

WRI Market Insights

Softwood Lumber Demand in US, Asia and MENA Will Be Vital to Sweden's Sawmills Amid Domestic and European Construction Decline

Audrey Dixon, Managing Editor/Writer, ResourceWise Forest Products

Sweden's softwood lumber export trade is a bright spot in an economy steeped in recession, and export sawmills have high hopes that US demand will continue to rise as supplies from Canada decrease and the US turns its eyes to Europe.

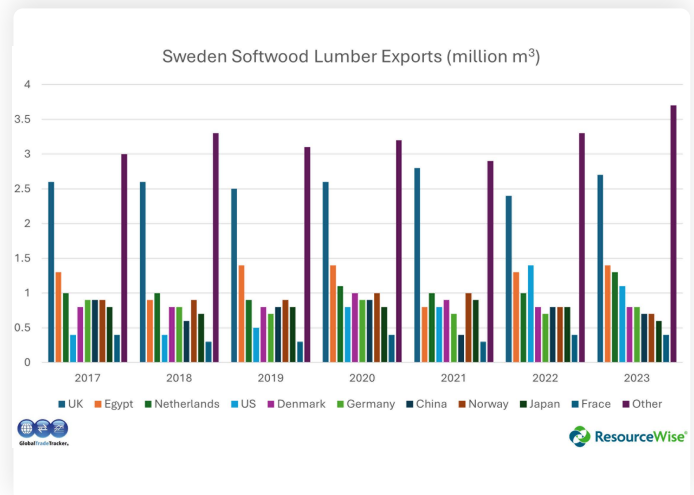
Sweden's softwood lumber production in 2023 was 17.8 million m³, down from 18.5 million m³ in 2022, according to Swedish Forest Industries Federation (SFIF) data. Exports in 2023 were 14.2 million m³, an increase from 13.6 million m³ in 2022.

In a market report for the last October's EOS/ETTF International Softwood Conference in Austria, SFIF's Christian Nielsen noted the economic challenges Sweden faces, including high inflation, high interest rates, and lower construction activity--all of which have continued into 2024. The Swedish government, on announcing its budget in September 2023, said the country's economy is not expected to rebound from recession until 2025.

With construction constrained, a weak domestic market has helped push lumber prices down in Sweden close to lows seen in 2020, while net wood costs have risen. Mill gross margins in 4Q hit a six-year low of €79/m³, according to Wood Market Prices data.

Lumber exports, which have benefited from a weakened krona, have been a bright spot for Swedish sawmills, particularly to the US. Sweden's softwood lumber exports to the US grew to 1.4 million m³ in 2022, before declining in 2023 to 1.1 million m³. In the years before the COVID-19 pandemic, Sweden's

exports to the US had barely reached 0.5 million m³, rising to 0.8 million m³ in 2020 and 2021.



SFIF believes the surge in exports to the US that began during the pandemic years was the start of a new trend that will continue to grow. In a March market update, SFIF noted the strong pace of construction in the US while its biggest lumber supplier Canada was challenged by a decreasing supply of raw materials, as well as increasing social and environmental demands.

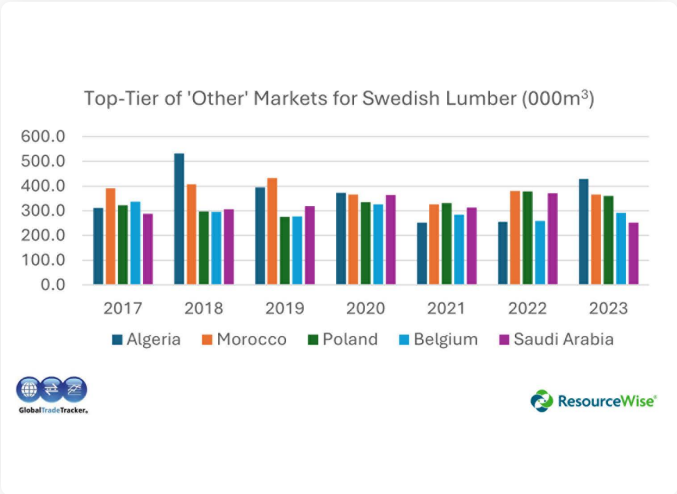
The US is expected to turn to Europe for more of its supply. However, the US market will not be enough to compensate for the decline in construction activity in Sweden and Europe. SFIF said the Swedish and

European wood products sector will be dependent on demand from Asia and the Middle East and North Africa (MENA) region.

Over the next five to 10 years, SFIF expects global demand for lumber to increase, along with good demand for Swedish lumber. This is expected to benefit the Swedish sawmill industry, although if the krona strengthens, it will hit sawmills hard.

The UK is Sweden's top lumber export market, accounting for 2.7 million m³ in 2023—its highest volume of lumber from Sweden in at least seven years. In 4Q 2023, however, Sweden's exports to the UK declined 17% both year-over-year and compared with 3Q. The second and third biggest export markets, Egypt and the Netherlands, both saw substantial quarter-over-quarter volume increases from Sweden at the end of 2023.

It is worth noting that Sweden's smaller softwood lumber export markets in aggregate annually account for around 3.0 million m³. In 2023, that increased to 3.7 million m³. The top-tier of the 'others' basket in terms of volume includes Algeria, Morocco, Poland, Belgium, and Saudi Arabia.



They each annually account for between 300,000 and 400,000 m³, although Algeria's lumber imports from Sweden in 2023 reached 428,346 m³, up 68% from 2022 and the highest since 2018.

According to Wood Market Prices data, the US generally pays the most for Swedish lumber. The price was around €289/m³ in 4Q 2023 (down 10% year-over-year). The UK price in 4Q was €275/m³. Algeria's price in 4Q 2023 was €220/m³, and on average in 2023 as a whole Algeria paid around 42% more than Egypt per m³ of Swedish lumber (see Wood Market Prices-ResourceWise for more pricing data).

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