

NEWSLETTER July – Aug 2023



Northern Europe

Finnish exports of sawn softwood in H1 2023 were stable at 4.35 million m³. However, the exports value of softwood lumber declined by 34%. There are significant differences in terms of market share in different countries though. Exports to main market Egypt increased by almost 10% to 500,000 m³ and in the MENA area deliveries to Algeria also rose – by 47% to 215,000 m³. Sales to Japan instead (see “Rest of the World” section below for more information) struggled with a -33% decline to 300,000 m³. Shipments to second market UK were stable with 385,000 m³ of sawn softwood delivered. Exports to China, instead, grew by 5% to 310,000 m³.

Swedish imports of sawn softwood in H1 2023 increased by 10% to almost 7.8 million m³. Shipments to the main market UK did well with over 1.5 million m³ (+15% vs H1 2022). Deliveries to the second market Netherlands increased by 52% to 850,000 m³. Other remarkable trends have been observed in Egypt (+35% to 610,000 m³) and China (+60% to 330,000 m³). The US bucked the trend (from very high historical levels) with -8% to 575,000 m³.

Latvia's wood product exports have fallen by more than 20% in the first five months of the year. The value of exports of sawn wood amounted to €304 million, a drop of 51%. Wood fuel is valued at €270 million, an increase of nearly 22%. Export figures are falling as imports have decreased significantly: in the past, up to one million cubic meters of boards were imported from Russia and Belarus in order to carry on with added value. The decline in construction volumes has significantly reduced the need for construction materials in the Baltic Sea region, and as a result, the demand for various types of wood industry products has experienced a decline. As a result, prices continued to fall in all market segments in Latvia's wood market in June. In June, the average price of small-diameter sawlogs of spruce and pine fell by about 5%, which is explained by the fall in the price of pulpwood of these species.

A general decrease in activity in the construction sector has been observed since the Russian invasion of Ukraine in 2022, when the availability of certain construction materials significantly decreased. Later, the increase in inflation made construction prices more expensive, thus reducing its activity as well. Also, due to the increase in interest rates of the European Central Bank, it is more difficult to attract financial means for the purchase of real estate, and until the uncertainty of raising interest rates does not decrease, there will still be fewer real estate transactions, which also negatively affects the construction industry. Although less, the slowdown in construction in the private sector is also caused by the public's lack of confidence in the future, which is exacerbated by the ongoing Russian invasion of Ukraine.

In June the demand for Latvian forest cuttings was stable, despite the fact that the demand for wood as a raw material has fallen, and thus

the purchase prices of logs has also decreased. This is due to the fact that the economic activity of logging companies is significantly limited due to the restrictions of the bark beetle emergency, which is still in force. Latvian logs though remain comparatively pricier than in other regions of Europe.

Central Europe

The French government fears that around 30% of the tree species in France might vanish by 2050 because of climate change. Due to the heat and drought, many forests might not be able to act as carbon sinks anymore. Based on the report on the state of forests called “Objectif Forêt”, France therefore plans to invest €8 to €10 billion in changing the composition of at least 15% of its forests in the coming ten years. The shortage of workers and staff for the planting and management of forests is said to be “the biggest limiting factor” according to the report on the state of forests. **France would need an additional 50% of workers to plant the required number of trees.**

Timber Online expects a 20% decline of sawn softwood production in both Germany and Austria for the whole year 2023.

According to Destatis, **Germany’s softwood logs exports amounted to 3.65 million m3 in the first half-year, which corresponds to a 16% decrease compared to the same period of 2022 (4.32 million m3).** In the first six months of 2021, Germany exported 5.54 million m3, while exports had totaled 4.64 million m3 in the same period of 2020.

From January to June, Germany sold 1.16 million m3 to China (*EOS remark: these figures are remarkably different from the Chinese customs figures, available below*), recording a

year-on-year decrease of 15%. Exports to Austria fell by 7% to 1.06 million m3.

Deliveries in Q1 were comparable to deliveries in 2022, while in Q2 deliveries sharply declined.

Softwood log exports Germany January-June 2023			
Country	2023	2022	Change in %
China	1,158,185	1,366,625	-15.25
Austria	1,063,196	1,143,642	-7.03
Czech Republic	288,958	227,943	26.77
Belgium	270,536	466,644	-42.03
Poland	250,923	297,450	-15.64
Luxembourg	98,472	134,297	-26.68
Lithuania	98,043	54,914	78.54
Switzerland	91,840	67,464	36.13
France	82,352	109,403	-24.73
Netherlands	49,629	102,316	-51.49
Other	195,631	347,752	-43.74
Total	3,647,765	4,318,450	-15.53

Source: Timber Online/Destatis

From January to May, Austria exported 2.2 million m3 of softwood lumber. Year on year, a decrease of 16% was recorded. Italy remains by far Austria’s most important customer. Until the end of May, 1.1 million m3 of softwood lumber were exported to Austria’s neighbor in the south. Compared to the same period of 2022, Italy reduced its imports by 15%. In the first five months, Austria also exported smaller volumes of softwood lumber to Germany, its second most important customer (322,000 m3; -32%).

Marked decreases were also recorded in shipments to Japan (57,000 m3; -56%), the US (46,000 m3; -32%) and Slovakia (36,000 m3; -23%).

As data published by Statistik Austria show, exports to Slovenia grew by 37%, reaching a total of 213,000 m3. This indicates brisk business in the MENA region since the softwood lumber for the region is shipped there from the Slovenian ports.

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The wood industry in Poland is facing an unprecedented crisis, prompting entrepreneurs operating in the sector to issue an "Open Letter of the Wood Industry in Poland" to Prime Minister Mateusz Morawiecki. The challenging market situation, coupled with the failure to reach an agreement with PGL Lasy Państwowe regarding wood sales, pricing, and FSC certification, has led to a dire state of affairs.

Numerous companies, including some of the largest factories in the industry, have been forced to halt their technological lines for several weeks due to the inability to sell their products. Additionally, many small and medium-sized enterprises are experiencing a severe lack of orders, putting them on the brink of bankruptcy. The repercussions of this crisis have already been seen in the loss of hundreds of businesses and thousands of jobs, with devastating impacts, such as the declared bankruptcy of a wood-based garden equipment company in the Olecko Commune, leaving 260 people unemployed.

Representatives from various associations, including the Polish Chamber of Commerce of the Timber Industry (PIGPD), the Association of Wood-like Panels Producers in Poland (SPPDwP), the Polish Chamber of Commerce of Furniture Manufacturers (OIGPM), and others, are calling for immediate intervention from the Prime Minister to address the dire situation. They propose a meeting to present solutions that can restore stability to the wood market and save thousands of jobs, especially in rural areas. Time is of the essence, given the dynamic nature of the economic downturn.

Over the past six months, there have been substantial decreases in sales across all wood processing sectors, leading to a significant reduction in production margins:

-Garden program: 45%; Pallet production: 25%;
Production of windows and doors: 35%;
Lumber production (depending on type): 29%

to 43%; Furniture production: 30%; Floor production: 35%; Production of wood-based panels: 30%; Production of paper and cardboard: 12%.

The loss of competitiveness in the industry is primarily attributed to the high price of wood raw material from state forests, which significantly impacts production costs. Poland currently has the most expensive wood in Europe, and the lack of FSC certification further hinders sales on export markets for many companies.

The majority of forests in Poland are owned by the State Treasury, which should be an advantage for the industry, but it has turned out to be otherwise. The current activities of the State Forests, focused on maximizing sales prices without regard to other factors, have resulted in significant revenue losses for the state budget in the form of taxes paid by wood processing companies. Moreover, this situation poses incalculable social costs.



Hardwood

In Central Europe, business development of beech sawmills has been negatively affected by the **difficult situation for furniture and toy manufacturers**. There has been a significant reduction in orders and sawmills are being faced with increasingly scarce storage space. However, **beech sawmills still consider the**

level of incoming orders and call-ups from laminated panel manufacturers and the domestic timber trade to be satisfactory.

Beech panels are replacing in some instances oak panels. Beech board products and squared timber for pallet and packaging manufacturers are not doing well, with pallet manufacturers lamenting the poor consumer climate across Europe. **Beech lumber deliveries across China have remained below expectations over the last few weeks.** Consumer climate, and thus demand for furniture, remains depressed in China.

In the oak sector in Central Europe, the increasing supply pressure for oak lumber caused by poor sales in the flooring industry has led to price reductions for unedged standard ranges over recent weeks.

The sales situation for both unedged and edged oak lumber in India, Vietnam, Indonesia, Malaysia and China is difficult at least for Central European sawmills.

The accumulation of storm-damaged oak wood in Croatia is currently not expected to cause any disruptions on the lumber market.

Focus on CLT markets

After the record figures of the past few years, the cross-laminated timber industry has been brought back down to earth in 2023. Growing capacities are meeting weak markets, which is putting massive pressure on prices.

In short, what used to be a seller's market has become a buyer's market. Nevertheless, many manufacturers are not entirely unhappy with this development – at least when it comes to volumes. What you generally hear from the industry is that output has been adapted somewhat and that business is being done at a very short notice but manufacturers are still able to fill their production with orders.

While public projects, renovations and small projects, such as carports, are still being carried out, there is a lack of orders from private housing cooperatives and home builders. The industry sees the weak economy, the high interest rates on loans, the equally high total construction costs and the stricter criteria for granting loans in Austria as main reasons for this development. In the first five months, new business with housing loans granted by Austrian banks fell by two-thirds (nominally) compared to the same period of last year.

Against this background, the big established CLT manufacturers are turning to markets around the globe which have already been tapped into. The US, Australia, Arabian countries and Scandinavia are the most frequently named examples. These markets are more lucrative even though there is no real boom recorded there either, as one industry expert analyzes.

While the downward trend of glulam and solid structural timber prices came to an end in June, CLT prices still have not reached the bottom. In order to win orders, the industry frequently makes generous concessions. Market participants expect a sustainable improvement of the situation in mid-2024 or 2025 at the earliest. According to the assessments of many in the industry, there will only be a revival of investments and construction when the economic engine really starts up again in Central Europe and at a global level and when interest rates on loans fall.

Over the medium to long term, however, the industry expects a rosy future for cross-laminated timber and the timber construction sector in general. The CLT industry is convinced that modern timber construction, with all its advantages, is the future. Once demand is growing again, every manufacturer and all of the capacities will be urgently needed.

Rest of the World

The US market is not as lively as in the previous years but still important for many European companies. When US prices were rising at the end of June, the Central European timber companies returned promptly. Cutting was increasingly changed, with manufacturers turning away from raw wood for solid structural timber and more towards products for the US market – which had a stabilizing effect on prices of raw wood for solid structural timber.

Also, US softwood lumber imports fell by 6% to 17.2 million m3 in the first half of the year, yet import volumes from Europe grew by 16%, meaning that 15% of softwood lumber came from Europe. Lower freight rates and port logistics running smoothly again on both sides of the Atlantic are making the presence in the US easier.

Assessments of how long the upswing in the US will last differ greatly, among other things because the latest upward price trend was already over after only a few weeks at the beginning of August.

At the end of July, the U.S. Department of Commerce announced the final determination of 7.99% in tariffs on the import of Canadian softwood lumber as part of its fourth annual review, as internet platform prnewswire.com reports. The review covers lumber which was imported in calendar year 2021. In the previous period, the duty rate was 8.59%.

While import tariffs have been heavily criticized by Canada for years, representatives of the US sawmill industry welcome the decision to maintain them.

In the first quarter alone, Central European and Scandinavian exporters already shipped 2.1 million m3 to the MENA region, i.e. 8%

more than last year. Sweden, Austria and Germany were able to increase their exports by over 30%. Finland, on the other hand, recorded a slight decrease (-3% in the first quarter).

Increasing pressure on prices is a challenge. The minimal recovery of Libya is a positive sign.

Updated figures for the Chinese market are available.

When it comes to softwood logs the table below shows the top 10 exporters to China and the total exports:

Softwood log imports China January - July 2023			
Country	2023	2022	Change in %
New Zealand	10,202,674	9,832,626	3.76
Germany	2,351,829	3,391,434	-30.65
United States of America	774,851	794,626	-2.49
Japan	768,511	635,288	20.97
Poland	697,701	191,792	263.78
Canada	563,564	563,712	-0.03
France	246,331	322,393	-23.59
Czech Republic	197,161	525,205	-62.46
Denmark	165,302	120,836	36.8
Uruguay	164,698	504,900	-67.38
Other	838,961	1,086,723	-22.8
Total	16,971,583	17,969,535	-5.55

Source: Timber-Online/ Chinese Customs

When it comes to softwood lumber the table below shows the top 10 exporters to China and the total exports:



Softwood lumber imports China January – July 2023			
Country	2023	2022	Change in %
Russian Federation	6,986,872	6,550,147	6.67
Canada	829,782	776,488	6.86
Finland	566,197	463,056	22.27
Sweden	557,510	303,741	83.55
Belarus	553,287	284,752	94.3
Germany	504,048	272,413	85.03
Chile	243,013	173,942	39.71
Brazil	149,683	127,094	17.77
New Zealand	118,750	56,529	110.07
Uruguay	105,675	56,266	87.81
Other	384,210	463,135	-17.04
Total	10,999,027	9,527,563	15.44

Source: Timber-Online/ Chinese Customs

Expectations for the Japanese market were high this year. Buyers there usually import lumber in regular “waves of demand”. The most recent recovery of Japanese orders has so far been delayed by a quarter. Market participants have therefore pinned their hopes on the beginning of the fourth quarter.

The Japanese market is undergoing major changes. In the first half of 2023, housing construction starts remained at the last year’s level, yet imports fell by 42% year on year. Half of this import volume came from Europe.

Sources if not otherwise mentioned: EUWID, ITTO, Wood Resources International, Timber-Online

For all additional information:

Diego Benedetti
EOS Economic and Policy Advisor
 24 rue Montoyer, Box 20, B-1000,
 Brussels
 Mobile: +32 471 72 51 83
 Tel: +32 2 287 08 76
 E-mail: diego.benedetti@eos-oes.eu
 Website: www.eos-oes.eu