European Wood Products Markets
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By Ed Pepke
Forest Products Marketing Specialist
UNECE/FAO, Geneva
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Sources of information

• UNECE/FAO *Forest Products Annual Market Review*
• UNECE Timber Committee Market Discussions (October, 2010)
• Timber Committee Market Statement & market forecasts
• UNECE/FAO Timber Database
• FAO Statistics database
UNECE/FAO *Forest Products Annual Market Review, 2009-2010*

- 100th edition
- Available on web in July
- Russian and French language versions available later
Timber Committee forecasts ...
Consumption rebounds!

Source: Timber Committee forecasts, 2010.

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UNECE “Europe”

41 countries

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I. Forest resources
Net change in forest area
2005-2010 (hectares/year)

Global forest resources

- 31% of world forested
- Net change = \( \Sigma \) of gain – \( \Sigma \) of loss
  - 1990-2000 -8.3 million ha/year
  - 2000-2010 -5.2 million ha/year

NAI vs. Fellings

Europe (41): 64% N. America: 79% CIS: 36%

II. Market drivers

$  CHF  
€  SEK  £  
Ruble
Economic and construction developments

- Recovering from the most severe financial shock since the Great Depression
- Deepest economic downturn since World War II
- Debt crisis in the Eurozone
- Sluggish recovery despite massive intervention
- High unemployment restrains recovery
Wild exchange rate changes

Exchange rate fluctuations have a direct impact on international forest products trade.

Sources: International Monetary Fund and UNECE, 2010.

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Euroconstruct region housing starts
2006-2010

in 000's

2750
2500
2250
2000
1750
1500
1250
1000
750
500
250
0

2006 2007 2008 2009* 2010**

All EU 1+2 & Flats  W-EU: 1+2 family dwellings & Flats  E-EU: 1+2 family dwellings & Flats  EU-1+2 family dwellings  EU-Flats

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United States housing starts

2003-2010

Million starts (SAAR)

United States housing market

- Peak 2.2 million new houses per year in 2005
- Forecast 600,000 in 2010 by NAHB …
- But trending towards 400,000 in 2010
- Huge inventory unsold new and used homes +
- “Shadow homes” (owned by banks, not on market)
- House prices down at 2003 levels
- Problems grew
  - Sub-prime mortgages with little down payment
  - Mortgage value greater than house value
  - Economic downturn → foreclosures
Russian housing market

Russian housing market

- Housing rising steadily through 2008
- Downturn in 2009
- 11% wooden housing stock
- Viable option, especially single-family
- Federal projects develop wooden construction
  - 2012: 1.4 million m²
  - 2020: 3 million m²
III. Forest products market developments

Overall highlights
Overall highlights from our *Annual Market Review* (1 of 3)

- Forest sector experiencing a structural change
  - Industries innovating and adapting
  - "Innovation for structural change recovery"

- Consumption of wood and paper products fell 12% in 2009 (greatest ever)

- Production of industrial roundwood at record low
Highlights from the *Review*

- Wood energy markets improved
  - Competition for wood raw materials
  - Increased costs for manufacturers
  - Benefit forest owners, sawmillers

- Russian roundwood export taxes continued
  - Reduced roundwood exports
  - Foreign investment stalled

- New European Union and United States legislation against illegal logging and trade
Highlights from the Review

• Sawn softwood industry demand falling in 2009, weak prices and lower production
• Sawn hardwood industry downturn in 2009, but by mid-2010 there were indications of improvement
• Paper & pulp consumption declined: capacity reductions; improvement end-2009, 2010
• Panels consumption -10.7% in 2009 due to construction, furnishings.
Structural change in forest sector: 4 reasons

1. Downturn in demand forcing rationalization of production capacity

Structural change in forest sector

2. Climate change policies: wood energy escalation production, consumption and trade

European pellet production capacity


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3. Globalization of forest products markets, e.g. China’s rise as a major provider of forest products in the global markets

Structural change in forest sector

4. International control of origins of wood to ensure sustainable and legal production.
Structural change in forest sector

1. Downturn in demand forcing rationalization of production capacity;
2. Climate change policies: wood energy escalation production, consumption and trade;
3. Globalization of forest products markets, e.g. China’s rise as a major provider of forest products in the global markets;
4. International control of origins of wood to ensure sustainable and legal production.
III. b. Forest products trade
Global trade of all forest products

Doubled in 6 years

Source: FAO Statistics.

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European forest products exports

$ Billion

2x in 10 years

Source: FAO Statistics.

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Value-added forest products exports

2x in 10 years

$ Billion


Source: FAO Statistics.

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III. c. Sawn softwood markets
Developments from *Annual Market Review*

- Global economic and financial crisis resulted in a fall in demand for sawn softwood
- Consumption dropped by 14% (Europe (-6.3%) + North America (-22.6%) + CIS (-7.2%))
- Weak prices led to lower production
- Rebound in 2010 slight
- European sawmillers took strategic measures to respond to fluctuating markets
  - Safeguard future competitiveness
  - But fall in production of 12.5% in 2009
Developments from *Annual Market Review*

- Log availability in Europe an overriding constraint for the recovery in 2010
- Europeans developing non-UNECE export markets (North Africa, Asia and the Middle East)
- Europeans pull out of weak US market
- Conclusion: rebuilding of market demand will take considerable time and will present challenges to sawmilling companies until more stable conditions occur, most likely after 2011
European sawn softwood

Production:
+7.9% 2010
+2.2% 2011

Consumption:
+9.8% 2010
+2.2% 2011

Source: UNECE Timber Committee, October 2010.
European sawn softwood producers

Source: ISC forecasts, October 2010.
European sawn softwood importers’ consumption

Source: ISC forecasts, October 2010.
Note: Includes trade within Europe.
Source: UNECE Timber Committee, October 2010.
EU selected export destinations

The graph illustrates the lumber exports between North America and Europe from 1991 to 2009. The blue line represents exports from Europe to North America, while the red line shows exports from North America to Europe. The data is sourced from USDA Foreign Agriculture Service and Wood Markets Monthly Newsletter, 2010.
North America sawn softwood

Production: +5.3% 2010  
+4.7% 2011

Consumption: +5.1% 2010  
+1.0% 2011

Source: UNECE Timber Committee, October 2010.
North America from Timber Committee

Source: UNECE Timber Committee, October 2010.

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Sawn softwood prices

Source: WOOD MARKETS Monthly Newsletter, 2010

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III. c. Wood energy

The only market sector that grew during the 2008-2009 economic crisis.

*Photo source: Metsaliitto.*
Wood energy drivers in Europe

- European Union renewable energy targets (20% renewables by 2020)
- Energy security – independence from imports
- Environmental concerns with fossil fuels
- Forest sector development by governments
- Industry-driven diversification
European wood pellet production capacity

Major European pellet importing countries and their suppliers, 2009

Modern wood energy production is efficient, economical and environmentally sound … and beneficial for some parts of the forest sector, while presenting competition for low-grade, small-diameter timber.

Photo source: M. Fonseca.

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III. d. Value-added wood products

What are VAWPs?

- Furniture
- Moulding and millwork (e.g. windows)
- Engineered wood products
  - Glulam
  - Laminated veneer lumber (LVL)
  - I-beams
VAWP market developments

- US Lacey Act Amendment and EU due diligence regulation increasingly affecting VAWP trade – sources of wood must be known.
- US import duties on Chinese wooden bedroom furniture continue to affect trade.
Glulam production in North America

![Graph showing glulam production in North America from 2006 to 2010](image)

- 2006: 700,000 m³
- 2007: 600,000 m³
- 2008: 500,000 m³
- 2009: 300,000 m³
- 2010 (f): 400,000 m³

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• Forecasts for engineered wood products (EWP) markets are positive, in conjunction with increasing North American housing starts in 2010.
• Innovative EWPs keep the forest sector relevant, especially in the face of competition from alternative building materials.
Furniture trade value for the five largest importers declined by 20%, or $6.7 billion dollars, in 2009. Decreased demand hurt producers in Europe and Asia.
IV. Conclusions

• Markets rebounding, but not recovered
• Recovery dependent on US housing
• New market opportunities
  – China
  – Middle East
• Green building a market driver
• Increased trade regulations
IV. Conclusions

- Currency exchange rates affecting trade
- Raw material and product prices rising, but not equally
- Wood energy escalation + and –
- Globalization
- Strong market improvement, but from low base
- = Structural change
V. Discussion
Dr. Ed Pepke
Forest Products Marketing Specialist
UNECE/FAO
448 Palais des Nations
CH-1211 Geneva 10, Switzerland
www.unece.org/timber
Ed.Pepke@unece.org