The sawnwood market: present situation and expectations for the future

Market Statement UNECE COFFI meeting
2-4 November 2022
The EU Sawmill Industries:

12 countries across Europe, manufacturing sawn boards, timber frames, glulam, decking, flooring, joinery, fencing and several other wood products;
35,000 hardwood and softwood companies => 80% of the total European sawn wood production;

- Mr Herbert Joebstl, Stora Enso, EOS President (AT)
- Mr Ernest Schilliger - Schilliger Holz (CH) – Vice President Softwood
- Mrs Maria Polz – European Hardwood Production (AT) – Vice President Hardwood
MARKET OVERVIEW
2021 sawn softwood production in the EOS member countries peaked at 86 million m³ (highest production ever recorded in this group of countries).

2022: production is expected to decline by 2.3% to around 84 million m³.

2023 production could further decline by 1.8% but there is a lot of uncertainty.

EOS member countries:
- Austria
- Belgium
- Denmark
- Finland
- France
- Germany
- Latvia
- Norway
- Romania
- Switzerland
- Sweden
EOS Softwood Production (million m³)

- Germany
- Sweden
- Finland
- Austria
- France
- Romania
- Norway
- Latvia
- Belgium
- Switzerland
- Denmark

- 2018
- 2019
- 2020
- 2021
- 2022 forecast
- 2023 forecast
**EOS Hardwood Production (000 m³)**

Sawn Hardwood Production EOS Countries

- 2017: 5,000
- 2018: 6,000
- 2019: 7,000
- 2020: 6,000
- 2021: 7,000
- 2022 (est): 4,000

Percentage Changes:
- 2017-2020: -7%
- 2020-2021: +11%
- 2021-2022 (est): -3%
### EOS Hardwood Production (000 m³)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AT</td>
<td>172</td>
<td>175</td>
<td>212</td>
<td>165</td>
<td>178</td>
<td>200</td>
<td>7.9%</td>
</tr>
<tr>
<td>BE</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>100</td>
<td>90</td>
<td>80</td>
<td>-10.0%</td>
</tr>
<tr>
<td>CH</td>
<td>48</td>
<td>45</td>
<td>48</td>
<td>55</td>
<td>57</td>
<td>57</td>
<td>3.6%</td>
</tr>
<tr>
<td>DE</td>
<td>1,082</td>
<td>1,100</td>
<td>1,167</td>
<td>962</td>
<td>1,061</td>
<td>1,060</td>
<td>10.3%</td>
</tr>
<tr>
<td>DK</td>
<td>78</td>
<td>80</td>
<td>85</td>
<td>75</td>
<td>75</td>
<td>75</td>
<td>0.0%</td>
</tr>
<tr>
<td>FI</td>
<td>45</td>
<td>45</td>
<td>30</td>
<td>36</td>
<td>36</td>
<td>36</td>
<td>0.0%</td>
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<tr>
<td>FR</td>
<td>1,578</td>
<td>1,578</td>
<td>1,379</td>
<td>1,240</td>
<td>1,240</td>
<td>1,240</td>
<td>0.0%</td>
</tr>
<tr>
<td>IT</td>
<td>550</td>
<td>550</td>
<td>600</td>
<td>612</td>
<td>826</td>
<td>826</td>
<td>35.0%</td>
</tr>
<tr>
<td>LV</td>
<td>596</td>
<td>650</td>
<td>600</td>
<td>600</td>
<td>808</td>
<td>800</td>
<td>34.7%</td>
</tr>
<tr>
<td>NO</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>RO</td>
<td>1,600</td>
<td>1,600</td>
<td>1,600</td>
<td>1,615</td>
<td>1,700</td>
<td>1,500</td>
<td>5.3%</td>
</tr>
<tr>
<td>SE</td>
<td>97</td>
<td>95</td>
<td>100</td>
<td>100</td>
<td>120</td>
<td>110</td>
<td>20.0%</td>
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<tr>
<td>UK</td>
<td>42</td>
<td>50</td>
<td>47</td>
<td>37</td>
<td>37</td>
<td>37</td>
<td>0.0%</td>
</tr>
<tr>
<td>EOS</td>
<td>6,038</td>
<td>6,118</td>
<td>6,018</td>
<td>5,597</td>
<td>6,228</td>
<td>6,021</td>
<td>11.3%</td>
</tr>
</tbody>
</table>

- **Production development 21/20**: 
  - Decrease or same level mainly in countries with high log export numbers

- **Production 2022**: Forecast.
A bright and sunny H1...

• On the back of an excellent H1 2021 and a slower H2 2021, Q1 2022 and part of Q2 were very positive, with brisk demand throughout Europe and North America.

• Production was good, but in many cases slightly lower than H1 2021 – sales however were excellent. For instance, a few Scandinavian companies in their lumber divisions reported operating profits much higher in H1 2022 than in H1 2021, in some cases over 50% increases.
...But there are now dark clouds:

- Since II Q - demand for many wood products has been weakening for the following reasons:
  - Excessive stockpiling in the first half-year
  - Decreasing demand due to the general uncertainty (increasing interest rates => mortgages => declining construction markets)
  - Slow DIY and in general high prices.
  - The prices of several products have fallen fast, reaching levels seen in the fourth quarter of 2021. An exception is sawmill by-products and wood pellets which as a result of the energy prices have seen high prices and strong demand.
Impact of the war in Ukraine

• In 2021 imports of sawn softwood from Russia, Ukraine and Belarus made up about 8-9% of European sawnwood consumption (8 million m3).

• This year importers scrambled until the last possible moment (July 10) to import from Russia and Belarus so until now we don’t feel the effect in the market also because of a slowdown in demand.

• However, sawmills are very much impacted by the increasing energy prices and profitability is plummeting.
US Market

- US market is slowing down but declining imports from Canada determine big opportunities for European exporters

Source: Woodstat
Chinese market

- Chinese imports have gone down to level unseen for almost ten years due to corona restrictions and construction markets tensions. With the exceptions of European suppliers, all major exporters have seen their deliveries decline.

Ensuring long-term wood supply is key

- The sector estimates that some pieces of European legislation will cause a decline in the availability of raw materials

- So a number of factors, including:
  - Declining supply due to subsiding of bark-beetle crisis (and climate change)
  - European legislation
  - In the hardwood sector, massive export of oak logs to China might all cause a shortage of sawnwood across Europe
# Oak logs exports

**Oak logs Exports to China (in 1000 m³)**

<table>
<thead>
<tr>
<th>Country</th>
<th>2020</th>
<th>2021</th>
<th>% var.</th>
<th>YTD 2021</th>
<th>YTD 2022</th>
<th>% var.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1016</td>
<td>1351</td>
<td>33.0%</td>
<td>933</td>
<td>1024</td>
<td>9.7%</td>
</tr>
<tr>
<td>EU</td>
<td>561</td>
<td>702</td>
<td>25.1%</td>
<td>529</td>
<td>689</td>
<td>30.2%</td>
</tr>
<tr>
<td>France</td>
<td>296</td>
<td>425</td>
<td>43.5%</td>
<td>320</td>
<td>441</td>
<td>37.8%</td>
</tr>
<tr>
<td>Belgium</td>
<td>66</td>
<td>66</td>
<td>-0.9%</td>
<td>52</td>
<td>63</td>
<td>21.5%</td>
</tr>
<tr>
<td>Germany</td>
<td>68</td>
<td>76</td>
<td>12.3%</td>
<td>57</td>
<td>59</td>
<td>3.4%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>32</td>
<td>38</td>
<td>18.7%</td>
<td>25</td>
<td>34</td>
<td>35.8%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>38</td>
<td>37</td>
<td>-4.2%</td>
<td>30</td>
<td>34</td>
<td>10.9%</td>
</tr>
<tr>
<td>USA</td>
<td>223</td>
<td>325</td>
<td>45.7%</td>
<td>190</td>
<td>224</td>
<td>17.9%</td>
</tr>
<tr>
<td>Russia</td>
<td>180</td>
<td>208</td>
<td>15.6%</td>
<td>150</td>
<td>1</td>
<td>-99.2%</td>
</tr>
</tbody>
</table>

- Exports of oak logs from Europe to China have been increasing for many years.
- The Chinese appetite for oak sawlogs is growing. Russia has put in place a logs export ban so left the market.
- The market share of Europe is over two thirds.
- Many European sawmills cannot work at full capacity due to the lack of raw materials.

Source: Chinese customs. Corrections done by French Timber, re-elaboration by EOS. Total is higher than list of countries here as „other“ is not included.
In a nutshell:

As the pandemic effects were fizzling out in Europe, the war has again caused turmoil in the European and global economy. The sawnwood producers have also been strongly impacted.

- Q1 and part of Q2 2022 were very positive, with brisk demand at good prices over Europe
- Since end of spring markets have remarkably slowed down for a few reasons: excessive stockpiling in first part of the year, DIY down (ease of Covid restrictions) after two good years and, most importantly, much lower consumer demand due to high inflation, which has also caused high costs for building materials
  - Lumber prices have gone down, sawmill margins from record high to very low
- Lack of sawn goods imports from Russia (sanctions from July 10) to EU have not materialized in shortages so far due to lower consumer demand and high imports until last minute
- High energy prices are taking a strong toll in the sawmill industry; however, they foster a record demand for sawmill residues which is helping the mills balance sheets
- Exports, particularly to the US, have supported and stabilized the sawmill industry, thanks also to a weaker euro and krona vs the dollar
Conclusions and outlook

• The last couple of years have been very challenging for the sawmill industry, but we were up to the task and were able to ramp up production to meet the extraordinary demand that we have seen

• NOW => a completely different scenario as increasing energy prices and higher interest rates are generating the twin challenge of depressed demand and high costs

• High energy prices can at least help the by-products markets, but we need to make sure that good logs are used for material purposes

• Thanks to the good performance in the last few years, sawmills should not fear to decrease production to find a new balance in the market to meet declining demand

• Uncertainty is high, but it is probable that a new market balance will be found next year. The value of the product “wood” is increasingly recognized

• Raw materials will remain a key question for the softwood and hardwood producers alike

• Wood as a building material gaining momentum (Europe, but also US, Australia...)

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