Outlook for the European Sawmill Industry

Trämarknaden
21- 22 November 2018, Karlstad

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European Organization of the Sawmill Industry
Is the party over?

Indexed bull market performance

Recent S&P 500 bull market performance

- 1982-1987
- 1987-1990
- 2002-2007
- 2009-present
- 1990-2000

Length of bull market (months)
Sawn softwood production

Source: European Organization of the Sawmill Industry
Sawn softwood production

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Sawn softwood production

Source: European Organization of the Sawmill Industry
Sawn softwood production

Source: European Organization of the Sawmill Industry
Sawn softwood production

Latvia

UK

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.

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

ISC: Above + Italy, Spain, Netherlands, United Kingdom, Russia.

Source: European Organization of the Sawmill Industry
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

Global and European Sawlog Price Indices 1Q/95 - 2Q/18

Source: Wood Resource Quarterly
GDP is expected to increase in the EU28 by 2.1% in 2018.
EU Construction

Total Construction output for the 19 Euroconstruct countries\(^1\).

<table>
<thead>
<tr>
<th>Change in % (euro at 2016 prices)</th>
<th>2017</th>
<th>2018 (f)</th>
<th>2019 (f)</th>
<th>2020 (o)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New residential construction</td>
<td>10.3%</td>
<td>5.1%</td>
<td>1.4%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Housing starts* (units)</td>
<td>9.6%</td>
<td>0.3%</td>
<td>-3.3%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Residential renovation</td>
<td>1.7%</td>
<td>1.0%</td>
<td>1.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Total residential construction</td>
<td>5.3%</td>
<td>2.8%</td>
<td>1.2%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Non-residential construction</td>
<td>1.8%</td>
<td>1.7%</td>
<td>1.5%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Civil engineering</td>
<td>2.1%</td>
<td>4.4%</td>
<td>4.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Total construction</td>
<td>3.9%</td>
<td>2.7%</td>
<td>1.9%</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

*="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

**CHINA monthly import**
Softwood lumber from main European exporters

*Export figures from main exporting countries.
Sources: Eurostat, Ukraine Customs and other.*
Sawn softwood exports to China

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.

### Sales price changes of newly constructed commercial residential buildings in China

<table>
<thead>
<tr>
<th></th>
<th>M/M</th>
<th>2018/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>+0.3%</td>
<td>+5.4%</td>
</tr>
<tr>
<td>February</td>
<td>+0.2%</td>
<td>+5.8%</td>
</tr>
<tr>
<td>March</td>
<td>+0.4%</td>
<td>+5.5%</td>
</tr>
<tr>
<td>April</td>
<td>+0.6%</td>
<td>+5.3%</td>
</tr>
<tr>
<td>May</td>
<td>+0.8%</td>
<td>+5.4%</td>
</tr>
<tr>
<td>June</td>
<td>+1.1%</td>
<td>+5.8%</td>
</tr>
<tr>
<td>July</td>
<td>+1.2%</td>
<td>+6.6%</td>
</tr>
<tr>
<td>August</td>
<td>+1.5%</td>
<td>+8.0%</td>
</tr>
</tbody>
</table>
China's official statistics getting more suspect

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

Real GDP (% p.a.) and contributions

- Consumption
- Investment
- Net exports
- GDP

Sources: China National Bureau of Statistics and BOFIT

BOFIT Forecast for China 2018–2020

Bank of Finland / Institute for Economies in Transition
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?
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

U.S. Housing Permits vs. Starts

Data Source: U.S. Census Bureau

Source: Random Lengths

Last observation: Oct
Exchange rates

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

Sources: KI, SCB
* Seasonally adjusted figures

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Stocks & new export orders, balance


2019