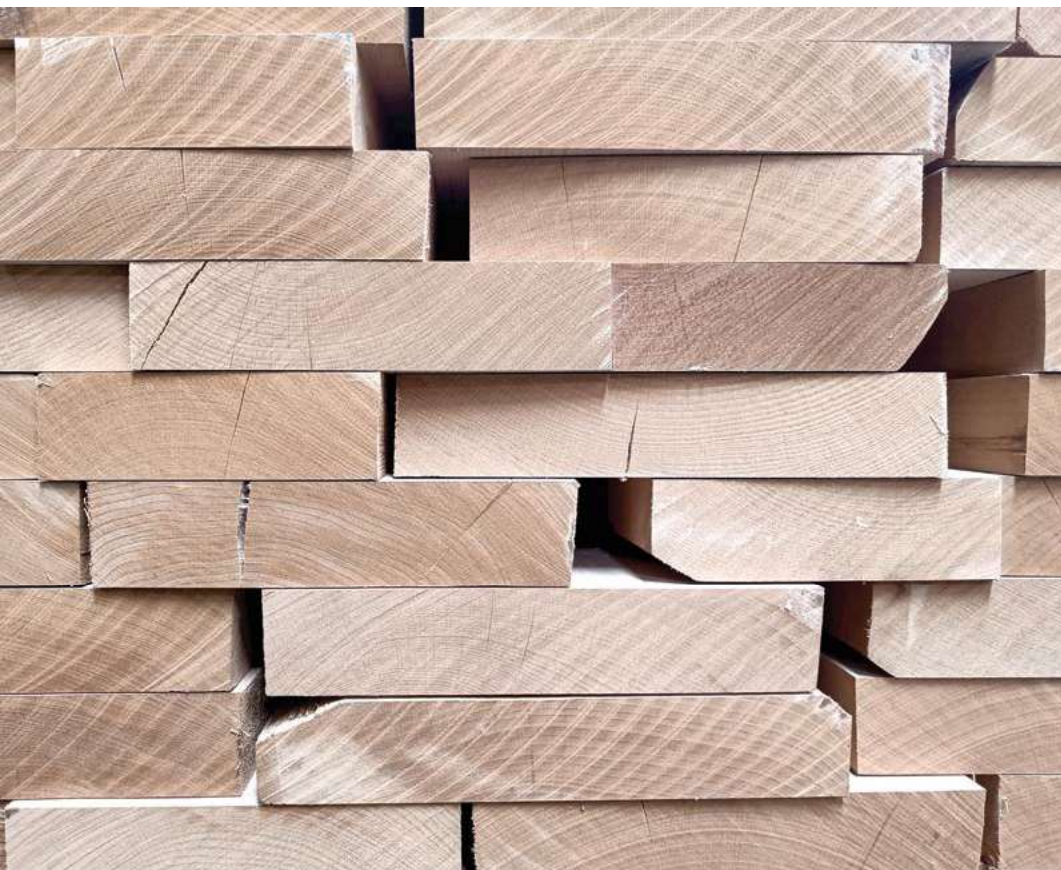


Timber and turning points: Thoughts of a businessman

By **Per Friis Knudsen**, director, Global Timber Asia



July 2022 was a turning point after COVID-19. But things did not turn out as we hoped they would.

We expected things to return to normal; for the market to regulate, sales to grow. In fact, July 2022 was only a turning point for COVID. The current question is more of when we will reach the bottom of the market. It is still unanswered, and constantly on my mind in these trying times in the timber industry.

Having been in the business since 1988, and now occupying the role of the director at the international wholesaler Global Timber, I like to think that I have

a well-founded and nuanced outlook on the current market situation. Here are my thoughts on the situation we all find ourselves in now.

A ROLLERCOASTER MARKET

Since July 2022, we have been on a monthly rollercoaster ride going from low valley to positive high peaks and then rapidly back into black holes. The market has turned unpredictable. From where I am sitting, I cannot foresee the upturn, or when we will return to pre-COVID conditions, and it is frustrating.

Of course, there are some positive trends too. At Global Timber, we had

more sales this September compared to many of the previous months, and there have been months of increased sales. But it cannot be categorised as a trend. Yet.

RISING PRICES FROM SUPPLIERS

Lumber supplies from the US are becoming sparse, and companies are halting production to drive prices upwards. FAS prices on white oak will reach the 2021/22 level soon, and the price gap between lower and upper grades is the widest I have ever seen.

Log prices, however, seem to be stabler lately. I am guessing this is a move by mills to start making money again. If they do not, too many will be forced to close before the market recovers.

European hardwood prices are not increasing as dramatically as in the US, but there is still a very large gap between unedged boards and edged boards. American edged boards will remain in favourable pricing for the time being, but the question is how long it will be before European boards become more attractive again.

RECORD-LOW DEMAND CRIPPLES THE INDUSTRY

The flooring industry is very much feeling the same slump for incoming orders that the furniture industry saw previously. Manufacturers are craving new orders while buyers are exploring alternative paths to reduce the prices on finished goods.

Some factories are running well below 50% production capacity and large numbers of workers have

been laid off around South East Asia. Others struggle to pay salaries, and some are forced to implement extended holiday periods where workers are sent home with reduced salaries to avoid layoffs.

I predict workers shifting between factories in the near future. If one factory can offer \$5 more per hour, it will result in a surplus of labour here and consequently a lack in other factories. The result will be the closure of several factories and even some mills. For a while, it will be the survival of the fittest in this industry, and we will be left with fewer but larger, more resilient players. But I do not see any major changes to the overall supply chain.

A TURNING POINT IN THE HORIZON

I used to be able to follow my gut feeling on market trends, but during this rollercoaster ride, my gut started suffering from motion sickness.

At first, I was inclined to think that October 2023 would be our turning point. That by Christmas 2023, we would be laughing off this crisis. Needless to say, I was way off.

Earlier this year, my conviction was that the period after Chinese New Year would be the long-awaited turning point. However, with all the negative input lately, I see the end of Q3 or Q4 2024 as a more realistic mark.

I no longer imagine laughing off this crisis at any point — I now only hope to ride it out.

A RAY OF LIGHT FROM INDIA

The only bright outlook at the moment is India.

This is a region where we are very active and have increased our business development over the last 12 months. So, either we are lucky, or we are following the market trend. Maybe a bit of both.

Let's say we are skillful at riding the market trend. Here is my prediction for 2024's glowing market: I believe we will see increased sales and purchase demand from Vietnam in particular.

So much production from China has moved into Vietnam, that the slightest increase in demand of hardwood will affect Vietnam rapidly, and the supply chain will not be able to keep up. The perfect storm will develop, and hardwood prices will increase globally throughout the next 12 months, reaching highs not seen for many years. The gap between demand and supply will be huge, the price difference between low and high qualities will increase, and pricing for thicker timber pricing will increase dramatically due to the nervous supply chain within the next 12 months.

Customers often ask me when is a good time to buy sawn hard timber or lumber. My advice is now. Prices of low qualities are on a 10-year low but rapidly increasing. Build your inventory while prices are still reasonable and avoid the shortage of supply in the next six months' time.

WHAT IS TO COME?

Travel lust has been on a steady rise since the end of COVID, and it has affected the industry greatly.

Tourists are flocking to Asia again, hotels are getting their foreign workers back and start running at full occupancy soon, and those tourists are not investing in new flooring or furniture for their homes. They want to spend their money on adventures that they have been dreaming about the last few years locked up in home.

I believe this trend will mellow out within the next 12 months, leaving room for more normal conditions, where the demand for hardwood goods will increase.

The political climate in Asia is calmer than usual, and there are no indicators

of unrest that could affect the market. This is in sharp contrast to much of the world, where war and a tense political climate is contributing to strained trade.

Indonesia will have the romantic Valentines Day election in 2024, and hopefully start work on relaxing their complicated and bureaucratic heavy import system.

Is the turning point just around the corner? No one knows. All we can do is be vigilant, follow the market and wait for the inevitable 'return to normal'. Not everyone will make it, but the ones who do will come out leaner and more resilient than before.

Everything is going to be fine. Unless, of course, we see the rise of another global pandemic in the next six months. **P**



Per Friis Knudsen is the director of Global Timber Asia and is responsible for sales and trades in Asia. He has years of experience in the global wood industry, and is a qualified furniture maker with comprehensive expertise in the wood furniture business. Before joining Global Timber in 2013, Per worked and travelled across countries and cultures. With Asia being his greatest interest, he decided to settle in Malaysia from where he has worked with hardwood trade ever since.