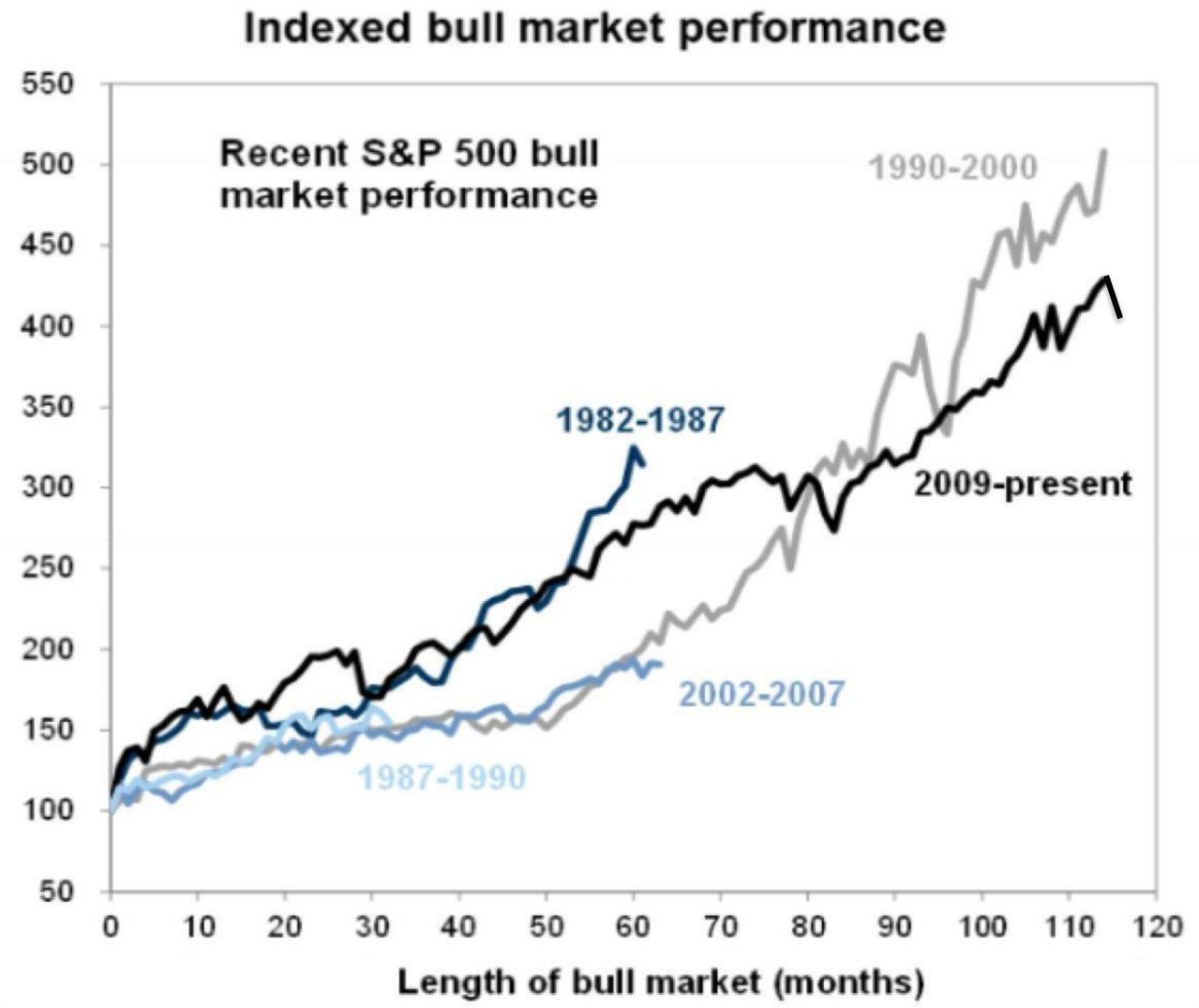
Outlook for the European Sawmill Industry

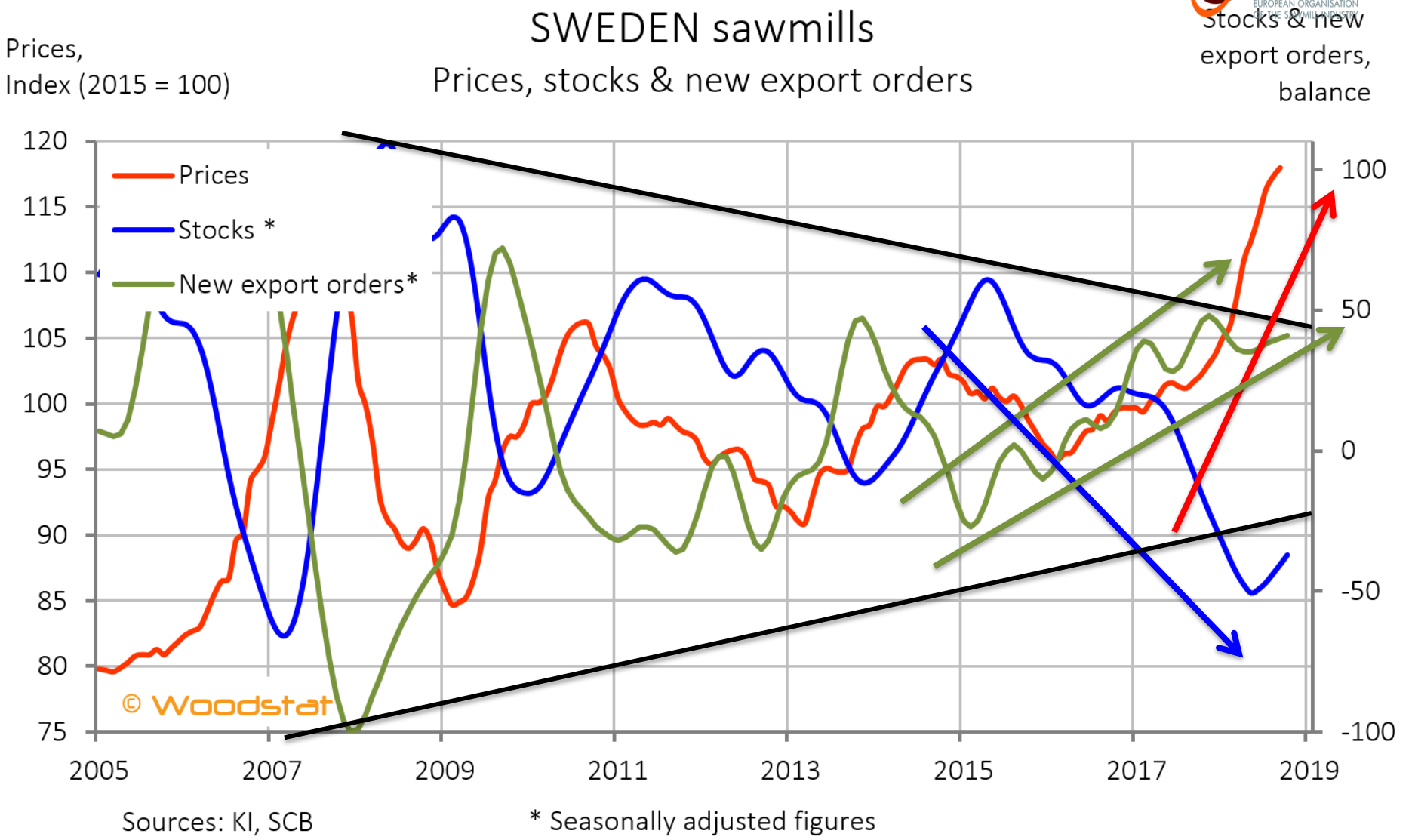
Trämarknaden
21- 22 November 2018, Karlstad

Sampsa J. Auvinen
President
European Organization of the Sawmill Industry

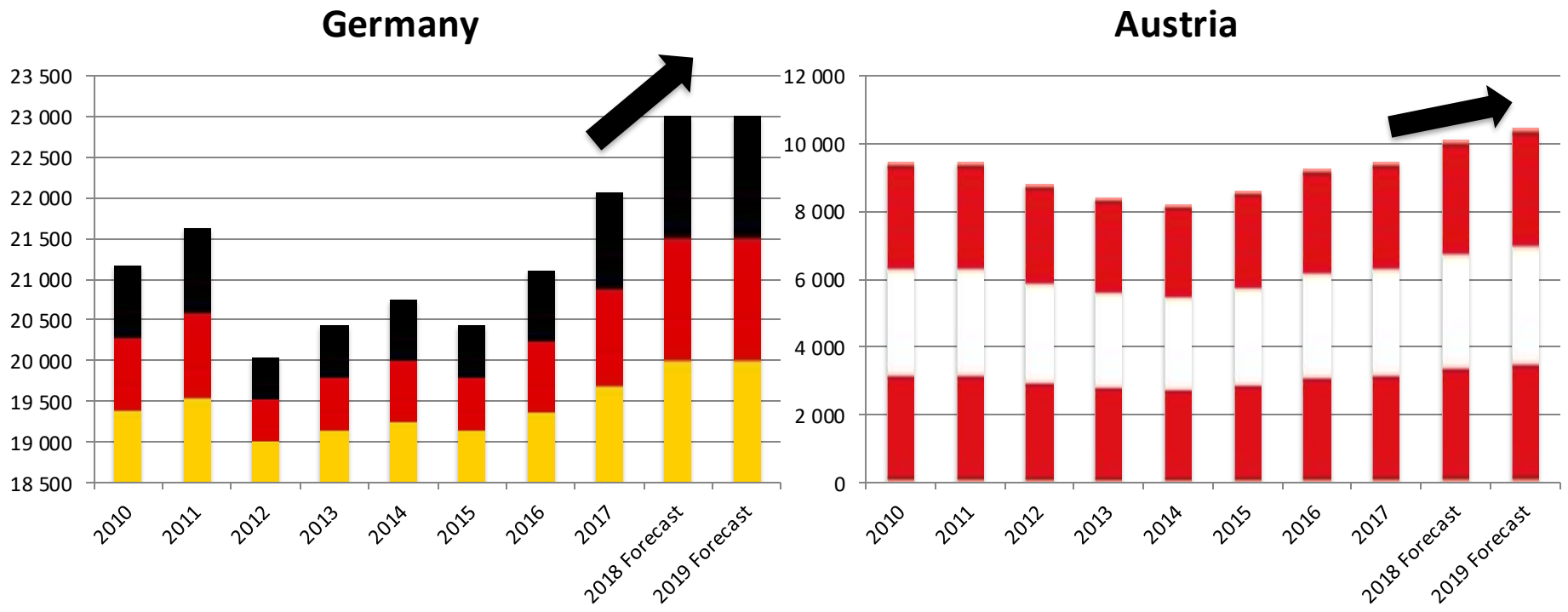
Is the party over?



From Unbalance to Balance and again to Unbalance

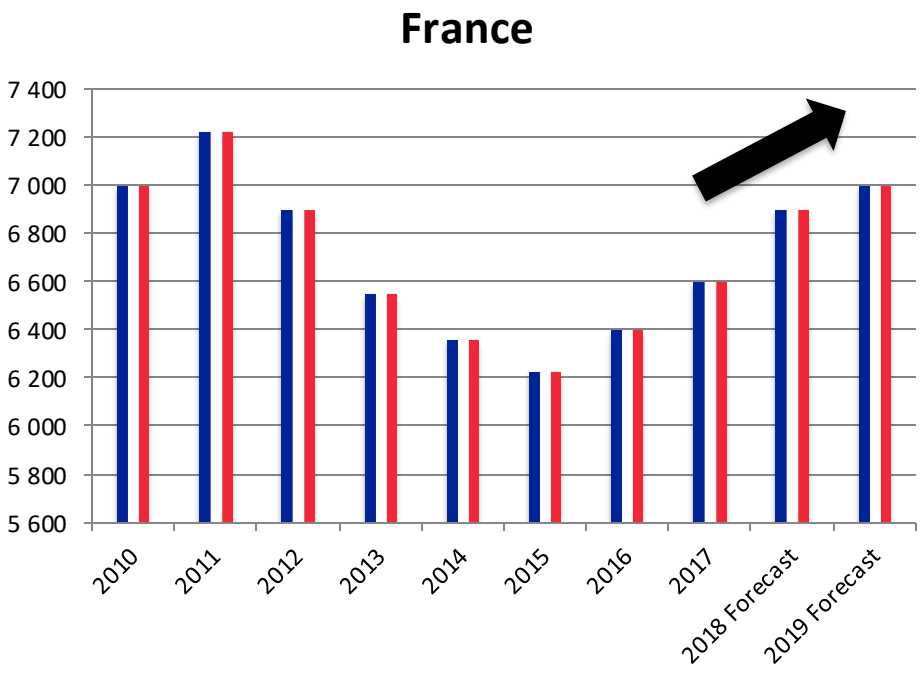


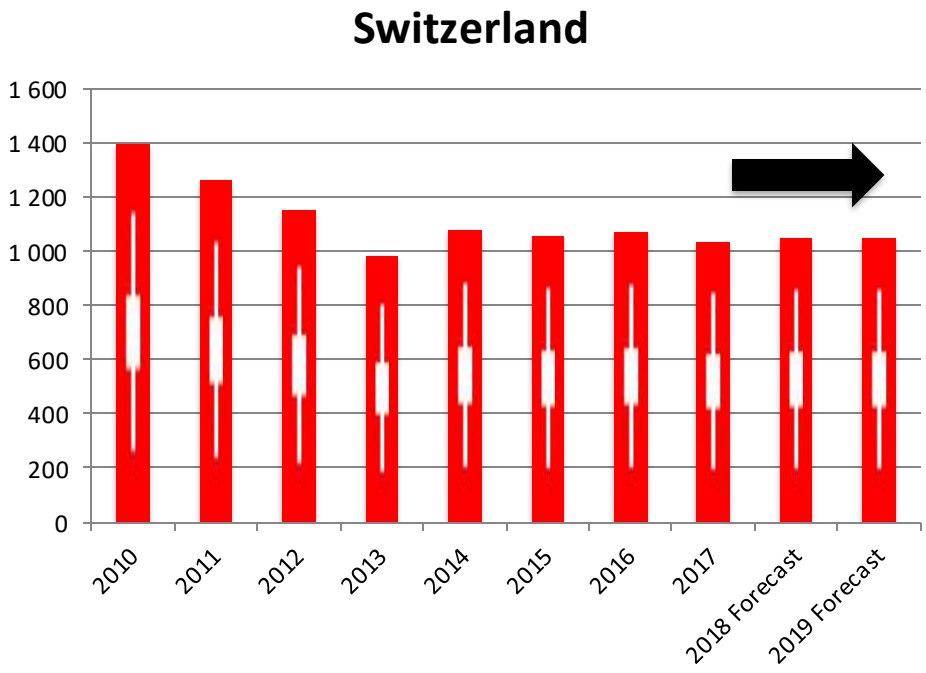
Sawn softwood production



Source: European Organization of the Sawmill Industry

Sawn softwood production





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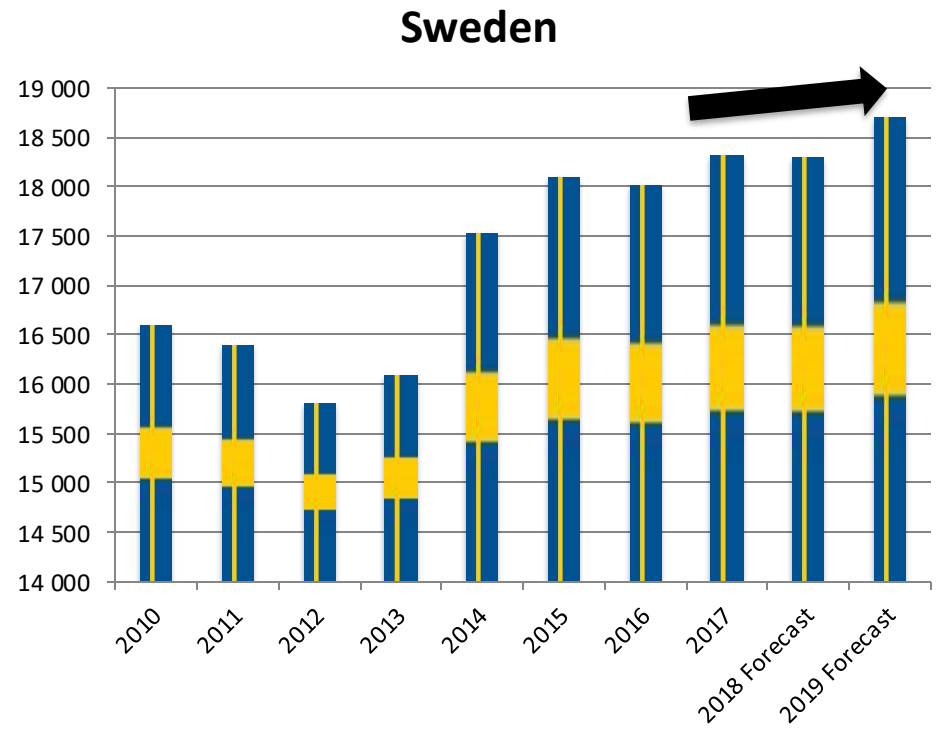
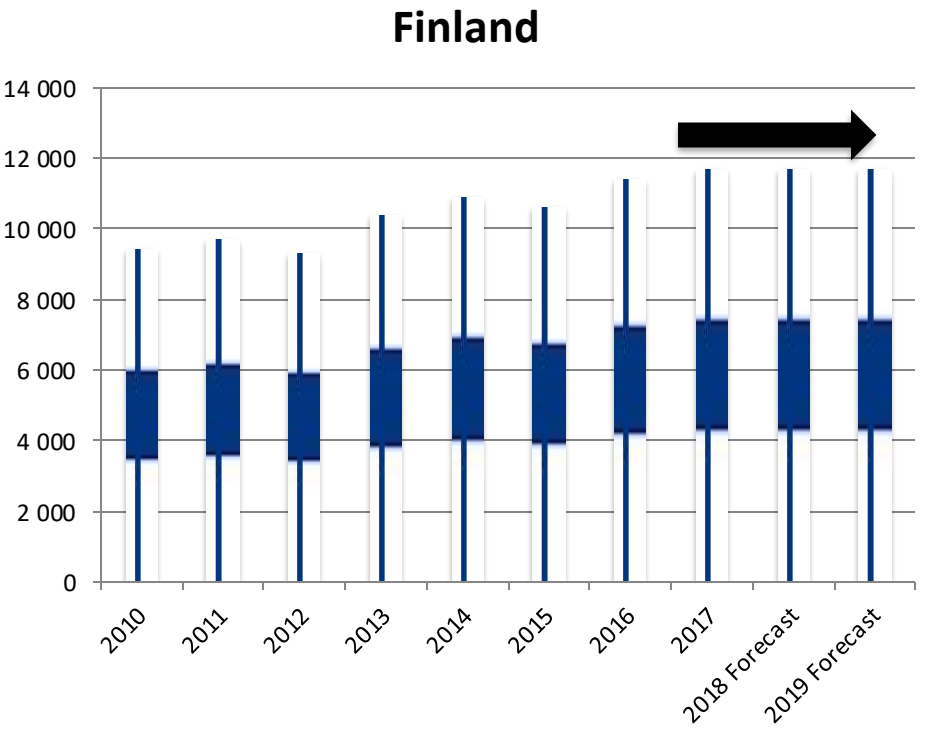
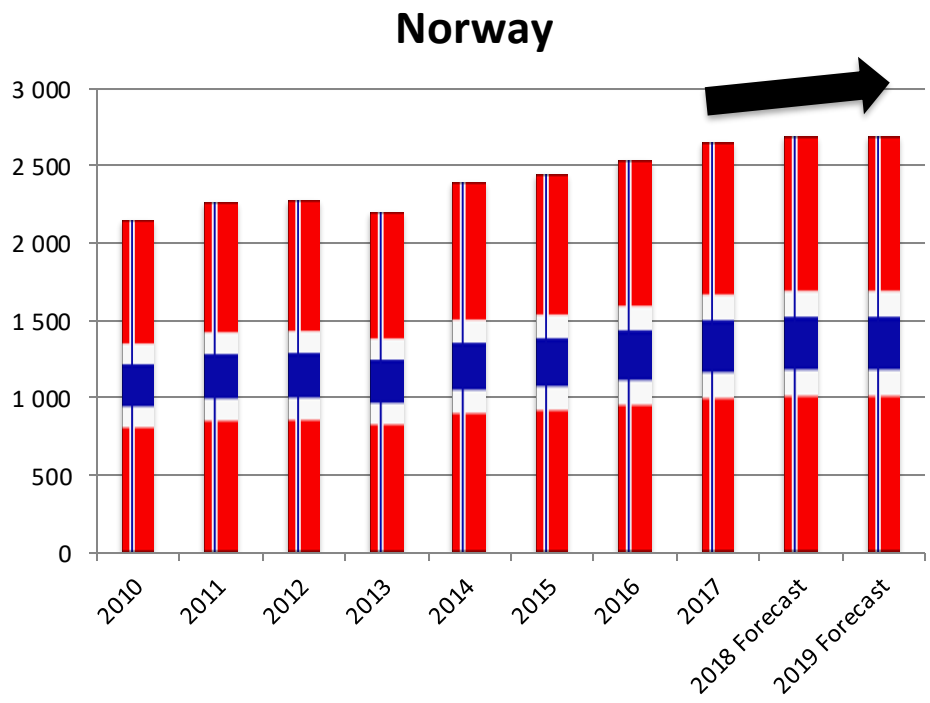
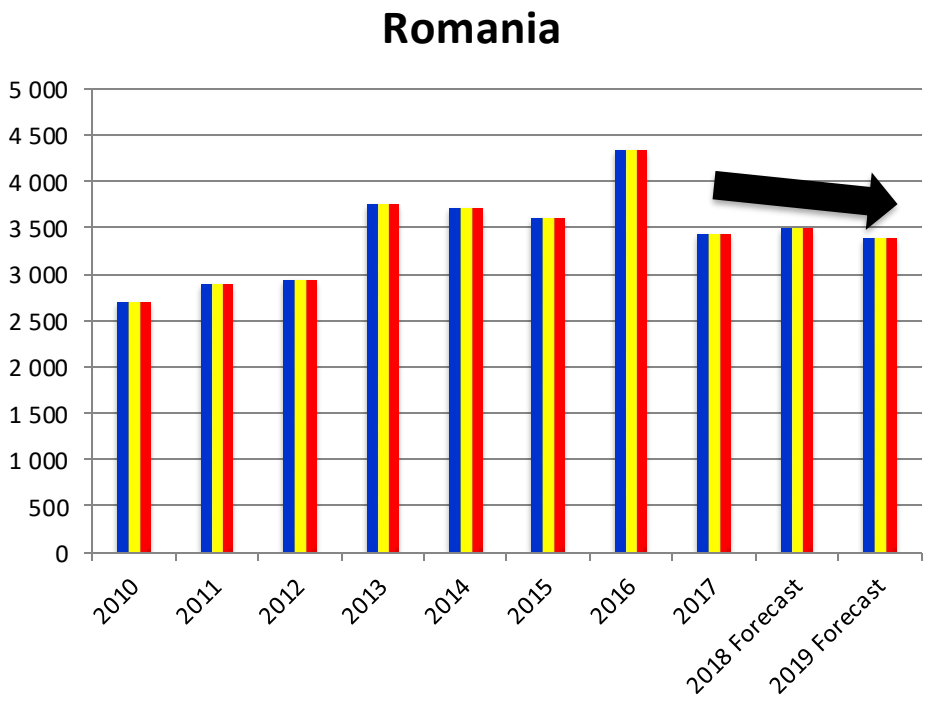




Source: European Organization of the Sawmill Industry

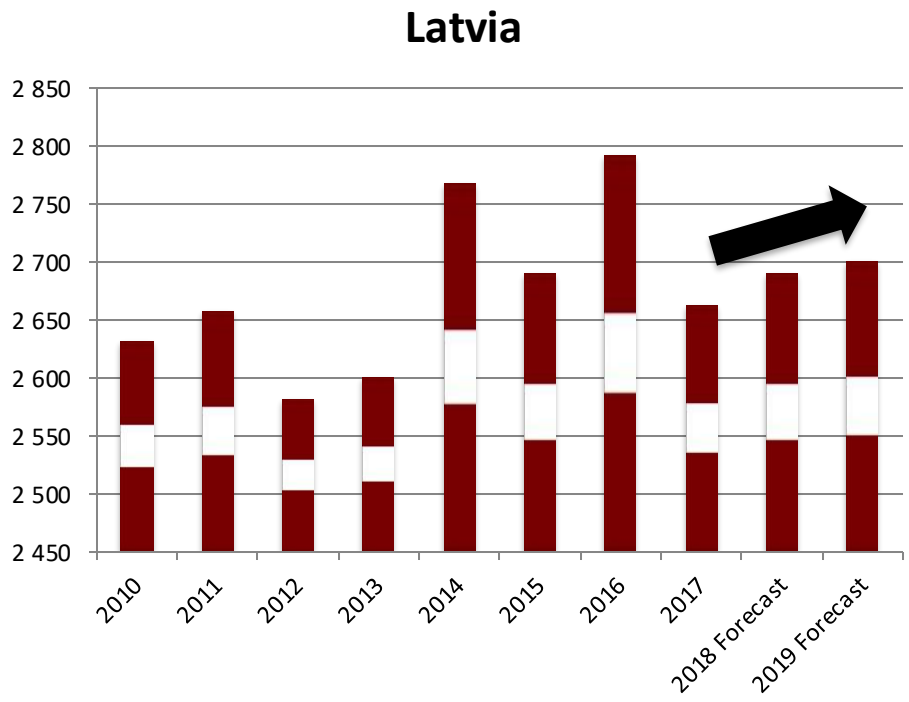
Sawn softwood production

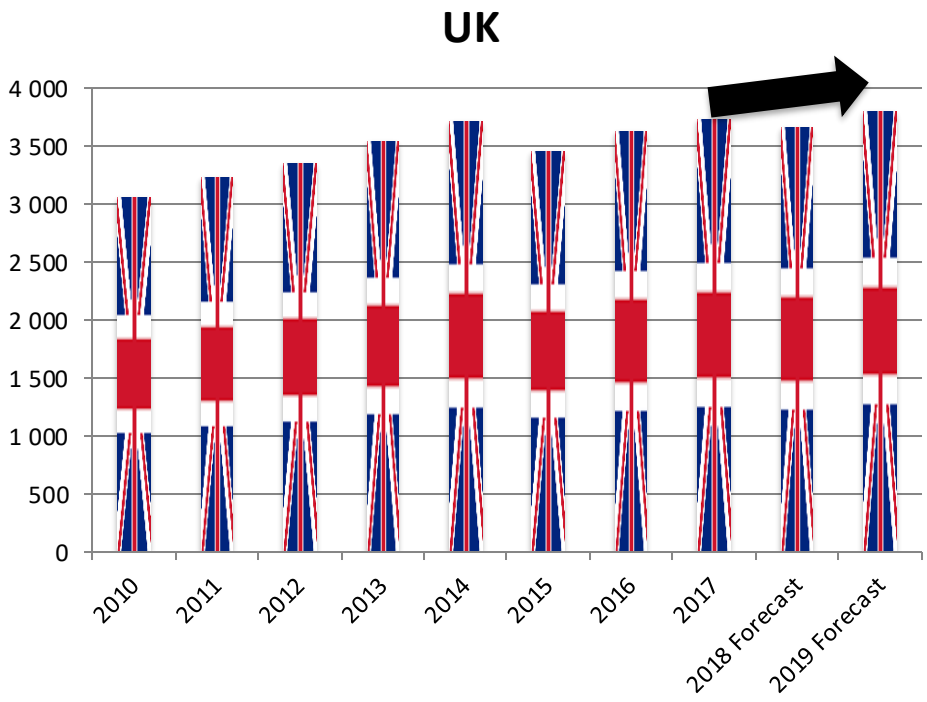




Source: European Organization of the Sawmill Industry

Sawn softwood production

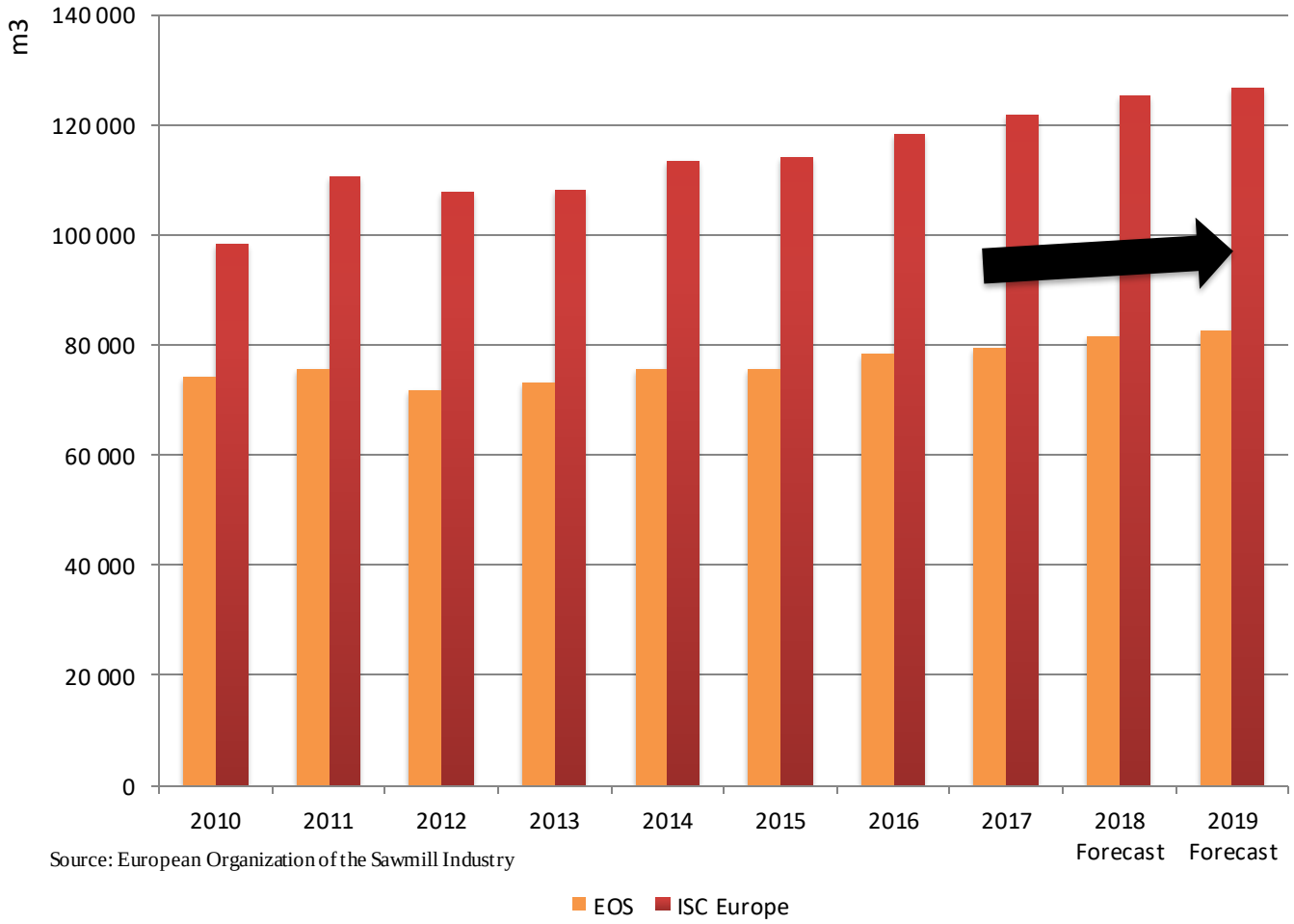




Source: European Organization of the Sawmill Industry

Sawn softwood production

In the EOS member countries*, total production of sawn softwood increased by 1,3% in 2017 and reached 79,6 million m3. In 2018, production is expected to increase 2,55 % to 81,7 million m3 and in 2019 0.9% to 82.5 million m3.

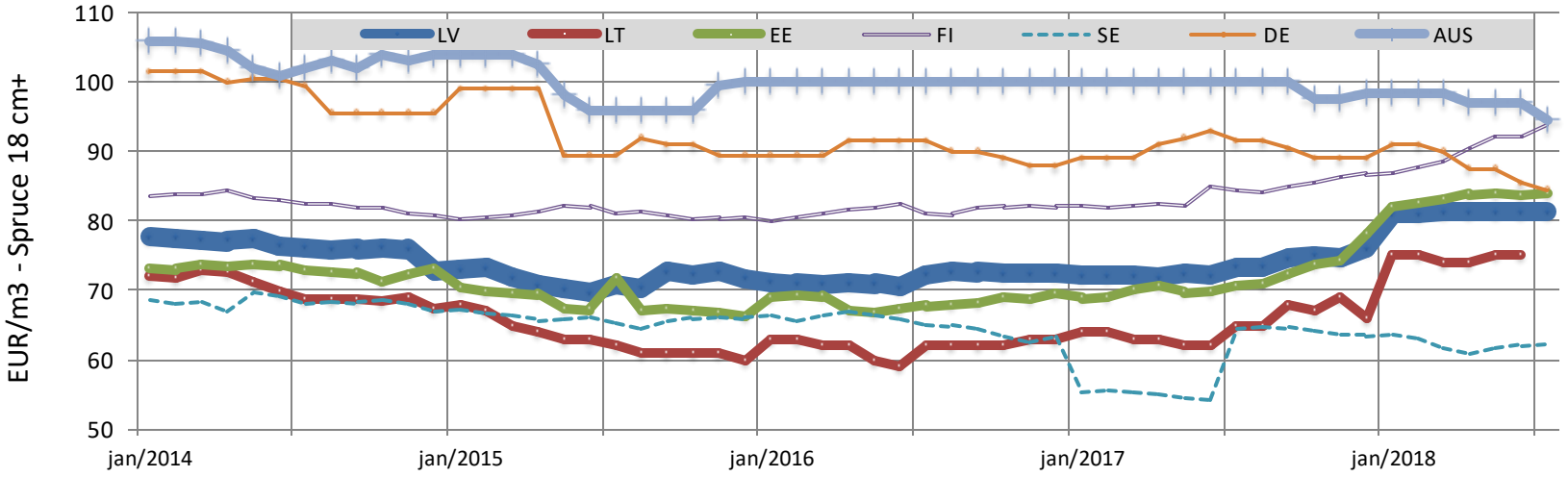


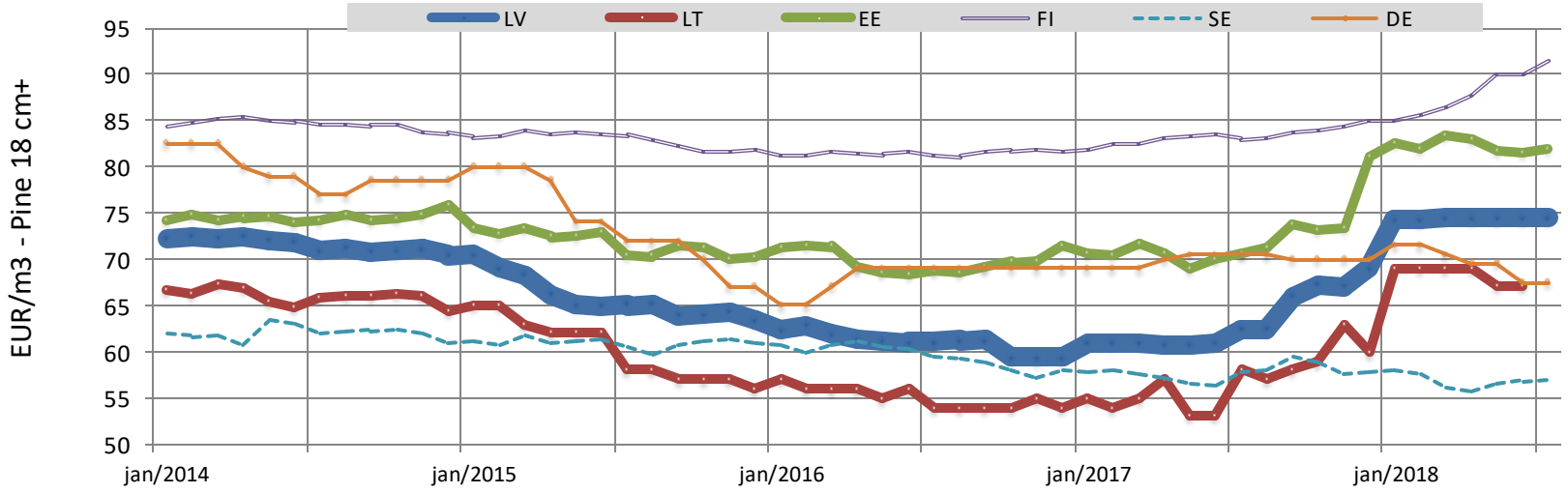
Source: European Organization of the Sawmill Industry

*EOS countries:
Austria
Belgium
Denmark
Finland
France
Germany
Latvia
Norway
Romania
Sweden
Switzerland

ISC:
Above+
Italy
Spain
Netherlands
United Kingdom
Russia

Raw material prices

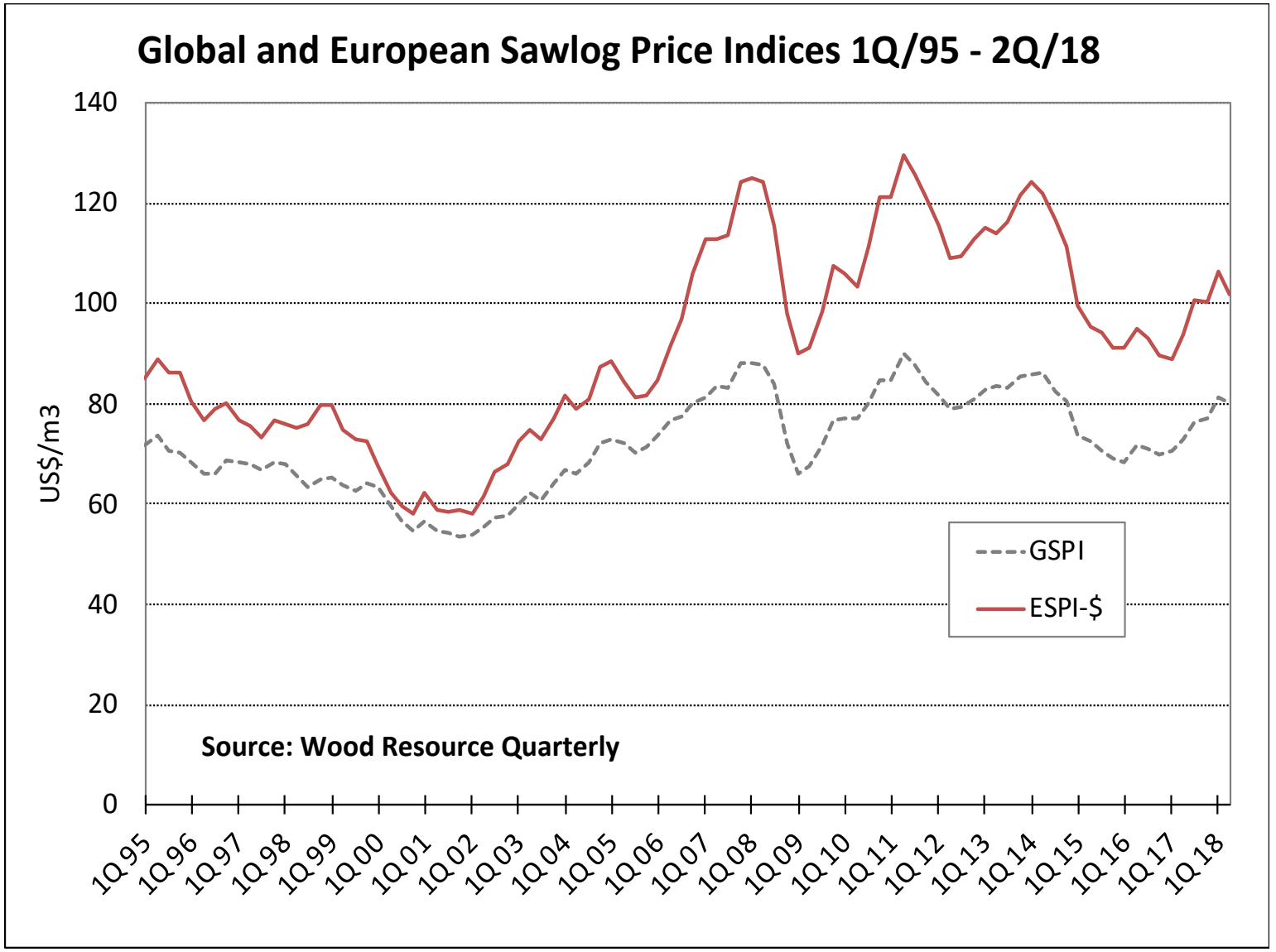




Latvia, Estonia, Sweden and Finland – prices are DLD to mill.
Germany, Austria and Lithuania – prices are ex forest road side.

Source: Latvian Forest and Wood Products Research and Development Institute

Raw material prices



GDP is expected to increase in the EU28 by 2,1% in 2018

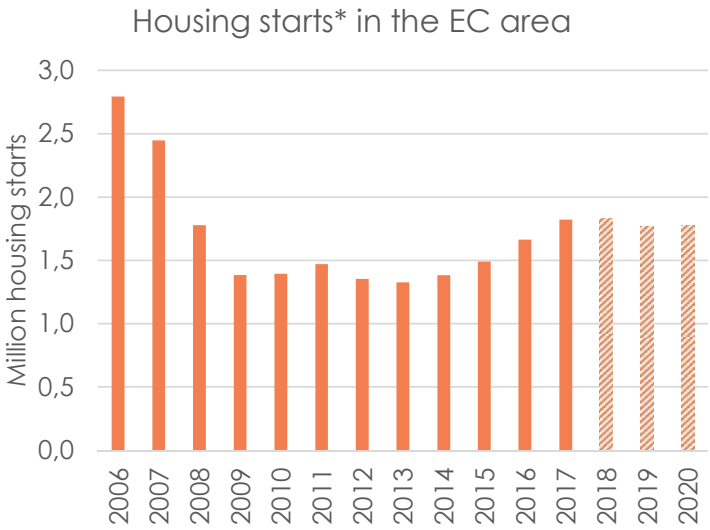
EU Construction

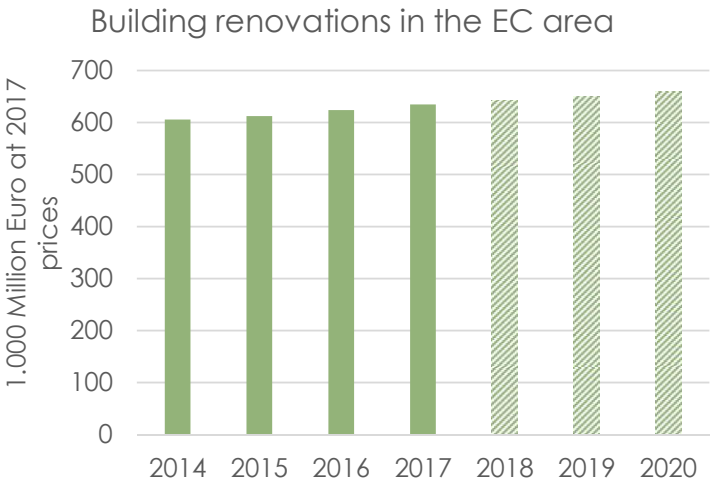
Total Construction output for the 19 Euroconstruct countries[1].

Change in % (euro at 2016 prices)	2017	2018 (f)	2019 (f)	2020 (o)
New residential construction	10,3%	5,1%	1,4%	0,6%
Housing starts (units)*	9,6%	0,3%	-3,3%	0,5%
Residential renovation	1,7%	1,0%	1,1%	1,6%
Total residential construction	**5,3%**	**2,8%**	**1,2%**	**1,1%**
Non-residential construction	1,8%	1,7%	1,5%	1,4%
Civil engineering	2,1%	4,4%	4,5%	2,5%
Total construction	**3,9%**	**2,7%**	**1,9%**	**1,4%**

*="housing permits" in Germany and the Netherlands

[1] Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland,, United Kingdom, Czech Republik, Hungary, Poland, Slovak Republik

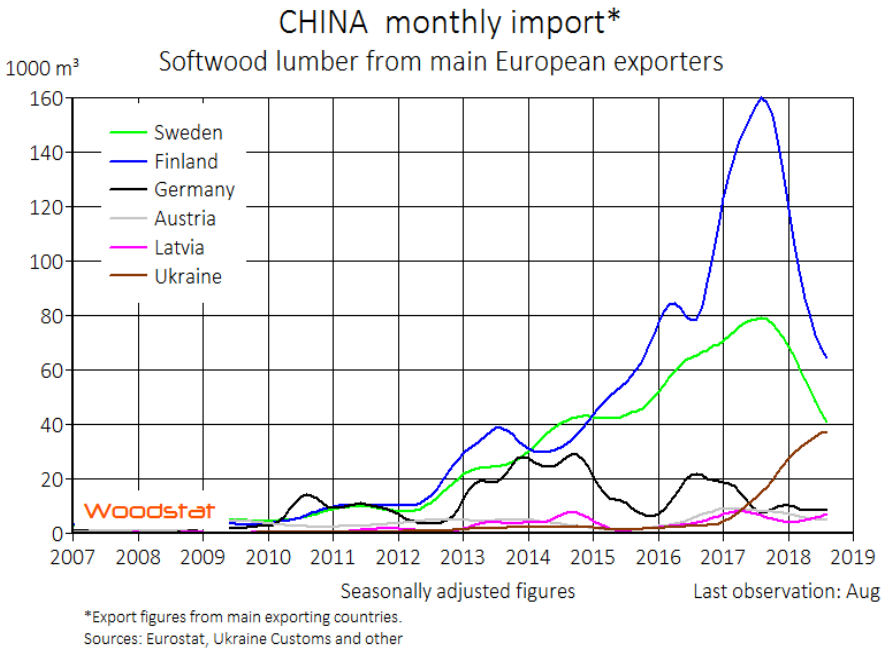




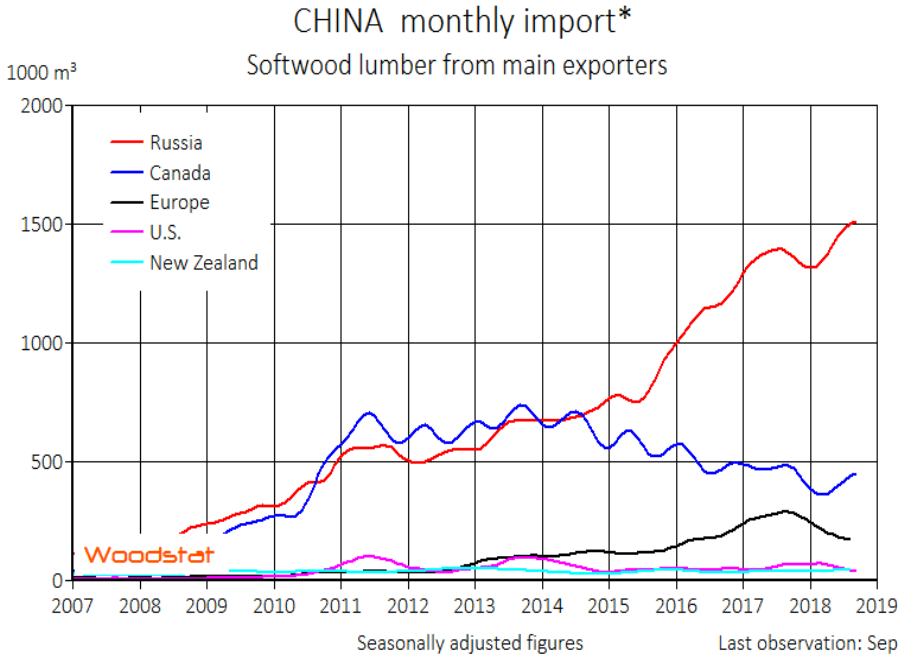
Source: EUROCONSTRUCT, June 2018

BREXIT

Sawn softwood exports to China

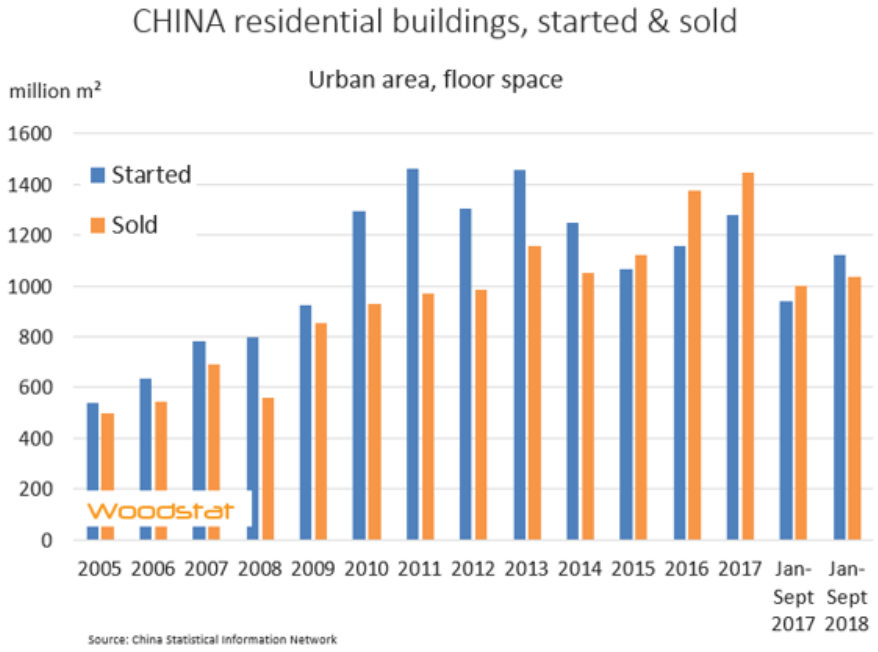


*Export figures from main exporting countries.
Sources: Eurostat, Ukraine Customs and other



*Export figures from main exporting countries.
Sources: Eurostat, Russian Customs, USDA, Statistics Canada, Stats NZ, Ukraine Customs and other

Sawn softwood exports to China



Sales price changes of newly constructed commercial residential buildings in China		
	M/M	2018/2017
January	+0.3%	+5.4%
February	+0.2%	+5.8%
March	+0.4%	+5.5%
April	+0.6%	+5.3%
May	+0.8%	+5.4%
June	+1.1%	+5.8%
July	+1.2%	+6.6%
August	+1.5%	+8.0%

Since January 2018, the National Bureau of Statistics has canceled the statistical indicators for the sales price of affordable housing and only compiled and released the sales price index for newly constructed commercial residential buildings.

China's official statistics getting more suspect

BOFIT WEEKLY 2018/36

7 Sep 2018

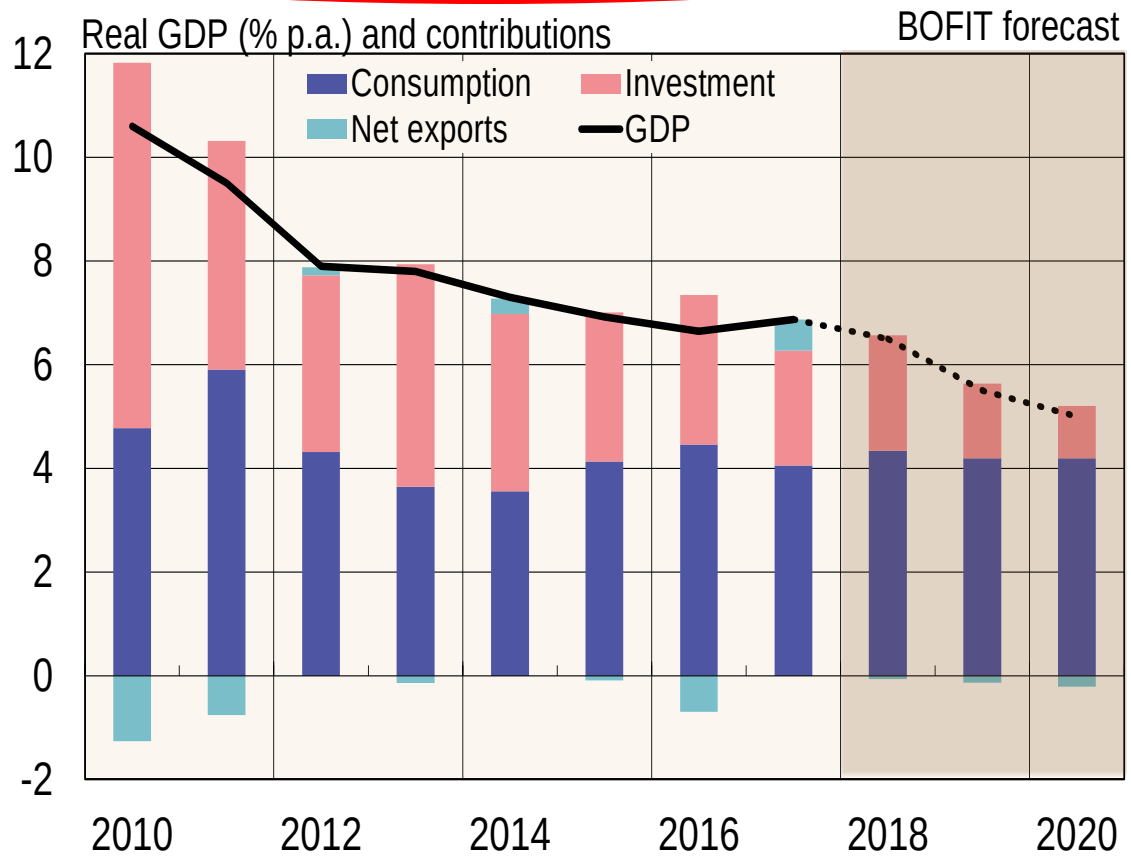
The Hong Kong daily South China Morning Post (SCMP) last week reported potential new cases of **anomalous statistical reporting by Chinese officials**. The SCMP article found evidence to question recently published data from the China National Bureau of Statistics (NBS) on the profitability of large industrial firms, retail sales, electricity consumption and coal output. SCMP reporters assert that officially reported **July industrial profit growth was seriously overstated** compared with growth figures calculated from absolute yuan figures. The NBS explained that the difference reflects annual changes in the size of the corporate sample. The NBS sample is limited to firms with revenues above 20 million yuan. **Some experts interviewed think that the NBS may, for example, deliberately adjust the sample size to make the numbers look better and meet official growth targets.**

Last month, Chinese media reported that the housing expenditure component of the consumer price index failed to reflect actual trends in housing costs.

The poor reliability of official Chinese figures has been discussed for years, but in recent years the problem seems to have grown worse. **The remarkable stability of reported GDP growth figures is not credible**. Moreover, it has been found that, for example, in the Liaoning and Inner Mongolia provinces and Tianjin's Binhai special zone official data have been significantly manipulated. Many suspect part of the statistical reporting problem is related to the China's ambitious official target of doubling real 2010 GDP by 2020. The goal may have forced officials to cheat in meeting their mandated targets. Data discrepancies are always problematic. They can distort assessments of the economic situation leading to inappropriate economic policies and bad business decisions.

Economic Development in China

The role of domestic consumption increases in China's economy



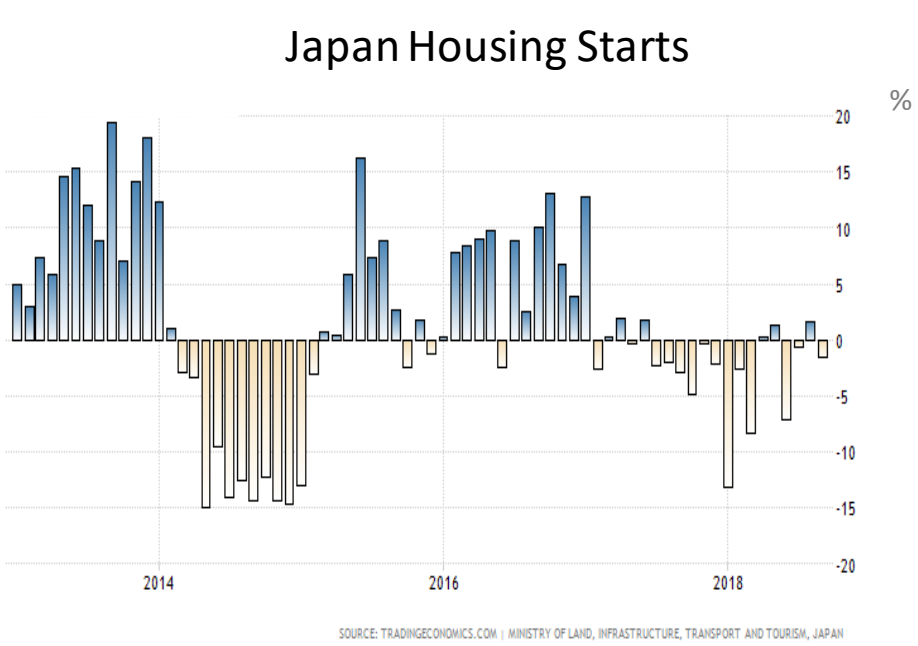
Sources: China National Bureau of Statistics and BOFIT

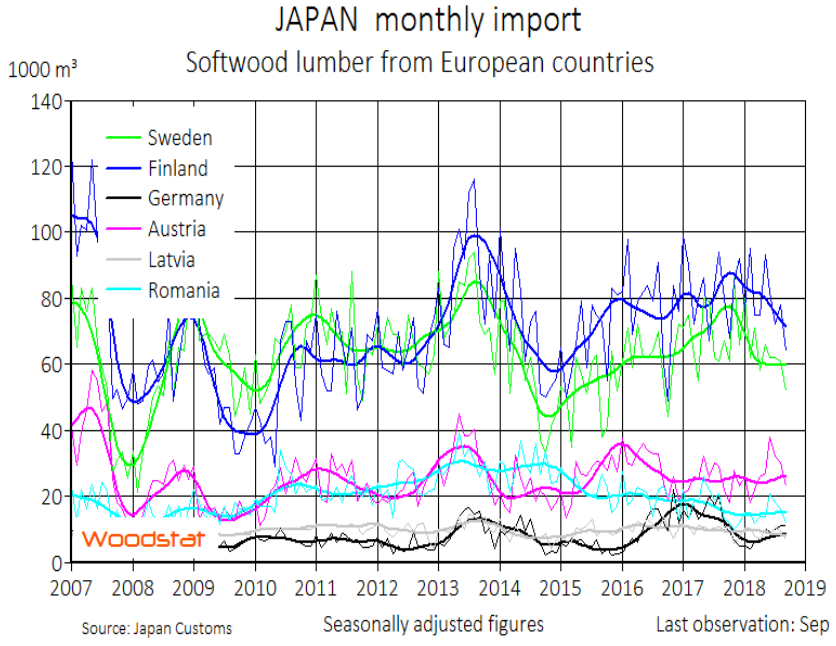
Sawn softwood exports to Japan

Japan's housing starts decline more than expected.

The import during January-September totaled 4.44 million m³ (-4.7 %). The trend line for the Japanese softwood lumber import is reducing.

Population aging - long terms prospects are challenging.

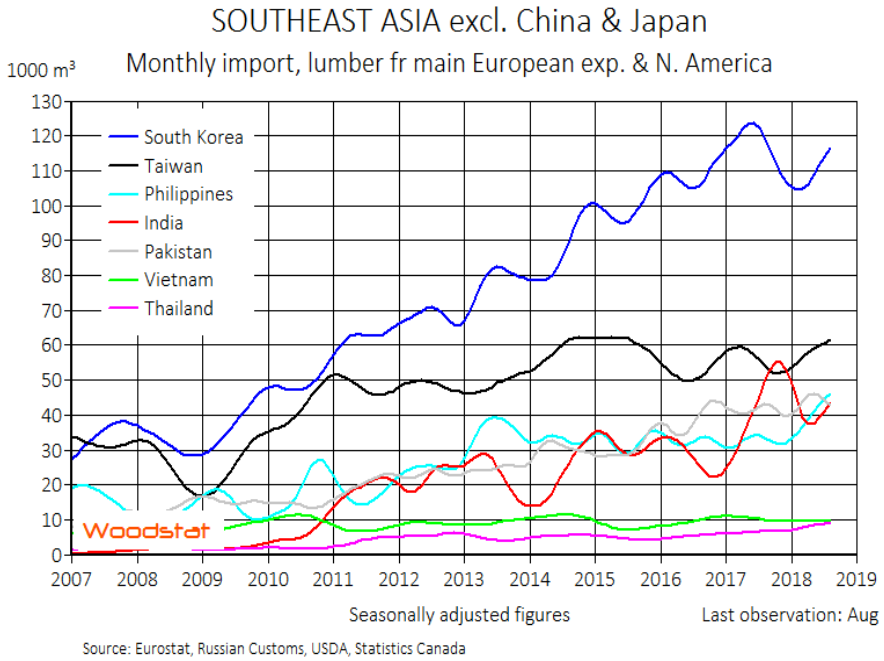


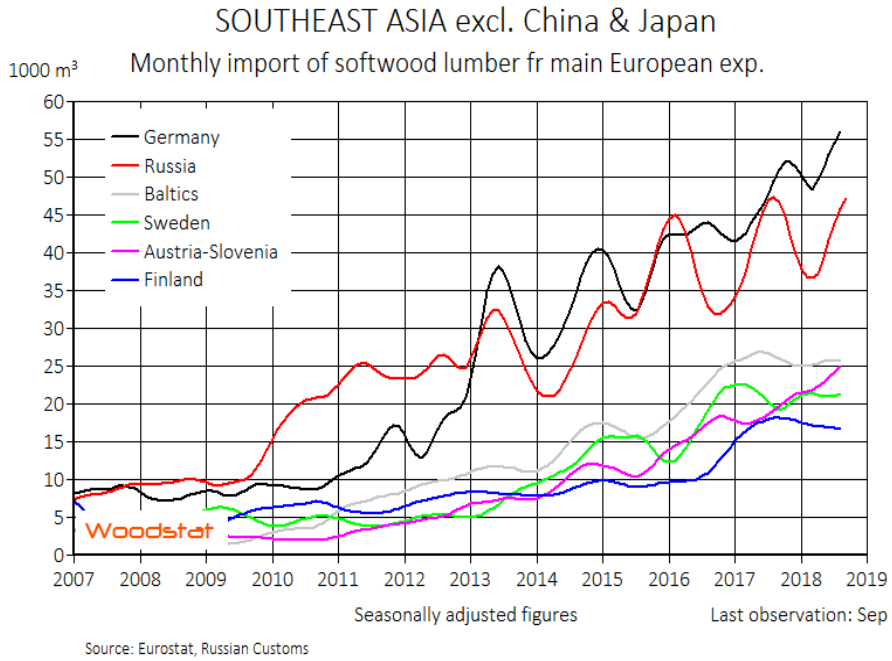


Sawn softwood exports to Asia

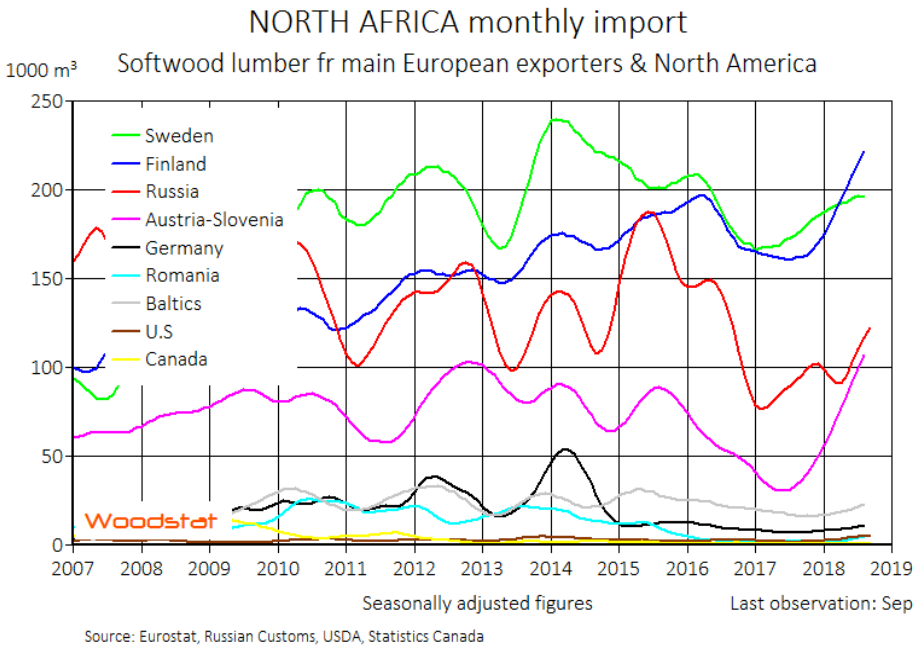
Asian (other than China and Japan) markets are important for the European.

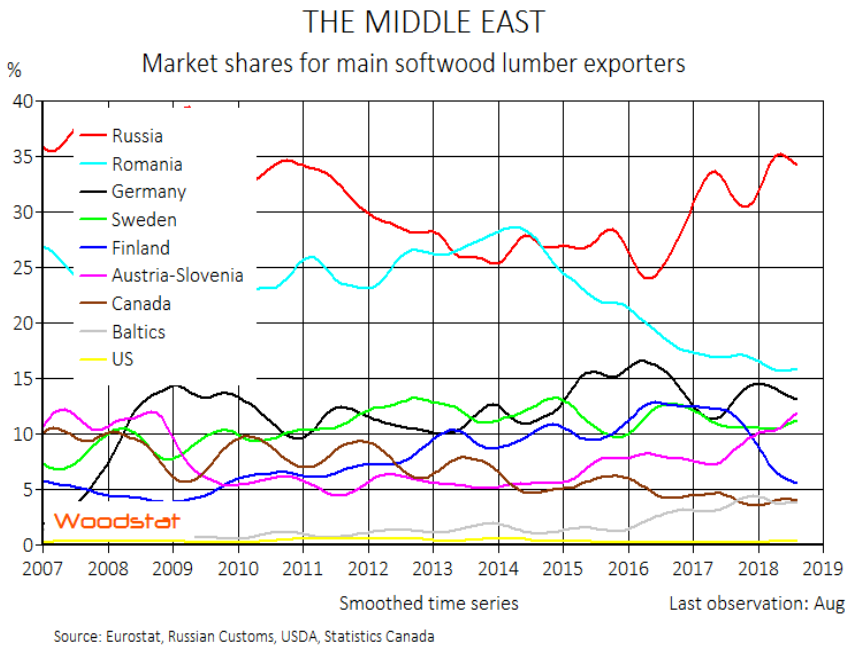
South Korea is currently the most important market but India is growing slowly but surely.
How substantial market will it become?





Sawn softwood exports to MENA





The MENA region's economies are picking from low levels.

The region is has had difficult times due to political uncertainty and low oil price but it seems that activity is improving.

International funding is coming to Egypt for large infrastructure projects as the economic climate improves.

Although oil prices have increased, there are still challenges in the region.

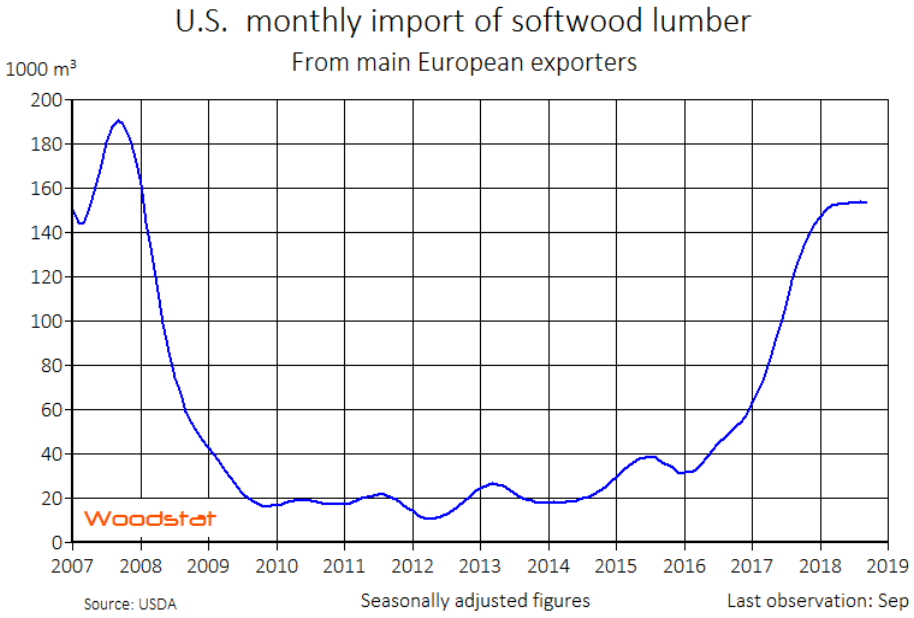
Sawn softwood exports to the US

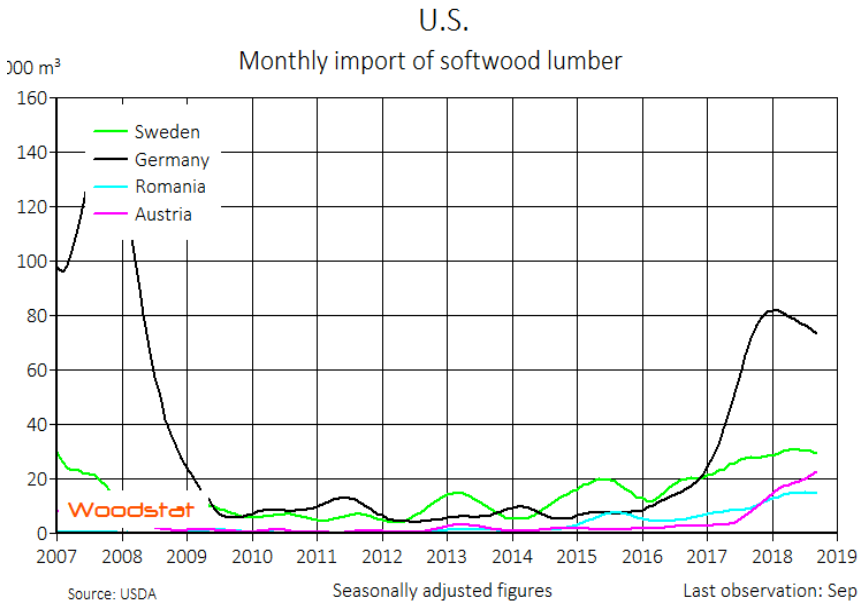
The US market imports annually about 2 million m3 from Europe.

We are back to the pre- financial crisis levels.

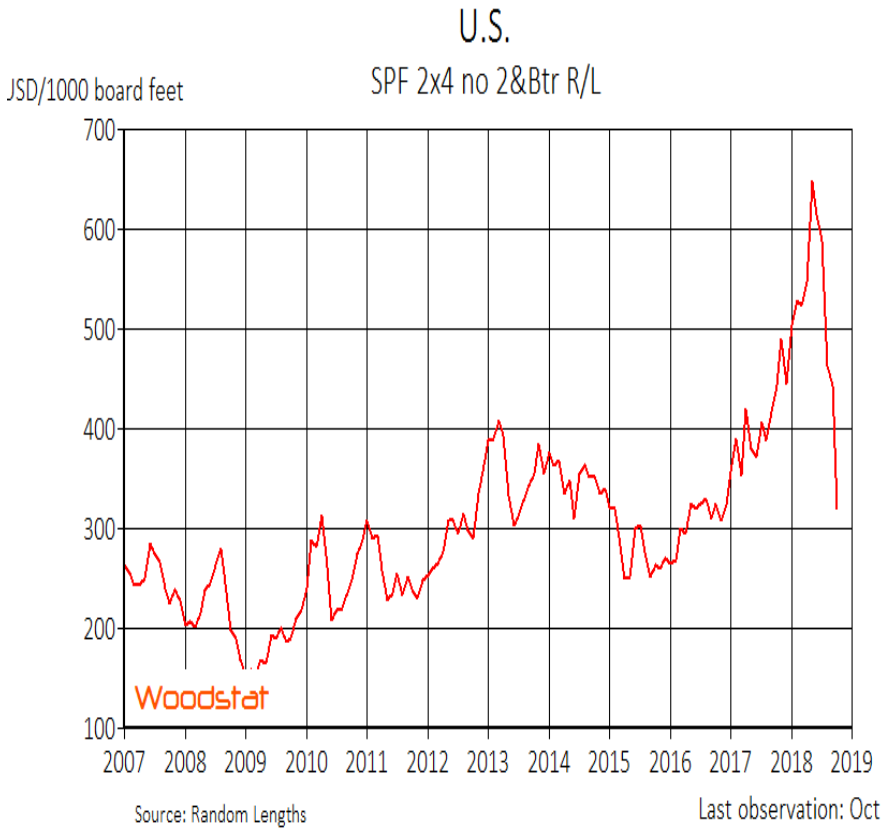
Larger European sawmilling companies have terminals in the US East Coast.

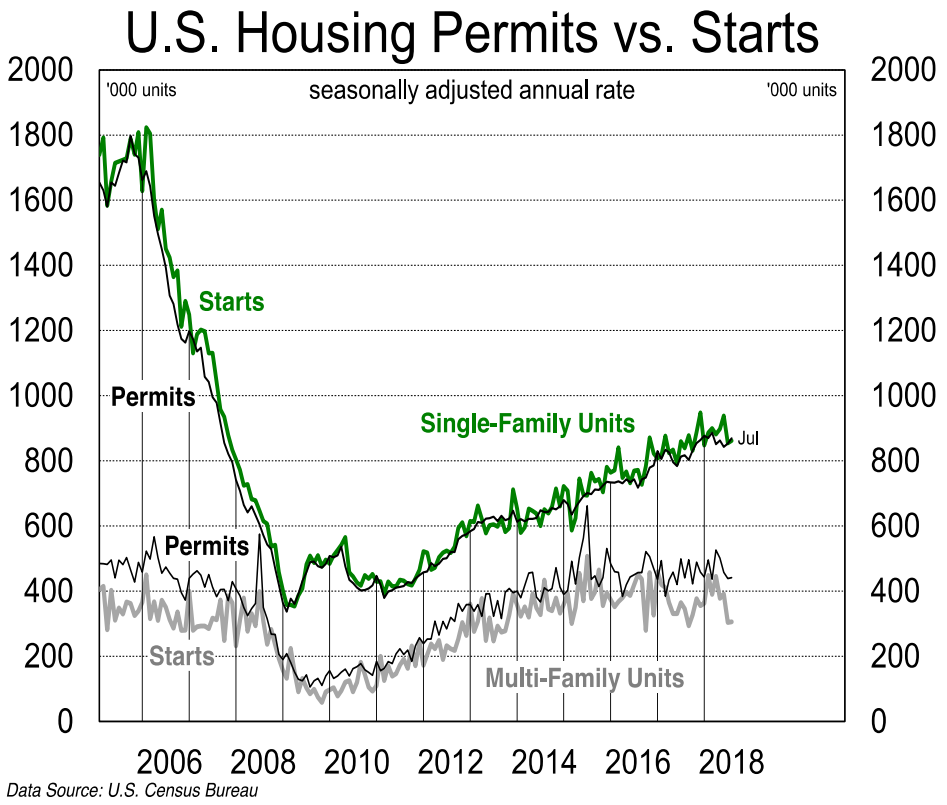
The export volumes from Europe are unlikely to increase much more from current levels.





US Market Fundamentals





Exchange rates

Currency fluctuations have not had lately dramatic effects on the industry in Europe

EUR per 1 GBP
High: 1.1580 Low: 1.1006

EGP per 1 EUR
High: 22.0754 Low: 20.1880

JPY per 1 EUR
High: 137.2346 Low: 125.0626

SEK per 1 EUR
High: 10.6949 Low: 9.7466

Financial health of industry

Summary

European economy is on a growth pattern.

Global demand of sawn timber will continue to increase.

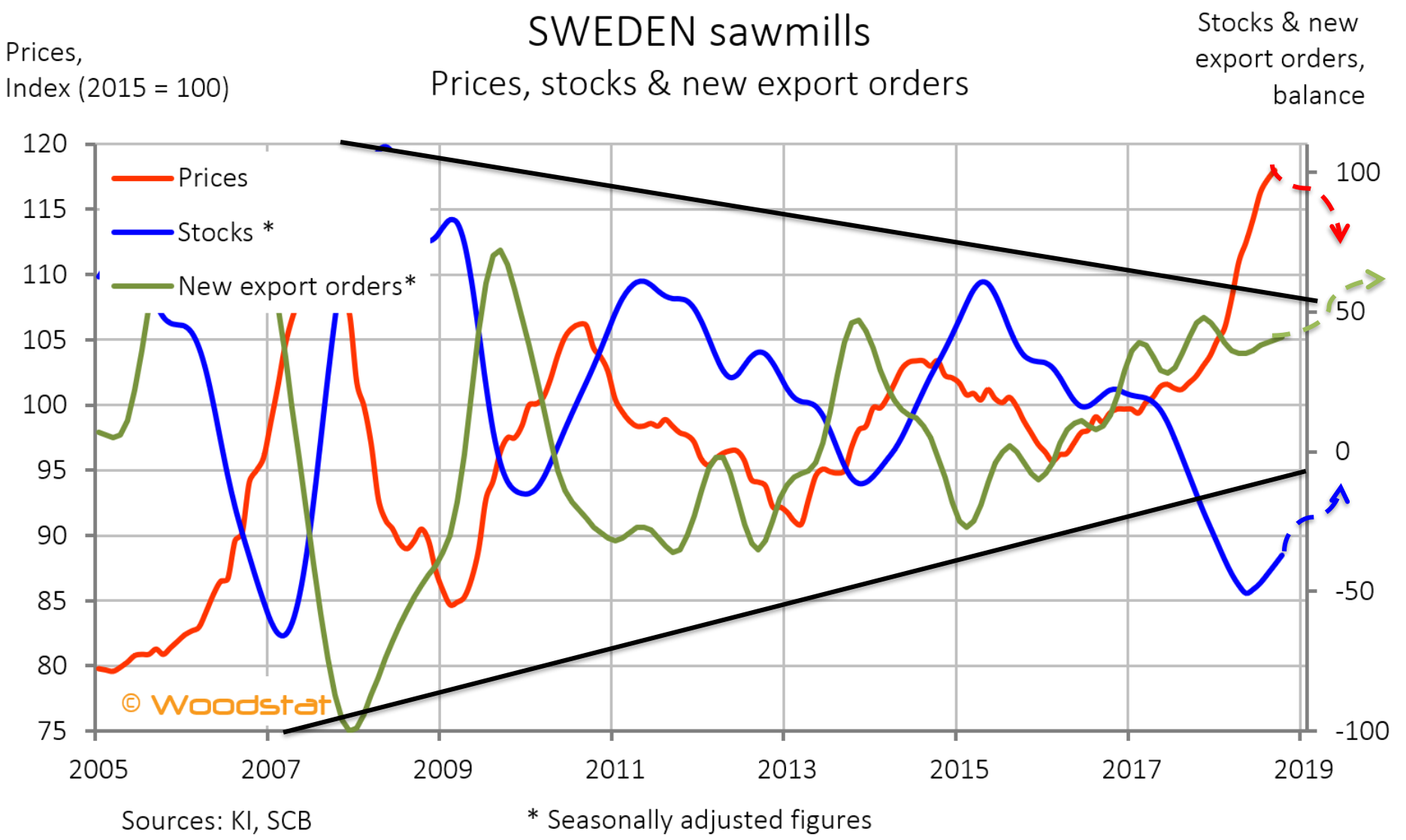
Exchange rate fluctuations have not bothered us too much lately, but will continue to affect the industry in the future.

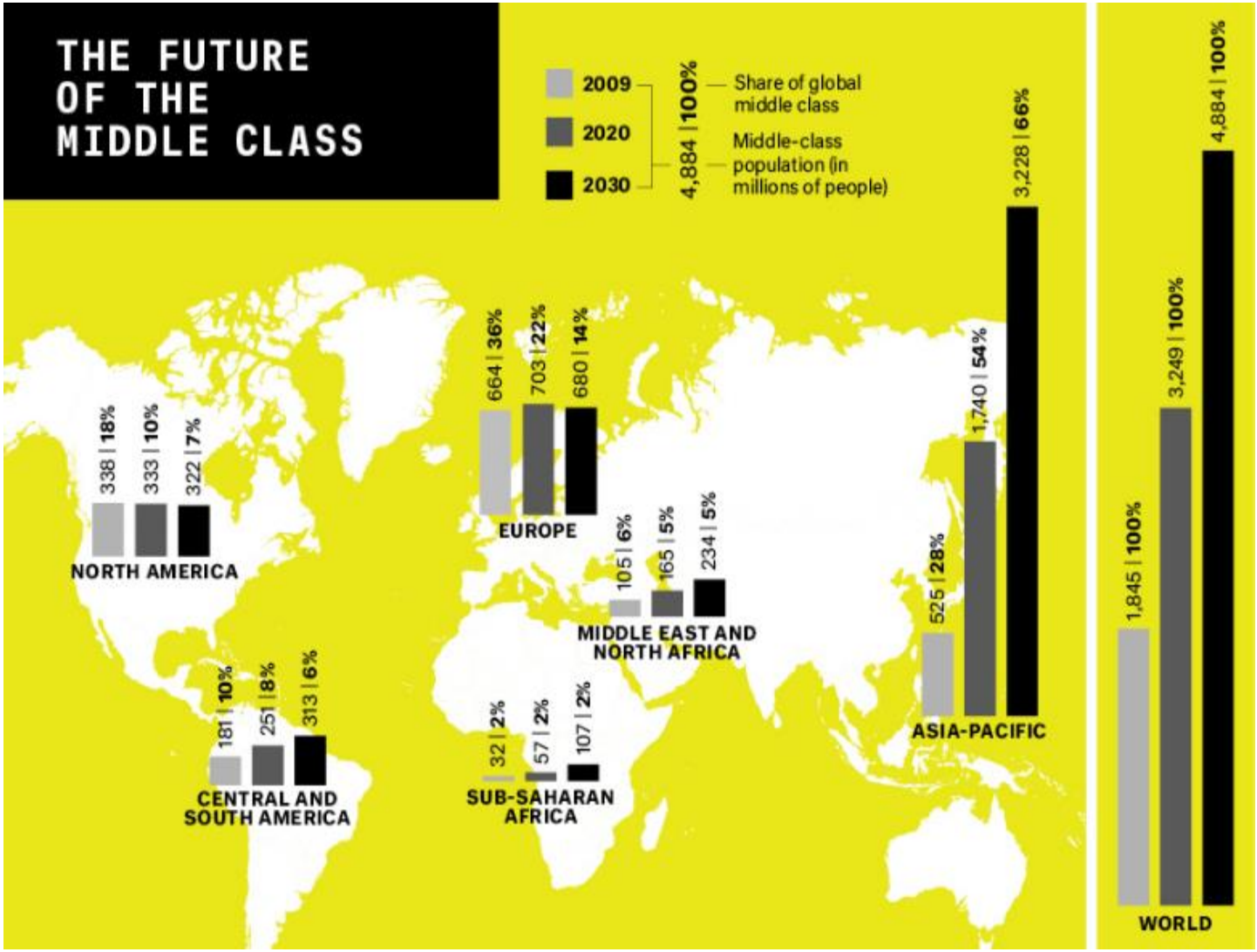
Financial performance of the European sawmilling industry is good & investments in operation improvements are taking place.

Raw material availability will limit European production growth going forward.

Prices for raw material and sawn timber will likely to continue increasing long term trend…

What's next?


SWEDEN sawmills
Prices, stocks & new export orders
Prices,
Index (2015 = 100)
Stocks & new export orders, balance
Prices
Stocks *
New export orders*
© Woodstat
120
115
110
105
100
95
90
85
80
75
100
50
0
-50
-100
2005
2007
2009
2011
2013
2015
2017
2019
Sources: KI, SCB
* Seasonally adjusted figures


THE FUTURE OF THE MIDDLE CLASS
2009
2020
2030
4,884 | 100%
Share of global middle class
Middle-class population (in millions of people)
338 | 18%
333 | 10%
322 | 7%
NORTH AMERICA
664 | 36%
703 | 22%
680 | 14%
EUROPE
105 | 6%
165 | 5%
234 | 5%
MIDDLE EAST AND NORTH AFRICA
525 | 28%
1,740 | 54%
3,228 | 66%
ASIA-PACIFIC
181 | 10%
251 | 8%
313 | 6%
CENTRAL AND SOUTH AMERICA
32 | 2%
57 | 2%
107 | 2%
SUB-SAHARAN AFRICA
1,845 | 100%
3,249 | 100%
4,884 | 100%
WORLD

EOS
60
YEARS
EUROPEAN ORGANISATION
OF THE SAWMILL INDUSTRY