



Economic and Social Council

Distr.: General
15 August 2024

Original: English

Economic Commission for Europe

Committee on Forests and the Forest Industry

Eighty-second session

Geneva, 13-15 November 2024

Item 2 (b) of the provisional agenda:

Forest economics and markets:

Draft Forest Products Market Statement

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Note by the Secretariat

Summary

This document provides an overview of forest products markets in the Economic Commission for Europe (ECE) region for the second half 2023 and the first half of 2024. It serves as a starting point for developing a Market Statement based on (i) the outcome of the market discussion, (ii) details provided by member States in their country market statements and (iii) further information available by the time of the meeting.

Delegates are invited to review the information provided and send their comments ahead of the session to the secretariat (info.ece-faoforests@un.org). A drafting group on finalizing the Market Statement will be convened on 14 November (am). The secretariat will propose updates and amendments to the Market Statement before the meeting of the drafting group based on information received from countries. The discussions in the drafting group will be supported by information provided through the country market statements, as well as the Forest Products Annual Market Review.

Delegates will be invited to adopt the Market Statement as agreed and finalized by the drafting group (the final Market Statement will be published as a post-session document).

The document is submitted according to A/78/6 (Section 20); ECE/TIM/2023/2-FAO:EFC/2023/2, para 62.



I. Introduction

1. The present document summarizes the main points of the Forest Products Annual Market Review 2023-2024; offers background information for the market discussion; and provides the basis for the final Market Statement of the Session.

II. Economics and policies

2. Globally, governments have braked climate policies, despite more frequent extreme weather events and other growing evidence of climate change impacts on the economy, communities, and the environment. Since the COVID-19 pandemic, increasing poverty and insecurity have fuelled socio-political polarization, and in turn civil strife, military conflict and mass migration.

3. Economic performance in the ECE region varied significantly in 2023. In the United States (US), robust output growth was driven by expansive fiscal policies and a strong labour market, which boosted private consumption despite past rapid tightening of financial conditions. In contrast, the European Union (EU, particularly the euro area, experienced near stagnation. Germany's output contraction and subdued growth in other large economies, except for Spain, contributed to this stagnation. This occurred amid declining but still high inflation and the withdrawal of fiscal support. Economic growth in the EU is anticipated to accelerate moderately in 2024, with growth returning to almost all countries.

4. Labour markets have generally been buoyant, supporting household consumption growth. Labour shortages have emerged in some sectors and countries. In the EU, despite sluggish economic performance, over 2 million jobs were created, representing a 1.2% increase. Significant reductions in unemployment in countries with higher rates within the euro area led to a slight decrease in the overall unemployment rate, bringing it down to 6.5%. While nominal wage growth decelerated in late 2023, disinflation trends led to real wage increases in the latter part of the year.

5. While economic growth in the EU is anticipated to accelerate moderately in 2024, household consumption is expected to strengthen as the impact of past high energy prices diminishes and falling inflation supports real income growth. Economies dependent on manufacturing are expected to continue underperforming compared to those relying on services. The United Kingdom (UK) is expected to see a mild recovery driven by growing consumption and falling interest rates.

6. Job creation boosted consumption, saving rates remained high, and external demand was weak due to poor manufacturing trade performance. However, travel and tourism continued to expand, supporting Southern Europe's economies. Growth in other advanced European economies was subdued, with the UK's output remaining flat.

7. Inflation declined steadily in the ECE region throughout 2023, though the pace slowed after an initial rapid fall. In the United States, services inflation, including housing costs, remained persistent, with some reversal of disinflation gains after sustained declines in the first half, leaving the rate at 3.4% in April 2024. In the euro area and the EU, inflation peaked in October 2022 and has been on a downward trend since then. Disinflation was initially supported by falling energy prices and later by the deceleration of food prices and services due to tighter monetary policy. By April 2024, inflation in the euro area reached 2.4%, paving the way for monetary policy loosening. Inflation also fell rapidly in other countries in the region but remained very high in Türkiye.

8. While the economic outlook in the region is generally positive, potential risks could dampen future performance. Financial conditions may remain tighter than expected if inflation persists. Higher-than-anticipated interest rates would constrain the recovery of lending activity and negatively impact financial assets and market stability. Geopolitical tensions, if they worsen, could also rekindle price pressures.

III. Summary of market trends of key forest products

A. Sawn softwood

9. Market conditions were generally weak in 2023 and into the first half of 2024 in North America and Europe. Global geo-political events, wars and tensions in many regions but also upcoming elections, are all factors that could further impact markets, trade and supply.

10. Sawn softwood consumption in Europe during 2023 was the lowest in five years, with a drop of 8.4 percent to 87.9 million m³. In 2023, European production declined by 6.8 percent to 107.3 million m³. All the largest European Organisation of the Sawmill Industry (EOS) members reported lower output volumes in 2023 as compared with 2022.

11. The largest producers, Germany and Sweden reduced production by over one million m³ with declines of 5.6 percent and 5.7 percent, respectively. Percentage production declines in Austria and Finland were even more severe with drops of 9.7 percent and 7.1 percent, respectively. Sawn softwood prices are at a low level compared with high raw material prices and other cost increases, which are negatively impacting European sawmills.

12. Both intra- and extra-regional trade has declined due to lower demand in main markets and sanctioned imports from the Russian Federation and Belarus.

13. Sawn softwood consumption in the United States of America was negatively impacted by high inflation and interest rates, dropping by estimated 2.4 percent to 87.8 million m³ in 2023 while in Canada consumption declined by 6.4 percent to 12.0 million m³. Sawn softwood production in the United States of America decreased by 0.8 percent to 87.8 million m³ in 2023. Canada's sawn softwood production was 34.2 million m³ in 2023, a drop of 6.0 percent from 2022.

14. United States imports from Canada declined by 6.4 percent in 2023 and totalled 20.3 million m³. European shipments to the United States decreased by 3.1 percent to 5.2 million m³ led by Germany and Sweden. Canada recorded a drop in offshore exports of 13.7 percent in 2023 to 2.4 million m³, its lowest volume in well over 40 years. United States total exports were 2.24 million m³, similar to 2022 levels. Sawn softwood prices were relatively weak in the United States of America throughout much of 2023 and into the first five months of 2024. Some regions, like the US South and British Columbia had prices below costs for lengthy periods as too much supply was available relative to demand.

B. Wood-based panels

15. With mortgage rates in the United States remaining near 7 percent, new housing starts and demand for wood-based panels continued to decline. With housing starts in North America expected to be up only slightly in 2024 (+1.3 percent), consumption of plywood panels is projected to be mixed in 2023 (-35 percent for plywood and +2.9 percent for oriented strandboard).

16. Prices for structural wood-based panels in the United States were stable throughout most of 2023 with modest increases towards the end of the year. Consumption of wood-based panels declined substantially across all of the major end-use segments, with the singular exception of non-residential housing, in both the United States and Canada.

17. The uncertain economic situation in Europe and falling consumer confidence led to another decrease in the production of wood-based panels within the EPF in 2023 (-6 percent).

18. European panel production was down for most panel products (hardboard (-17 percent), plywood (-15 percent) and MDF (-11 percent)) with the exception of oriented strandboard (+2 percent). The EPF forecasts production of wood-based panels in Europe to increase by 2.5 percent in 2024 as the long-term outlook for consumption remains favourable due to political support for programmes such as the European Green Deal, the European Renovation Wave and the New European Bauhaus.

19. Following a decline in 2022 and the first half of 2023, the Russian Federation has experienced over 11 months of continuous growth in the production of all types of wood-based panels, driven by the steady growth in the construction and furniture sectors.

20. The redirection of wood-based panel supplies from closed export markets to the domestic market of the Russian Federation, as well as to the Eurasian Economic Union, China, and Middle East and North African markets, has been completed.

21. The growth in the panel and furniture sectors is stimulating raw material price increases and the recovery of timber harvest volumes.

C. Pulp, paper and paperboard

22. Pulp, paper and paperboard production fell across Europe and North America due to primarily to machine closures and unplanned downtime.

23. In the graphics paper segment, high interest rates, lower advertising budgets and electronic communication negatively impacted demand. Apparent consumption was lower in Europe and North America due to destocking, electronic communication and economic weakness.

24. In the wood pulp segment, production was lower in all ECE regions due mainly to closures and unplanned downtime. Apparent consumption fell in these markets due to lower end-use demand (paper-machine closures), while exports mainly to China soared, thereby offsetting weakness in the rest of global markets.

25. In the Russian Federation, the country's pulp, paper and paperboard industry continued to adapt to international trade sanctions. Exports from the Russian Federation to China soared for all major grades, while imports fell, opening up domestic investment opportunities for Russian firms. The Russian Federation will continue to focus its export opportunities on the Chinese market, while investing in its domestic industries.

26. The outlook for 2024 calls for further rationalization in the paper and paperboard segments across Europe and North America brought on by overcapacity, aging equipment and a lack of affordable fibre. High interest rates and persistent inflationary pressures are expected to keep 2024 demand for pulp, paper and paperboard products flat to lower than in 2023. Wood pulp production in 2024 is forecast to decline due to closures in North America, unplanned downtime and integration of market pulp capacity. Fibre-security will continue to be a concern from pulp producers throughout the various distribution channels, leading to price volatility in global pulp markets in 2024.

27. A series of supply-side shocks in the transportation industry due to conflicts in the Middle-East, strikes in Canada, Finland and Chile, droughts in Central America and floods in Brazil are negatively impacting deliveries. Forestry policies to protect wildlife, waterways, indigenous rights and combat climate change are all headwinds that are expected to continue to affect the overall industry.

D. Wood energy

28. In Europe a spike in solid biofuel prices experienced in 2022 following the war in Ukraine, has attenuated although these remain at higher than pre-war levels throughout March 2024. Price pressures have been lowered partly by mild winters and available stocks in industrial utilities. In Northern Europe there has been a strong focal shift to the security of fuel supply (inclusive of storage and local procurement), including wood. The wood energy market in the Southeast European region contracted significantly in 2023 and has experienced a slight recovery early 2024. The largest decline in production and consumption was seen in wood pellets.

29. Wood energy consumption in the USA was lower in 2023 than 2022. This is explained by lower consumption levels from the industrial and electric power sectors. USA wood pellet production increased nearly 3 percent between 2022 and 2023; exports declined by a similar percentage (2.6 percent), with the UK remaining the top export market (55 percent of all exports, by weight). In Canada, current wood pellet plant capacity is estimated at 4.77 million tons per year with about 72 percent of capacity currently utilized.

30. In 2023, the budget of the Russian Federation included subsidies earmarked for the transition of coal and oil-fired boilers to biofuels, including wood pellets, amounting to more than USD 100 million.

31. Projects utilizing bioenergy carbon capture and storage that can enhance the climate credentials of wood energy seem to be entering commercial stages.
