

MARKET STATEMENT 2017

1. GENERAL ECONOMIC TRENDS AFFECTING THE FOREST AND FOREST INDUSTRIES SECTOR

Latvia's economic growth in the second quarter of 2017 remained at the same level as in the first quarter constituting 4.0%. This was the highest growth rate since the beginning of 2012. And compared to the previous quarter, according to the seasonally and calendar adjusted data, Latvia's GDP increased by 1.2%. This year, economic growth in Latvia is stimulated by several factors, including stable domestic demand, rising demand from external markets as well as increasing activity of EU funds' flow. Moreover, the second half of this year for Latvia's economy is also promising that will be provided by similar factors as in the first half of 2017.

In the first half of 2017 the largest positive contribution to economic growth was provided by manufacturing increase of 8.5%, that was determined by strong external demand. It has reflected also in the data of external trade - exports of goods and services in the first half of 2017 expanded by 6.5%. Compared to the corresponding month of the previous year, industrial production output increase was observed in all manufacturing sectors having the largest share in the industrial production. Manufacture of wood and of products of wood and cork was 2.6 %.

During the first seven months of the present year, the foreign trade turnover of Latvia at current prices reached EUR 14.06 bln – EUR 1.58 bln or 12.6 % more than in the corresponding period of 2016. The exports value constituted EUR 6.25 bln (an increase of EUR 551.1 mln or 9.7 %), whereas the imports value comprised EUR 7.82 bln (an upturn of EUR 1.03 mln or 15.1 %). In July 2017 Latvian foreign trade turnover amounted to EUR 2.04 bln, which at current prices was 14.4 % more than in July 2016. Calendar and seasonally adjusted data show that, compared to July 2016, in July of the present year, the exports value at current prices went up by 7.0 % and the imports value by 19.9 %.

The forest sector is one of the cornerstones of the national economy at this time. Forestry, wood processing and furniture manufacturing represented 5,2% of GDP in 2016, while exports amounted to EUR 2 billion – 20% of all exports.

Unemployment rate in Latvia continues to decline and was 8.9% of the economically active population in the second quarter of 2017. This is by 0.6 pp lower than a year ago. In 2016 the unemployment rate has declined by 0.3pp. The number of registered unemployed in the last 12 months has decreased by 15.3% to 65.5 thsd at the end of July 2017. Number of employed persons in the second quarter of 2017 was by 0.8%

lower than a year ago constituting 891.7 thsd. Number of occupied jobs increased the most in ICT services, construction and social work activities, while decrease was observed in manufacturing industry.

In 2017, the average monthly gross wage growth has accelerated. In the second quarter of 2017 average monthly gross wage increased by 8.7%, compared to corresponding quarter of 2016. This is the fastest wage growth rate since 2008. Similarly to previous years, the largest wage growth was observed in the private sector where it increased by 9.1% to 915 euro, while in the public sector salary rose by 8.2% to 954 euro. Average gross wage in the whole economy constituted 927 euro in the second quarter of 2017 (Data source: Macroeconomic and Budgetary review (Ministry of Finance Republic of Latvia)).

2. POLICY MEASURES TAKEN IN LATVIA

Policy Baselines for Forest and Related Sector Development 2014-2020 were accepted by the government on September 2015. The Guidelines are a mid-term policy document, in which the strategic (development policy) objectives for the development of the forest and related sectors, problems hindering the achievement of such objectives, the development policy guiding principles and the results of the policy, directions of action for achievement of the policy objectives are defined.

Objectives of the Forest and Related Sector Development Policy are: 1. Management of Latvian Forests is Sustainable and Internationally Recognized; 2. Production of the Latvian Forest Sector is Competitive with a High Added Value and Complies with the Needs of the Client, 3. Educational and Scientific Potential and the Level of Skills of the Human Resources are Adequate for the Achievement of the Strategic Objectives of the Forest and Related Sectors.

In 2017 is expected to approve Strategy of Bioeconomy.

3. MARKET DRIVERS

Local market of forest products is positively influenced by increase of solid wood biomass consumption in wood energy sector and wood pellet production industry. In 2015 scale heating and CHP plants increased wood consumption from 1,7 million m³ (2015) to 2 million m³ (2016). Wood pellets production in 2016 is 1,5 million tons.

With growing demand trend stable and sufficient wood biomass supply is very important. In this area some additional market requirements, called Sustainable Biomass Partners (SBP) have appeared on the market. In 2015/2016 Sustainable Biomass Partners (SBP) certification requirement came into force for industrial pellet suppliers. Those additional requirements, requested from 2017, will negatively impact sawdust traditional suppliers. In general, SBP will not change availability of wood

biomass. According to latest available information, further increase in pellet production on local district heating capacities are forecasted in 2018.

4. DEVELOPMENT IN FOREST PRODUCT MARKET SECTORS

Wood raw materials

Wood biomass supply for Latvian wood industry in 2016 was then sufficient, Latvia still is exporting significant pulpwood amount. In the same time, local demand for low quality logs is increasing in Latvia, partly replacing roundwood export. In 2016, softwood panels industry increased production and export by 20% and plywood export – by 25%.

In 2016, Latvia exported 2,8 million m³ of roundwood, mainly to Nordic countries and Germany. During the first 6 months of 2017 export decreased by 11%, softwood roundwood by 28%, but hardwood roundwood increase by 5%, with growing share of export to China.

Wood energy

Wood biomass demand was one of the main forest product market drivers. Increase in woody biomass consumption noticed both on local and export markets. Local market consumption of woody biomass products continue to gain momentum, powered by fossil district heating systems (DH) alternation to wood chips and green electricity market development with new cogeneration (CHP) capacities starting operations. Local consumption of wood chips in 2016 expanded by 13%, in 2016 by 12%. Wood biomass consumption is forecasted to increase in 2017 too.

For export markets positive trend is a pellet production segment. In 2015 Latvia extended pellets deliveries by 20%, reached new record level of 1,5 million tones and has become 3rd leading EU supplier (after Germany and Sweden). In 2016 and 1st half of 2017 the export stays at the same level.

Certified forest products

All forests managed by JSC Latvian State Forests („Latvijas valsts meži”) are certified in accordance with the internationally approved FSC® Principles and Criteria. Since 2011 JSC "Latvian State Forests" are also certified according to the PEFC scheme. The PEFC forest management certification was performed by leading certification bodies within Latvia namely: BM Trada Latvija and SIA "SGS Latvija Ltd.". Certified areas in private forests are increasing, but with slow pace. SBP requirements for wood biomass are impacting energy wood biomass suppliers for pellet production, as more detailed information about forests cutting areas is requested.

Value added products

Share of value added and semi-finished wood product export is stable, 661 million EUR in 2016. Intensive changes are noticed in prefabricated wood (panel) / modular house production / CLT industries. Production capacities are focused on growing demand in North European countries. Prefabricated house production expansion also is making positive influence for carpentry industry, including wood door/window production and glue-laminated timber production. Investments were made in large scale structural wood, namely cross laminated timber (CLT) and glue laminated timber (GLT) production units.

Sawn softwood and hardwood

Export of softwood sawn-wood in 2016 increased by 15%, volume of sawn-timber exported was 2.8 million m³. In 2017 (6 months) export of softwood sawn-timber decreased by 2%. Sales are stable to Baltic States, sales to other EU countries are decreasing.

Export of hardwood sawn-wood in 2016 decreased by 15% to level of 0,47 million m³, and in the 1st half of 2017 foreign trade statistics keeps negative trend (-25%).

Wood-based panels

Birch plywood production and softwood wood-panel production is keeping on high levels. In 2016 export of plywood increased by 25% and reached 0,314 million m³. Export of softwood panels increased by 11% (0,95 million m³). In the 1st half of 2017 there is decrease in plywood export by 13%, while export of softwood panels are still increasing.

5. TABLES

Key Economic Development Indicators in Latvia

	Main macroeconomic indicators			Forecasts*	
	2014	2015	2016	2017	2018
Gross domestic product (GDP), mln euro	23631.2	24368.3	25021.3	26676.2	28359.4
...growth at current prices, %	3.7	3.1	2.7	6.6	6.3
...growth at constant prices, %	2.1	2.7	2.0	3.7	3.4
GDP deflator (y-o-y), %	1.6	0.4	0.7	2.8	2.8
Consumer price index (y-o-y), %	0.6	0.2	0.1	2.8	2.8
Average monthly gross wage, euro	765	818	859	915	970
...growth at current prices, %	6.8	6.9	5.0	6.5	6.0
...growth at constant prices, %	6.2	6.8	4.9	3.6	3.3
Employment, thsds	885	896	893	893	893
...growth rate, %	-1.0	1.3	-0.3	0.0	0.0
Jobseeker rate, (annual average), %	10.8	9.9	9.6	8.9	8.2
Exports of goods and services, mln euro	14067.8	14360.7	14509.9	15855.9	16938.1
...growth at constant prices, %	3.9	2.6	2.8	6.1	3.7
Imports of goods and services, mln euro	14515.4	14636.3	14373.1	15906.9	17455.2
...growth at constant prices, %	0.5	2.1	4.6	5.4	5.0

Data source: Ministry of Economics of Latvia