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SOFTWOOD CONFERENCE
Vienna 2023, 11th – 12th October

Market development and outlook from European sawmillers' perspective

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EOS (European Organization of the Sawmill Industry)*

After a very positive period, markets began turning in Q3 2022. Ever since sawmills are struggling and squeezed amid higher production costs and sawn prices for sawnwood much lower than during pandemic

- The first quarters of the year were negative, and no short-term improvement is visible; important differences within Europe with Central Europe production decline much stronger than Scandinavia (particularly Sweden). Consumption of sawn softwood is low throughout Europe.
 - Consumers and producers alike are confronted with high inflation and interest rates which have not been this high since the global financial crisis of 2008-2009.
 - The slowdown of construction markets all over the world is the main responsible of the difficulties for the sawmill industry. Building permits and housing starts declining basically everywhere.
 - As statistics have shown, during Winter By-products sales have slightly compensated for the massive revenues decline and remain higher than their historical average.
 - Export markets are important and at least during the first part of the Year sales in volume have done OK in some markets. Recently there was a significant slowdown in most markets
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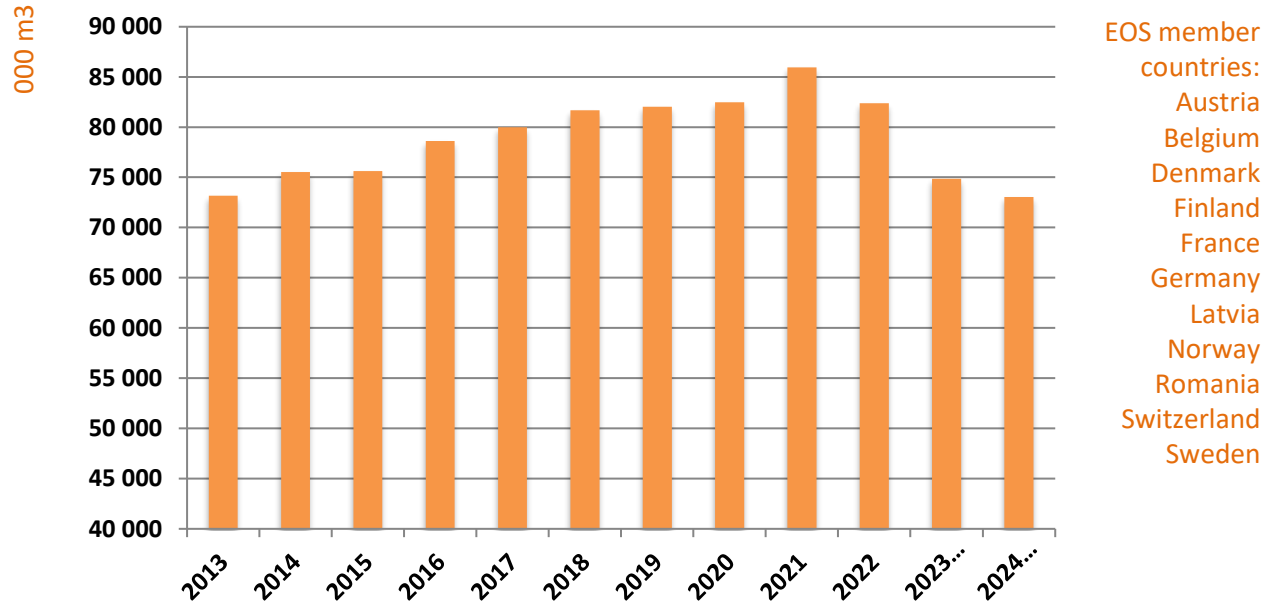
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Production and Consumption

EOS Production overview

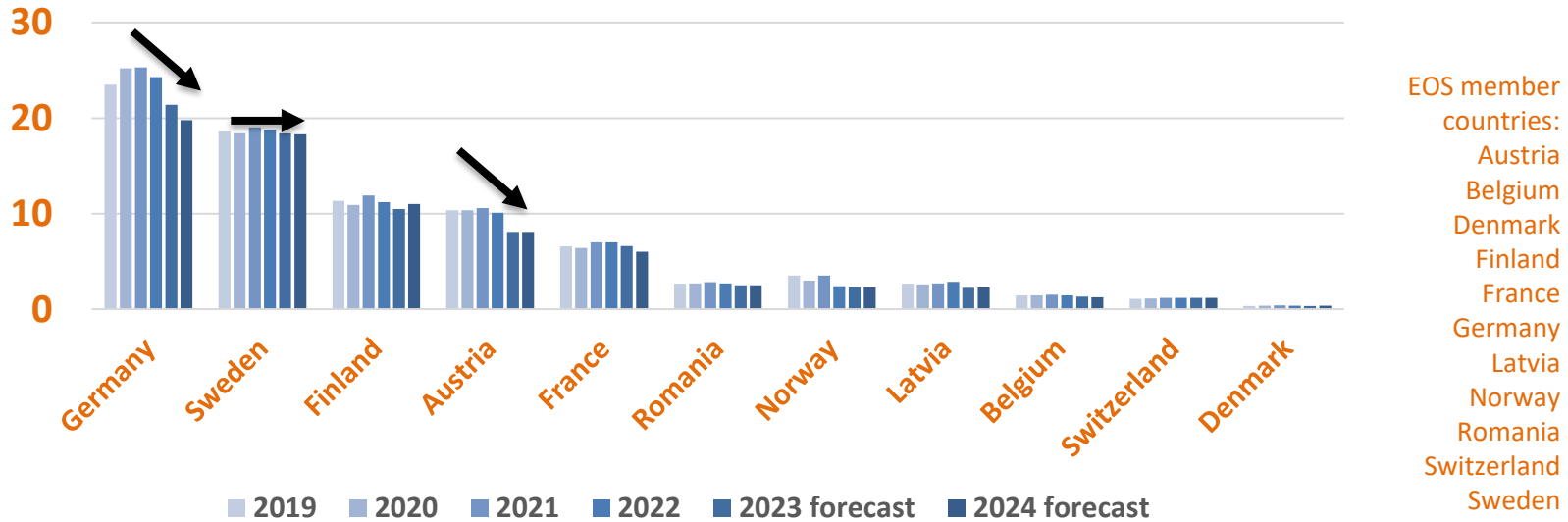


In 2021 sawn softwood production in the EOS member countries peaked at 86 million m³. In 2022 production declined by 4% and this year it is expected to decline by a further 9% to levels last seen in 2014 (around 75 million m³). EOS countries expect a further reduction in 2024 up to 2.5%.



Source: EOS

EOS Production country by country in million m3



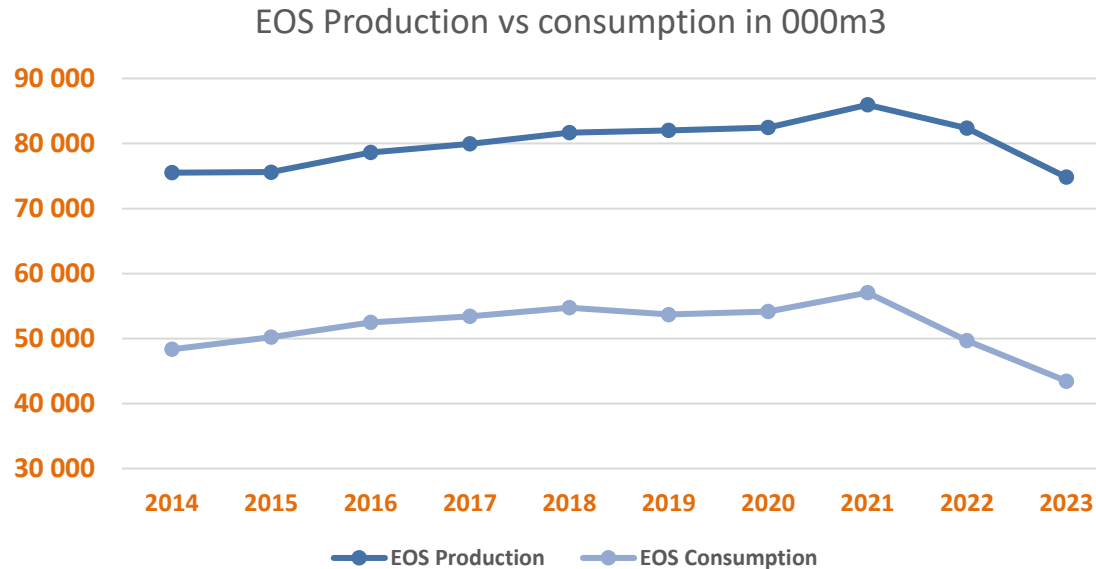
Diverging production trends next year with Germany expecting another strong decline and Finland a moderate increase

Source: EOS

Consumption declining much faster than production



In 2023 vs 2021 consumption expected to decline by 24%. Production expected to shrink by 13% in the same period. Increasing importance of export volumes and increasing stocks especially last winter.



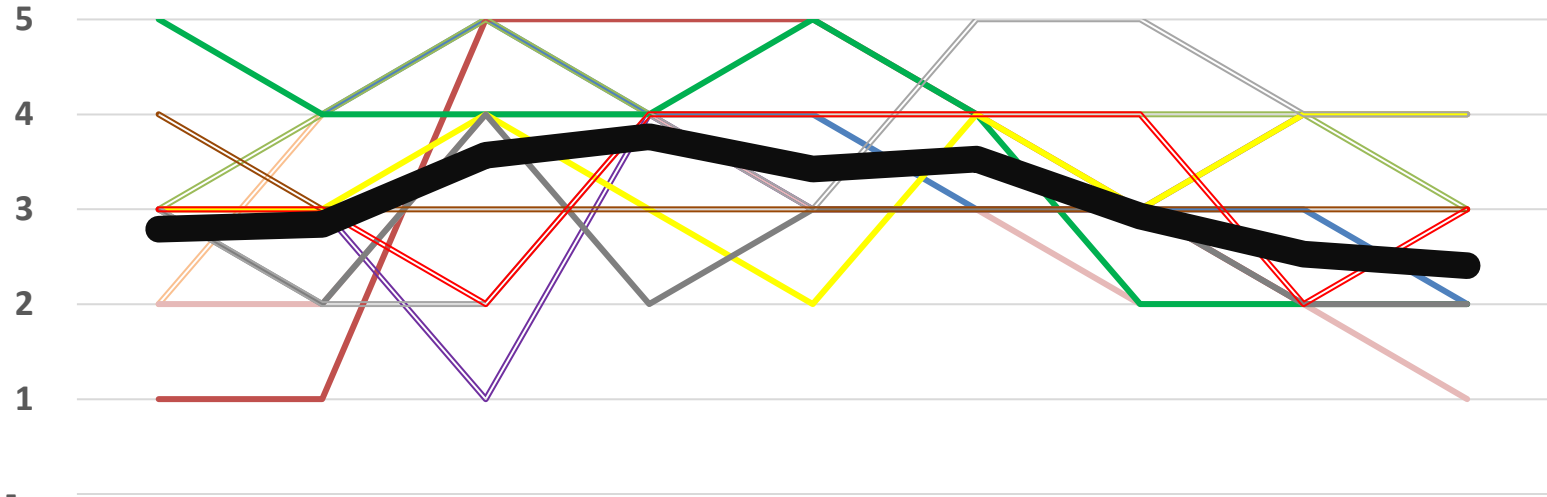
Source: EOS



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Raw Materials

According to the EOS countries the raw material availability index is declining



2016 2017 2018 2019 2020 2021 2022 2023 2024

— AT — BE — CH — DE — DK — FR
— FI — LV — NO — RO — SE — Average

1 = low; 2 = medium low; 3 = normal; 4 = medium high; 5 = high

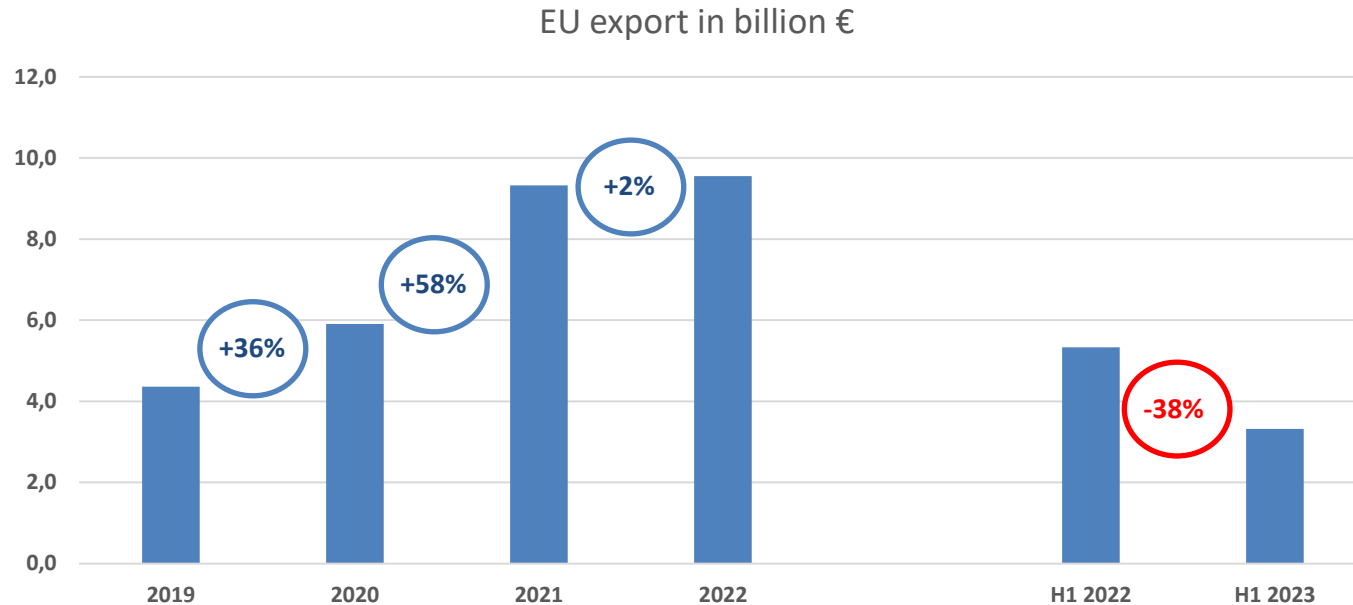
- The availability of raw materials as shown by the EOS index is declining across Europe but in particular in Central Europe. The level is the lowest since 2013
 - While this year due to weak demand the raw material availability was not the issue number 1 for sawmills, supply of logs remains central to the strategy of many companies
 - Uncertainty is high. Beetle attacks have appeared in parts of Europe which have been spared in the past, such as Latvia
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Export Markets

EU export of sawn softwood to rest of the world



Source: Eurostat/EOS

- Before the pandemic in 2019, EU exports of sawn softwood stood at €4.4 billion. In just 2 years, they more than doubled to €9.3 billion and in 2022 they reached €9.5 billion. This year, though, big fall in H1

U.S. Import of softwood lumber from leading exporters (1 000 m ³)			
	Jan - Jul 2023	Jan - Jul 2022	2023/2022
Germany	1 482	1 305	+14%
Sweden	630	510	+24%
Austria	209	277	-25%
Romania	189	272	-31%
Baltics	97	131	-26%
Finland	84	49	+71%
Czech Republic	82	88	-7%
Russia	4	41	-90%
Total Europe	2 777	2 673	+4%
Canada	16 417	17 925	-8%
Brazil	304	345	-12%
New Zealand	118	130	-9%
Chile	111	159	-30%
China	17	46	-63%
Other	191	203	-6%
Total	19 935	21 481	-7%

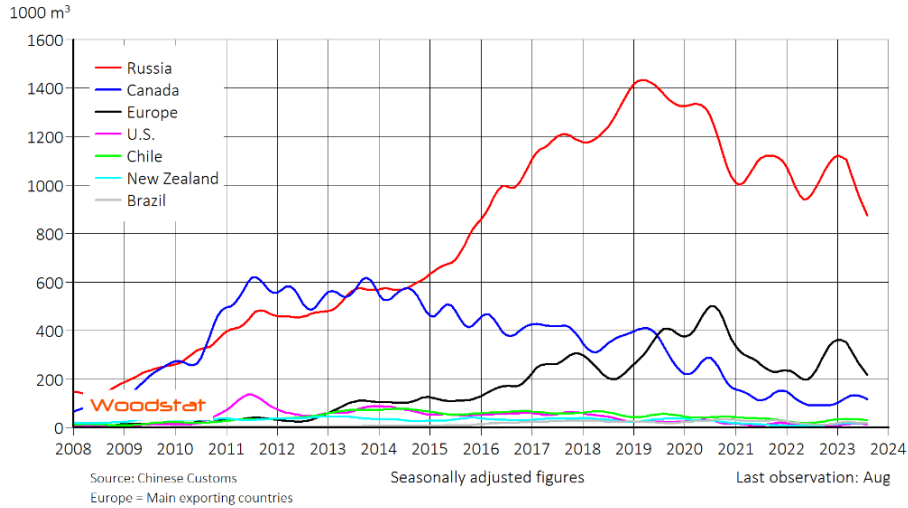
Source: Eurostat

- In volume, the EU exports of sawn softwood to the US keep growing (but a slowdown was noticeable in the last couple of months).
- Housing starts in the US slowing down but not as much as in Europe
- The market is very important in particular for Germany and Sweden
 - Market share of European sawmills further increasing and reaching 14%

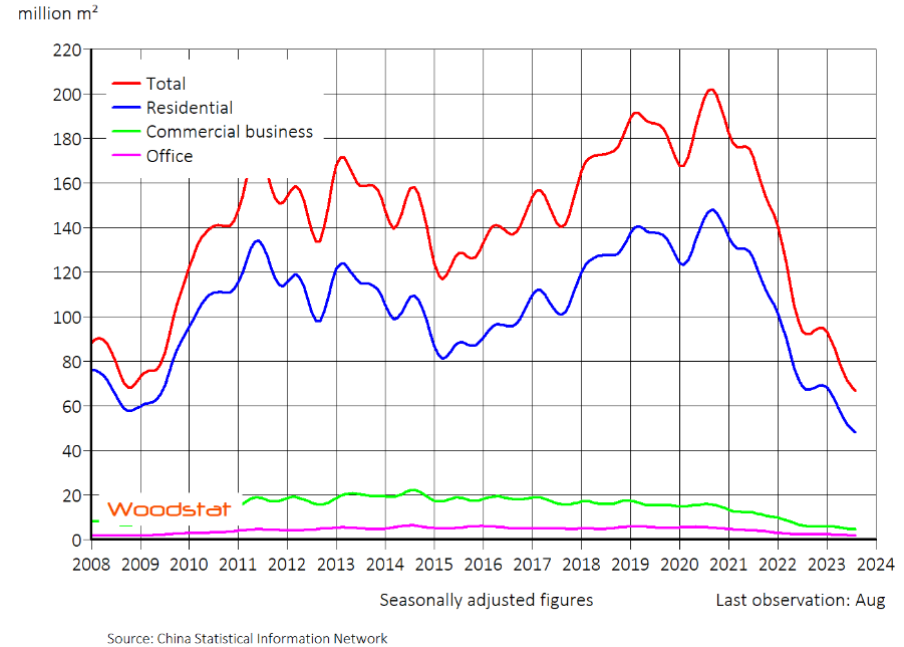
Chinese Market



CHINA
Monthly import of softwood lumber



CHINA monthly buildings started
Urban area, floor space



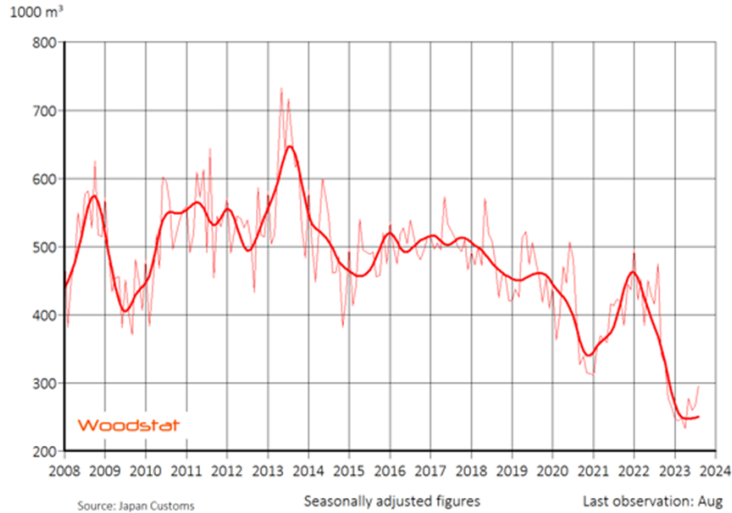
- Chinese imports after going up during the winter are trending down again amid local construction markets difficulties. Not reliable market in short and medium-term?
- Russian competition has not prevented European suppliers to increase their sales to China which for a few months during the winter were at their highest level since 2020

Japanese Market

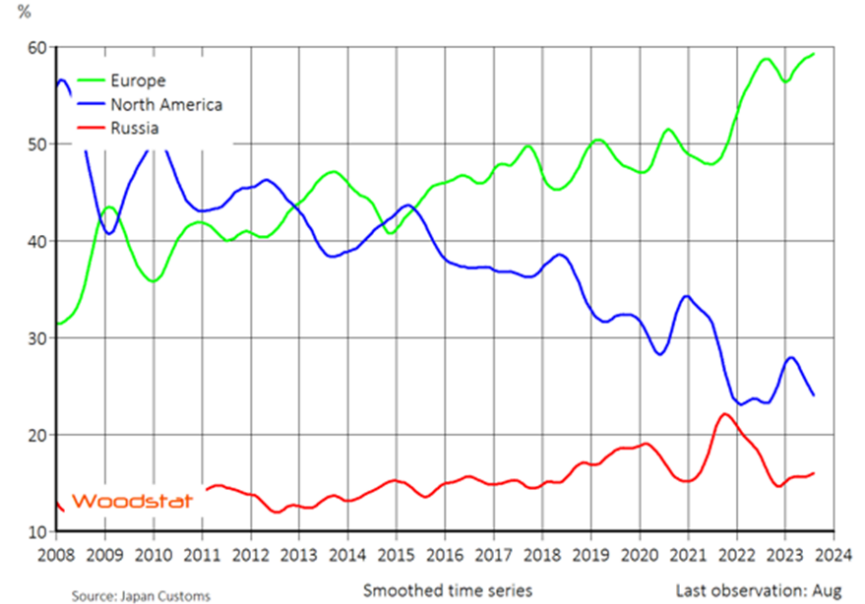


JAPAN

Monthly import of softwood lumber



JAPAN softwood lumber
Market shares for leading exporters

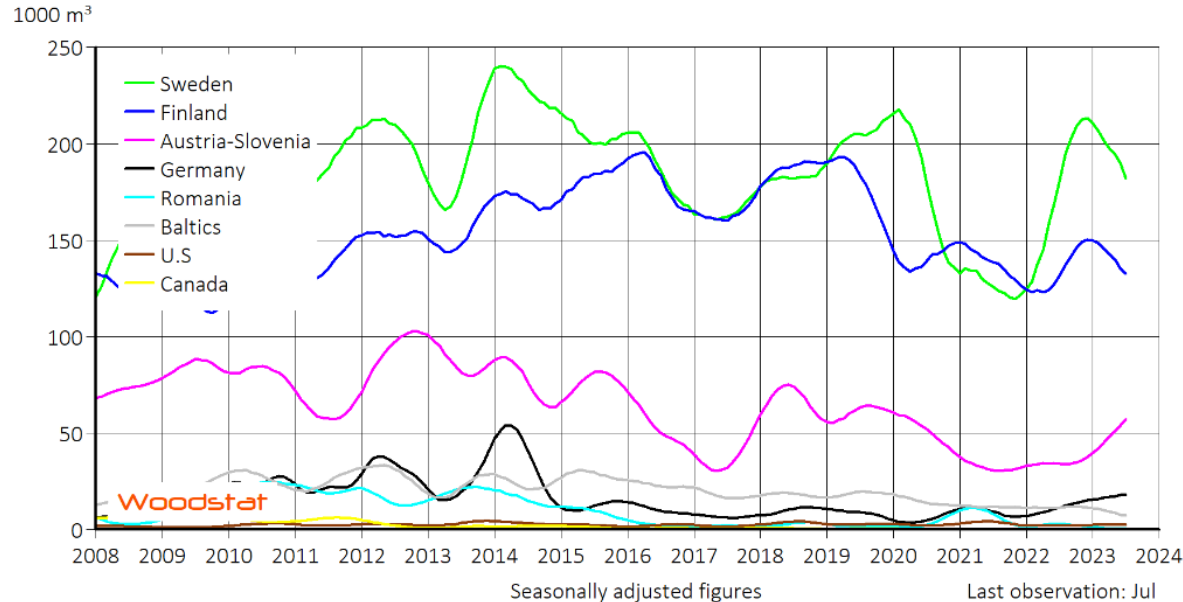


- Compared with 2022 Japanese imports declined 41% during January-August.
- All main areas show a big decline
- The market share for European wood is increasing and taking share mainly from North America.

North Africa



NORTH AFRICA monthly import of softwood lumber
From main European exporters (excluding Russia) and North America



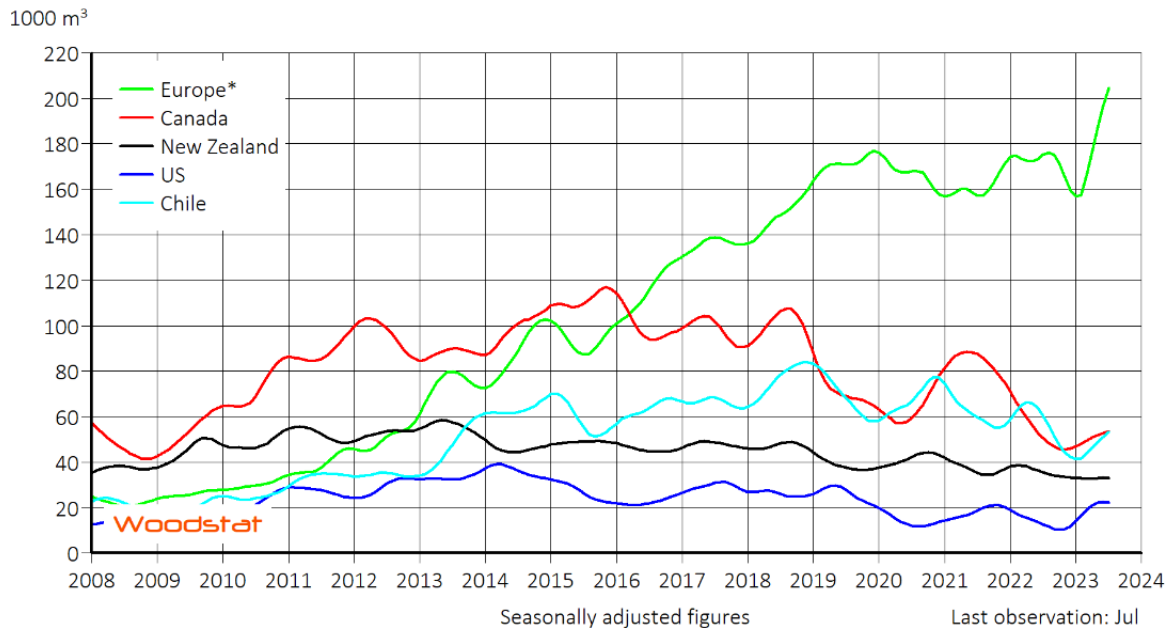
Source: Eurostat, USDA, Statistics Canada

- European exports to North Africa increased at the end of last year during the winter, particularly from Sweden but have now slowed down
- Deliveries to Egypt are subdued while the Algerian market is more lively

European sawmills gaining market share in South East Asia



SOUTHEAST ASIA excluding China and Japan Monthly import of softwood lumber



- An interesting trend appears in Southeast Asia other than China and Japan with deliveries from Europe increasing in 2023 and reaching an all-time high
- Other regions are losing market share

*Excluding Russia, Ukraine and Belarus

Source: Eurostat, USDA, Statistics Canada, Statz NZ, INFOR



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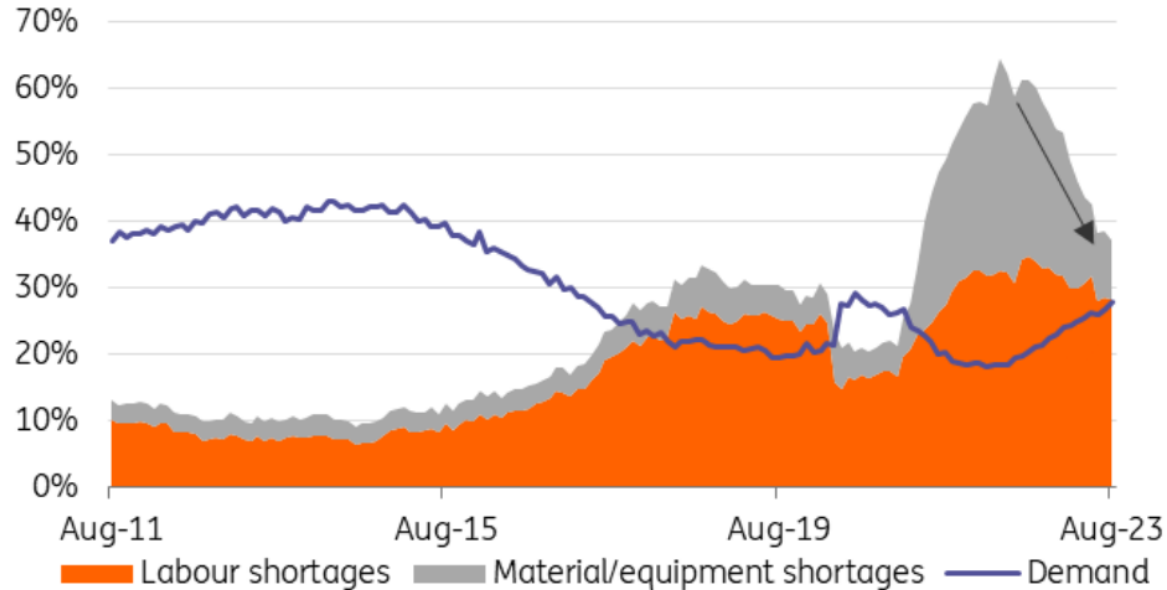
Construction markets

Many difficulties in construction markets



Demand restraints are increasing while limiting supply factors level off

% EU construction firms that have to limit the production because of (labour and material shortages cumulative)



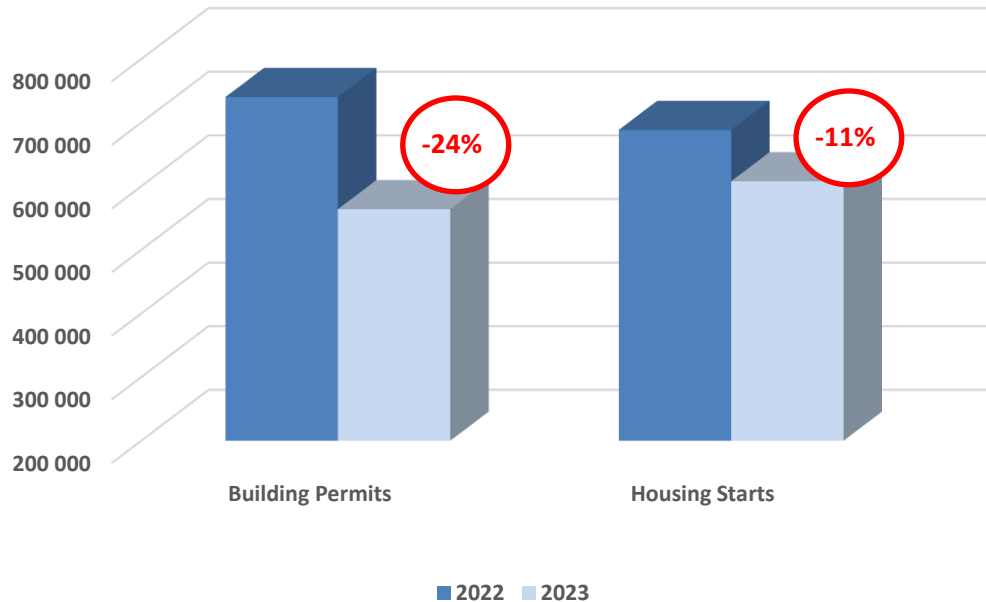
EU construction firms are limiting production mainly because of a shortage of labour and weakening demand. Shortages of material/equipment are abating having been very strong during the pandemic.

28% of EU building companies are facing a lack of demand as the most significant factor in production

Building permits declining more than housing starts



ISC countries building permits and housing starts



According to figures shared by EOS and ETTF members, housing starts have declined across Europe by around 11%. Building permits (which indicate future construction) are expected to decline by 24% pointing to subdued construction markets even in the near future.

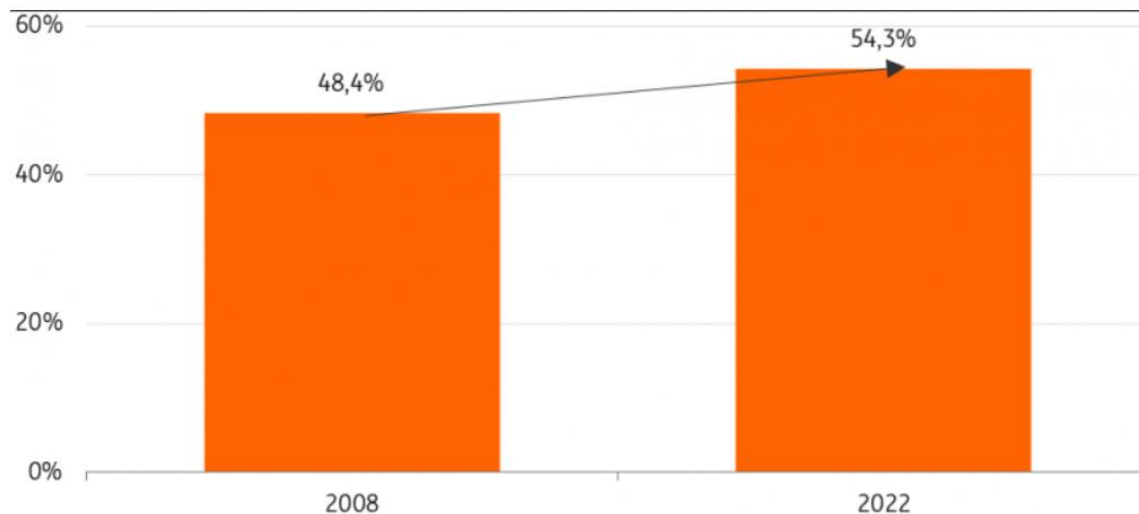
Construction markets are weak all over Europe, with the exception of Spain. The decline in Europe is slightly bigger than in North America

Source: EOS/ETTF; data from some major countries such as Germany and Italy are not available but the trend all over Europe is clearly negative

Renovation and Maintenance



Renovation share of total building production



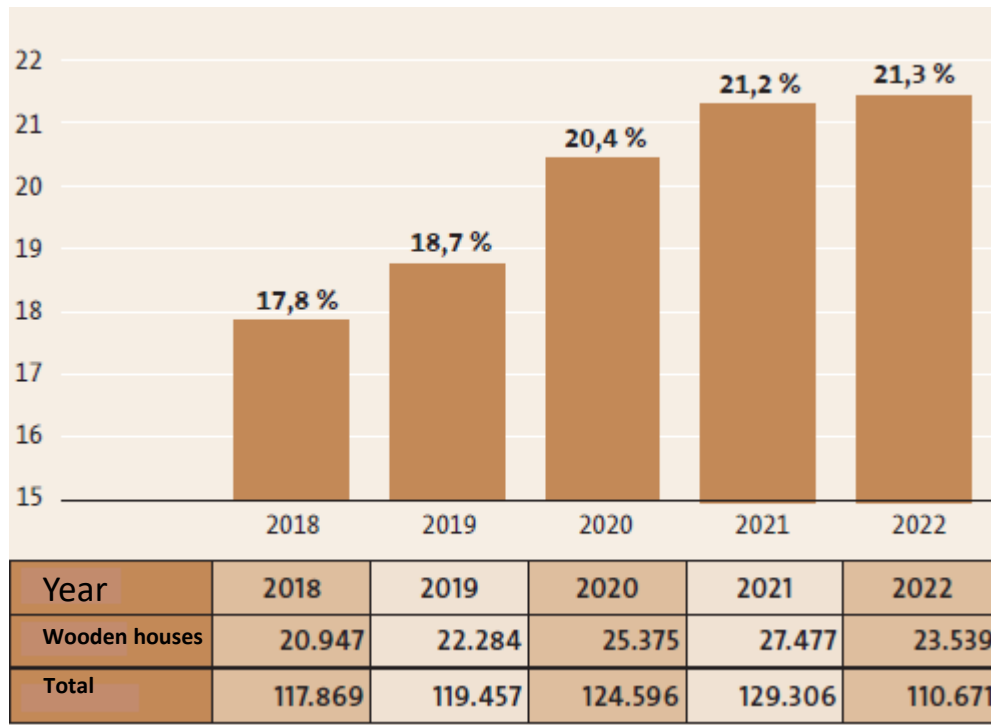
Source: <https://think.ing.com/articles/renovation-is-taking-centre-stage-in-construction-sector/#a3>

A sector with potential is the renovation and maintenance. The R&M is more counter-cyclical and it is a sector that some EOS members have singled out as having high potential. It has steadily increased over the past 15 years. In 2008, 48% of EU production volume in construction consisted of R&M works. This has gradually increased to more than 54% in 2022.

Wood as a building material gaining market share



Germany: Residential building (new building) 2022 Permits with wood as predominantly used material



Source: https://www.holzbau-deutschland.de/aktuelles/lagebericht_und_statistiken/





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The economic impact of the
forestry and wood industry in Europe

The economic impact of the forestry and wood industry in Europe



- Common Study by the Federal Ministry of Agriculture, Forestry, Regions and Water Management and the Cooperation Platform Forest-Wood-Paper
- Geographic scope: 30 European states (EU-27, Norway, Switzerland, United Kingdom), reference year 2019
 - Direct gross value added: 527 bn euros
-  Total gross value added (direct, indirect, and induced): 1,114 bn euros - equates to Spain's economic performance 2019
 - Direct share of total economic output: 3.34 %
 - Total share of overall economic output: 7.06 %

1 out of 16 euros is generated directly or indirectly by the forestry and wood industry
-  Direct jobs: 7.9 million
 - Total jobs: 17.5 million – similar to the population of the Netherlands 2020

1 out of 16 jobs is generated directly or indirectly by the forestry and wood industry

The overall economic importance of the forestry and wood industry has been underestimated to date!



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Outlook

- In the short term the situation will remain difficult for the European sawmill producers with high inflation rates and weak construction markets.
 - Exports markets have absorbed quantities in Q1 but they are now weaker
 - They are expected to remain subdued in the coming months. Exchange rates play important role (weak SEK for example). US market more and more important for many sawmills
 - On a brighter note, the industry is coming off a good period and is better placed than in 2008/2009 to absorb the shock of this massive downturn and looks at the future with confidence.
 - Long-term market drivers remain in our favor (global urbanization, fight against climate change...). Renovation has potential in Europe
 - This year raw materials supply was not the top concern of the industry, but it remains a key issue for the industry with climate change and European legislation playing a key role
 - Question marks: will the war continue? Energy prices/general costs will be higher again during the winter? How long will interest rates stay high for? Can building sector adapt to new cost structure?
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New world's tallest hybrid building



Building permit granted in September for a hybrid timber skyscraper to be built in Perth, Australia. It will be 183m high. It will be built from 7400 m³ of wood, using cross-laminated timber, glulam and laminated veneer lumber

Source: Grange Development via Timber Online



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Thank you for your attention!

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