Softwood Markets, 2009 - 2011

International Softwood Conference

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Sources of information

- UNECE Timber Committee Market Discussions (11-12 October)
- Timber Committee Market Statement & press release
- UNECE/FAO *Forest Products Annual Market Review*
- Countries’
  - Market statements
  - Forecasts for 2010-2011
UNECE/FAO *Forest Products Annual Market Review, 2009-2010*

- 100th edition
- Available on web in July
- Russian and French language versions available later in the year
Sneek preview!
Consumption rebounds!

Source: Timber Committee forecasts, 2010.
UNECE vs. ISC “Europe”

Additional “non-ISC” UNECE region production (million m³ 2011):

Country     | Production (million m³)
-------------|--------------------------
Turkey       | 4.10                     
Czech Rep    | 3.94                     
Poland       | 3.60                     
Slovakia     | 2.00                     
Estonia      | 1.30                     
Ireland      | 0.98                     
Portugal     | 0.91                     
Lithuania    | 0.64                     
Others       | 1.40                     
**Total:**    | **+18.9**                

41 countries
Forest resources
Net change in forest area
2005-2010 (hectares/year)

Global forest resources

• 31% of world forested
• Net change = Σ of gain − Σ of loss
  - 1990-2000 -8.3 million ha/year
  - 2000-2010 -5.2 million ha/year

UNECE subregions
Growing Stock vs. NAI vs. Fellings

Million m³

Europe (41) North America CIS

Growing Stock
Net Annual Increment
Fellings

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NAI vs. Fellings

Economic and construction developments
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

Sources: International Monetary Fund and UNECE, 2010.

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Wild exchange rate changes

- US$ vs CHF – $ all time low at CHF 0.95
- € vs US$ -- $1.41 highest
- CAN$ > US$
- Chinese yuan vs. $ -- highest since 1994
- Australian $ = US$ -- highest since 1983
- $ fallen 13% vs Japanese yen in 2010

Euroconstruct region housing starts
2006-2010

- 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


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United States housing market

- Peak 2.2 million 2005
- Forecast 600,000 by NAHB
- But trending towards 400,000
- Huge inventory unsold new and used homes
- House prices at 2003 levels
- Sub-prime mortgages with little down payment
  - Mortgage value greater than house value
  - Economic downturn → foreclosures
- Shadow homes (owned by banks, not on market)
Housing Starts: North America vs. Europe

Source: CMHC / NAHB / Euroconstruct
2010/11 - Forecast

Source: WOOD MARKETS Monthly Newsletter, 2010
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
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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 chart]

Structural change in forest sector

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

![Graph showing Chinese forest products output from 2003 to 2009](source: International WOOD MARKETS Group, 2010.)

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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.
Sawn softwood markets
Developments from *Annual Market Review*

- Global economic and financial crisis resulted in a fall in demand for sawn softwood across the UNECE region
- Consumption dropped by 14% (Europe + N. America + CIS)
- Weak prices led to lower production
- Rebound in 2010 slight and any gains were marginal, as demand remains subdued
- European sawmillers took strategic measures to respond to fluctuating markets
  - Safeguard future competitiveness
  - But fall in output of 12.5% in 2009
Developments from *Annual Market Review*

- Log availability in Europe an overriding constraint for the recovery of the sawmilling industry in 2010
- Europeans developing non-UNECE export markets (North Africa, Asia and the Middle East)
- Europeans pull out of weak US market, especially with strong €
- Russian consumption estimated to contract after long climb
- Uncertainty of Russian regulatory framework (especially log export tax future) led to significant reductions of forest sector investment.
Developments from *Annual Market Review*

- North American output fell sharply in 2009, by 20.3% to 71.6 million m³ after a drop of 18.8% in 2008
- Consumption declined 22.6%
- Adverse effects in Canada and the US.
- North American bright spots in 2009-2010
  - Improving housing starts
  - Repair and remodelling activity
  - Stronger exports to China
  - Expansion of the wood pellet and bio-fuels industries
- Conclusion: rebuilding of market demand in North America and Europe will take considerable time and will present challenges to sawmilling companies until more stable conditions occur, most likely after 2011.
UNECE Timber Committee findings

- Following the 2009 drop by 13.8% to 155.3 million m³ in the UNECE region, sawn softwood consumption is forecast to rise by 7.5% in 2010 and by 2.2% more in 2011 to reach 170.7 million m³.

- European production
  - 98.2 million m³ in 2010 (up 7.9%)
  - 100.3 million m³ in 2011.

- European consumption
  - 91.2 million m³ in 2010 (up 9.8%)
  - 93.2 million m³ in 2011.
UNECE Timber Committee findings

• Growing bio-energy at European sawmills has been a stabilizing factor (use and sale)

• North America’s sawn softwood industry
  – Fell dramatically until 2010, i.e. output was reduced by 45% since the peak of 2005
  – Capacity utilization rates hit record-low levels of 50% in 2009
  – North America forecasts a 4.7% increase in 2011
  – Canada could out-produce the US for the first time in 2011
European sawn softwood from Timber Committee

Production:
+7.9% 2010
+2.2% 2011

Consumption:
+9.8% 2010
+2.2% 2011

Source: UNECE Timber Committee, October 2010.

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European sawn softwood
from International Softwood Conference

Production:
+7.4% 2010
+3.0% 2011

Consumption:
+6.6% 2010
+3.7% 2011

Million m³

Source: ISC, October 2010.
European sawn softwood from Timber Committee and ISC

Source: ISC, October 2010.
European producers

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

Source: ISC forecasts, October 2010.
European sawn softwood from Timber Committee

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

EU vs N. America exports

North America sawn softwood
(Timber Committee = ISC)

Production:
+5.3% 2010
+4.7% 2011

Consumption:
+5.1% 2010
+1.0% 2011

Source: UNECE Timber Committee, October 2010.

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North America Sawn Softwood from ISC

Production
 Consumption
 With higher USA

Million m³

2006 2007 2008 2009 2010 2011

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North America from Timber Committee

Source: UNECE Timber Committee, October 2010.
Production: +5.5% 2010
+5.6% 2011

Source: UNECE Timber Conference, October 2010.
Russia (Timber Committee = ISC)

Exports:
+5% 2010
0% 2011

Source: UNECE Timber Committee, October 2010.
Sawn softwood prices

Source: WOOD MARKETS Monthly Newsletter, 2010
IV. Conclusions

• Markets rebounding, but not recovered
• Recovery dependent on US housing
• New market opportunities
  – China
  – Middle East
• Roundwood supply
  – Short-term shortage → price rises
  – Russian export tax and its increase?
  – Mountain pine beetle spread → SLA back
  – Long-term availability
Conclusions

• Green building a market driver
• Increased trade regulations
• Currency exchange rates affecting trade
• Log and sawnwood prices rising
• Wood energy escalation + and –
• Globalization
• Strong market improvement, but from low base
• = Structural change