000 m^3; +2.1 per cent), followed by Austria (216,000 m^3; -10 per cent).

With a massive log-salvage operation facilitating very low log costs, central European companies operate some of the most efficient sawmills in the world. This means that the German as well as some Austrian sawmill companies are now some of the most competitive in the world. On a delivered cost basis to the US south, German sawmills have 35 per cent lower costs than BC Interior mills. This is where the bite of the 20 per cent US import duties and the high stumpage costs put BC mills at a major disadvantage: the BC western SPF lumber had the highest costs on a delivered basis to the US south in 2019-Q1 and is expected to be in an almost similar position in 2020 (although stumpage costs have finally moved lower).

The escalating spruce bark beetle epidemic in central Europe has resulted in a massive timber salvage program that includes a huge increase in log exports to China. The outbreak in Germany, the Czech Republic and Austria is so severe that it is predicted that the killed timber volume from the European spruce bark beetle will eventually exceed that of the BC Interior's mountain pine beetle outbreak.

European logs in China

In 2019, the total log export volume from Europe to China reached an astounding 8.1 million m^3 in 2019 (18 per cent of China's total softwood log imports), and through the pandemic-induced first seven months of 2020, volumes have already reached 6.2 million m^3 (28 per cent of China's imports). Germany and the Czech Republic accounted for 80 per cent of log exports from Europe to China in 2019, a proportion that is expected to grow in 2020 and beyond.

European exports have, in part, displaced US PNW and Canadian (BC Coast) logs: total North America log exports to China dropped from 7.4 million m^3 in 2018 to 5.3 million m^3 in 2019 and are lower again by more than 40 per cent in the first seven months of 2020. BC Coast log exports to China are off by more than 50 per cent so far this year.

Based on the potential harvest of damaged timber and the capacity limits of the central European sawmill industry to process the damaged logs, rising log export volumes could result in further disruptions to global trade flows. It is expected that central European log exports to China will stay elevated at low prices until at least the middle of the decade forcing higher cost exporters out of the market.

Despite the current and staggering US lumber prices, the inevitable correction will occur. While some expect more of a "soft landing", others are less confident. This means we are in for a wild ride in the fourth quarter during which anything and everything can happen.

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