

International Softwood Markets 2007 – 2009

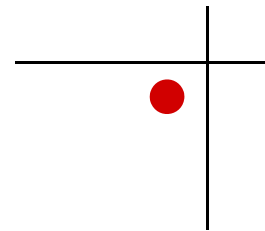
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Helsinki, Finland, 16-17 October 2008



Tervetuloa! Ja kiitos . . .



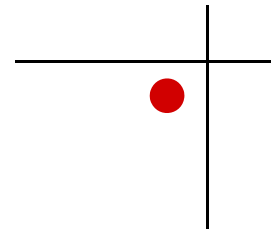
- ISC
- Organizers
 - EOS
 - European Softwood Association
 - Finnish Forest Industries
- Contributors of market forecasts and statements
- Statistics and forecast preparation
 - Review Team, esp. Jyri Hietala & Juha-Matti Laitinen
 - Alex McCusker, UNECE/FAO Timber Section Statistician



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Topics



- I. Framework for market developments
- II. Sawn softwood market developments
- III. Roundwood markets
- IV. Conclusions
- V. Discussion



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Info sources

- Forecasts & market statements
 - European Organisation of the Sawmilling Industry
 - European Softwood Association
 - UNECE Timber Committee
 - Note: Forecasts made October 2008
- UNECE/FAO *Forest Products Annual Market Review, 2007-2008*
- UNECE/FAO TIMBER Database
- FAO Statistics

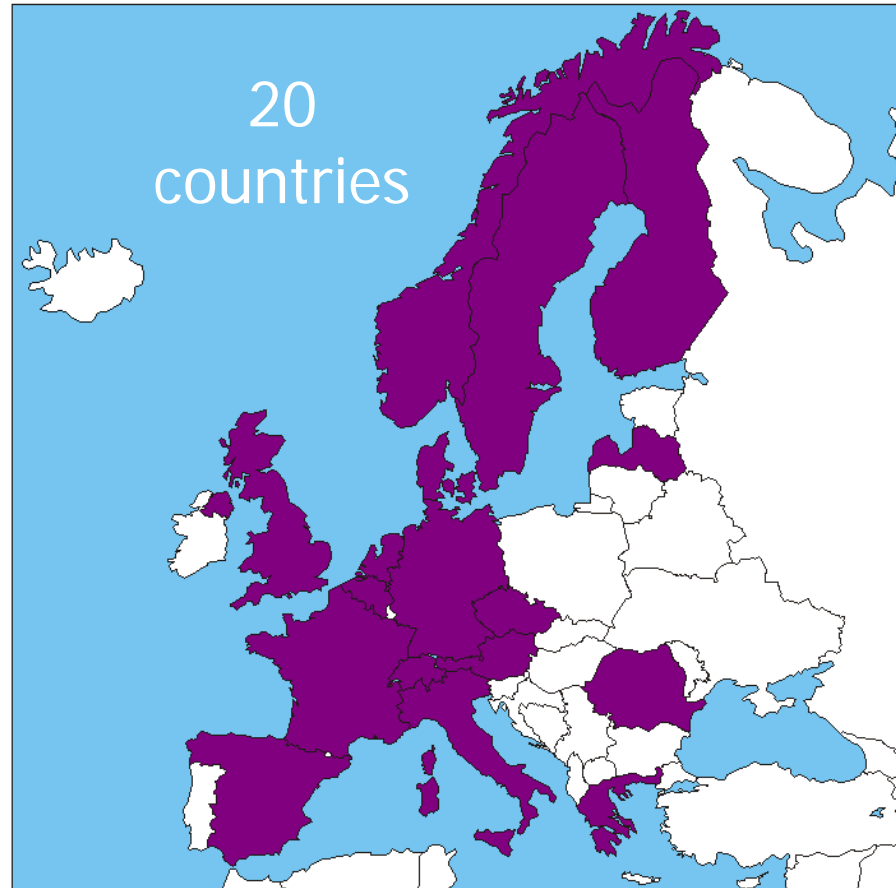
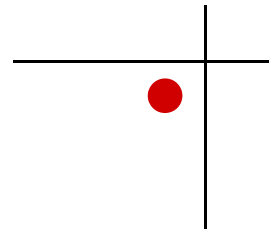


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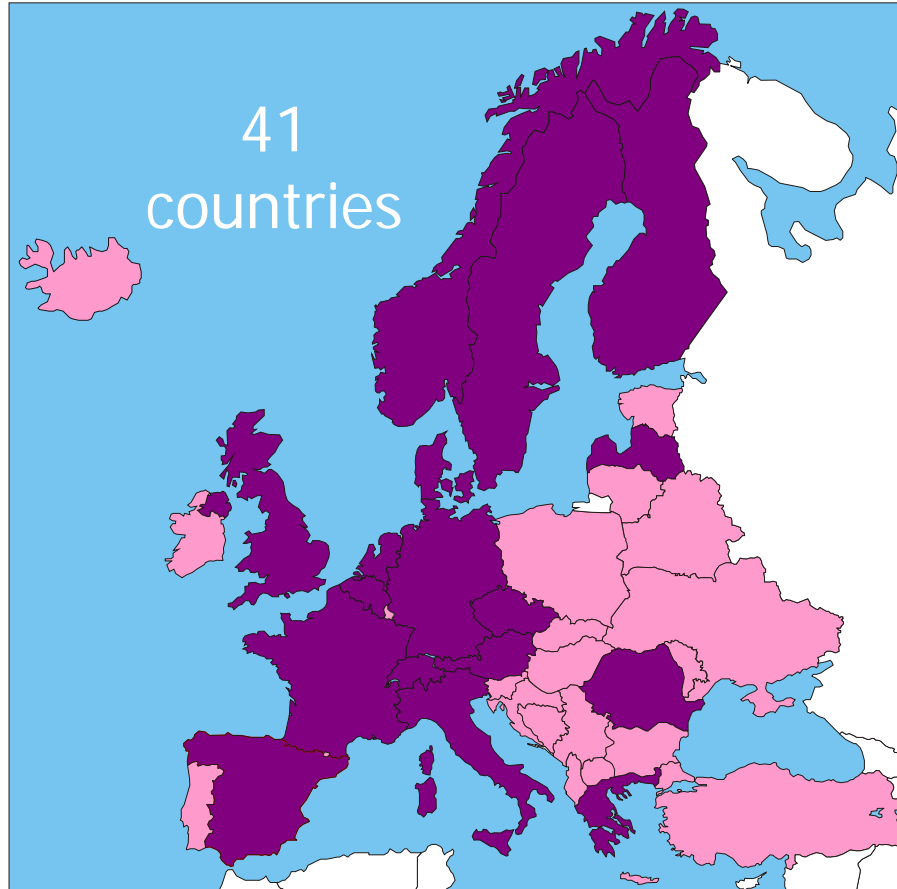
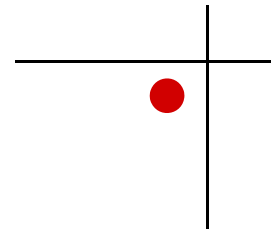
ISC “Europe”



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UNECE vs. ISC “Europe”



Additional “non-ISC”
UNECE region
production (million m³
2009):

Turkey	4.45
Poland	3.30
Estonia	1.40
Slovakia	1.92
Ireland	1.11
Portugal	0.91
Lithuania	0.85
Others	1.50
Total:	+15.4

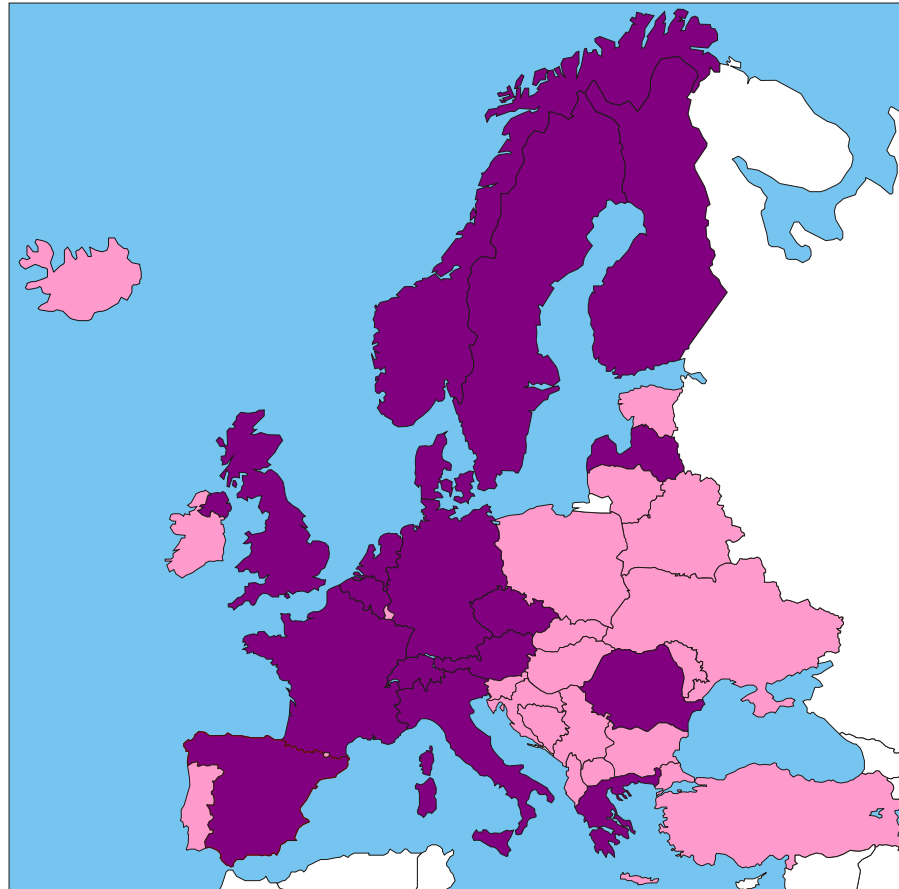
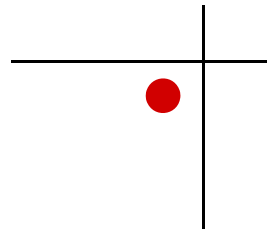
Source: UNECE/FAO Timber database, 2008



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UNECE vs. ISC “Europe”



“Non-ISC”
2009 forecast

Consumption
+16.3 million m³

Imports
+5.3 million m³

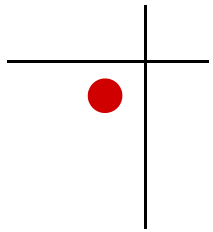
Exports
+4.5 million m³

Source: UNECE/FAO Timber database, 2008



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I. Overview of market developments



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Market developments, 2007-2008

- “US forest products market crash impacts UNECE region”
- Green building systems: market driver and constraint
- Consumption of wood and paper fell in UNECE region in 2007 – first time in 6 years
- Oil price instability pumps wood, but supply problem



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Market developments, 2007-2008

- Certified forest area over 300 million ha
- Some European market sectors exceeded N. America for the first time in 2007
 - Production of sawn softwood
 - Consumption of panels
 - Consumption of paper and paperboard
- China's trade with UNECE region increases



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Market developments, 2007-2008

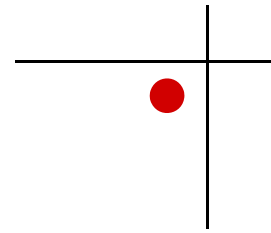
- European wood products prices rose in early 2007, but then fell
- N. American prices fell dramatically in 2007 and 2008
- Roundwood and paper product prices remained high
- Russian export taxes rose in 2008; scheduled to escalate in 2009



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Economic developments, 2007-2008



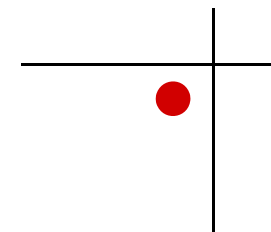
- World economy experienced fifth year of real growth above 3% in 2007
- Emerging economies growing over twice as fast as the advanced economies in 2007
- Globally inflation was moderate, with the average rate below 3.0% for the last six years



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Sub-prime crisis in US



- Financial market crisis started to develop in second half of 2007 in US. Why?
 - Inadequate regulation of financial industry
 - Poor risk management by private sector
 - Bursting residential property bubble
 - Home prices (and values) sink
 - Loans dry up
 - Construction slows dramatically

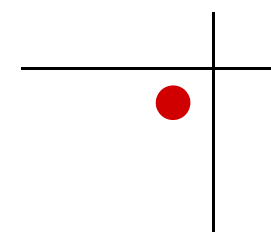


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US housing starts



2008
Under 1
million

~95%
wood-
frame
construction

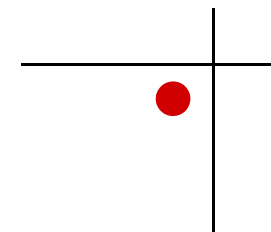
Note: SAAR = Seasonally adjusted annual rate.
Source: US Census Bureau, 2008.



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Sub-prime crisis in US

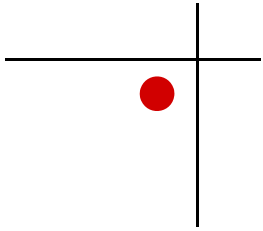


- Causes of the crisis (continued)
 - Defaults of sub-prime mortgages
 - Loans made to low-income households with poor credit history
 - Variable interest rates, which increased (too) rapidly
 - Extremely low down payments, minimal equity
 - Collapse in value and marketability of US mortgage-backed securities
 - European banks' purchases of bundled US assets became losses



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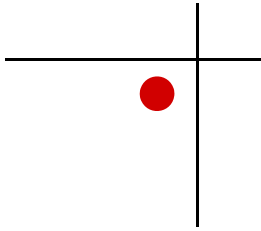
Sub-prime crisis spreads

- Spread throughout the world through trade and financial market linkages
- Accelerated in September & October 2008
- World growth is expected to decline in 2008 to 3.7% from 4.9% in 2007
- Continued decline to 3.0% in 2009 (IMF, Oct. '08)
- Increasing risk of recessions, especially with economic downturns in autumn 2008
- Also reduction in growth of world trade; on volume basis growth is forecast to fall to 5.6% in 2008, from 6.8% in 2007



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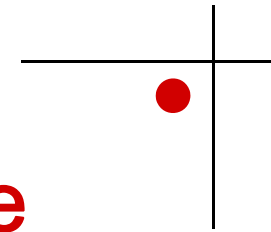
Economic framework - US

- Collapse in US single family housing starts
 - 15% fall in 2006, 29% fall in 2007
 - Production of sawn softwood fell 10.6% in 2007 and for the first time, European production has overtaken that of North American
 - Sawnwood production, price collapse
- Weak demand, weak prices and excess capacity remain major concerns



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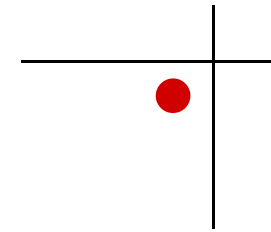
Economic framework – Europe

- Growth in euro zone was 2.6% in 2007 and forecast 2.1% in 2008
- Concerns in housing markets
 - Housing prices falling
 - Banking sector hit by financial crisis



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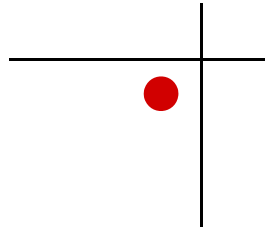
Economic framework – global

- Global economic crisis escalates, October 2008
 - Stock markets shed massive value
 - Massive cash infusions by individual governments
 - Concerted efforts by governments
 - Governments take over banks



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Market drivers

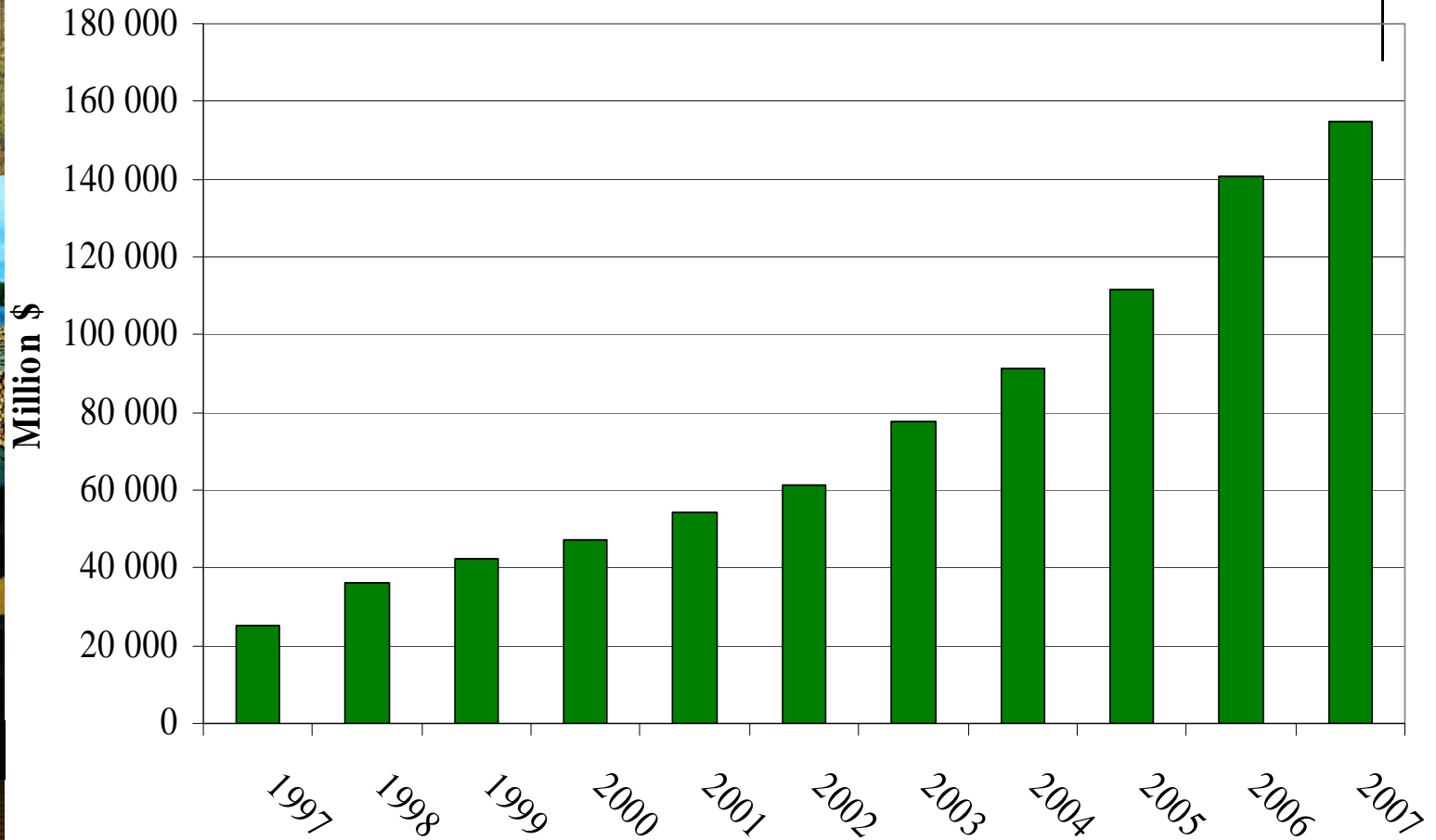
- Green building movement
- Public procurement policies
- Wood energy targets
- Certified forest products
- Corporate responsibility
- Russia export taxes
- China's surging trade



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China's forest products output



Note: Includes roundwood, sawnwood, panels, paper, pulp.

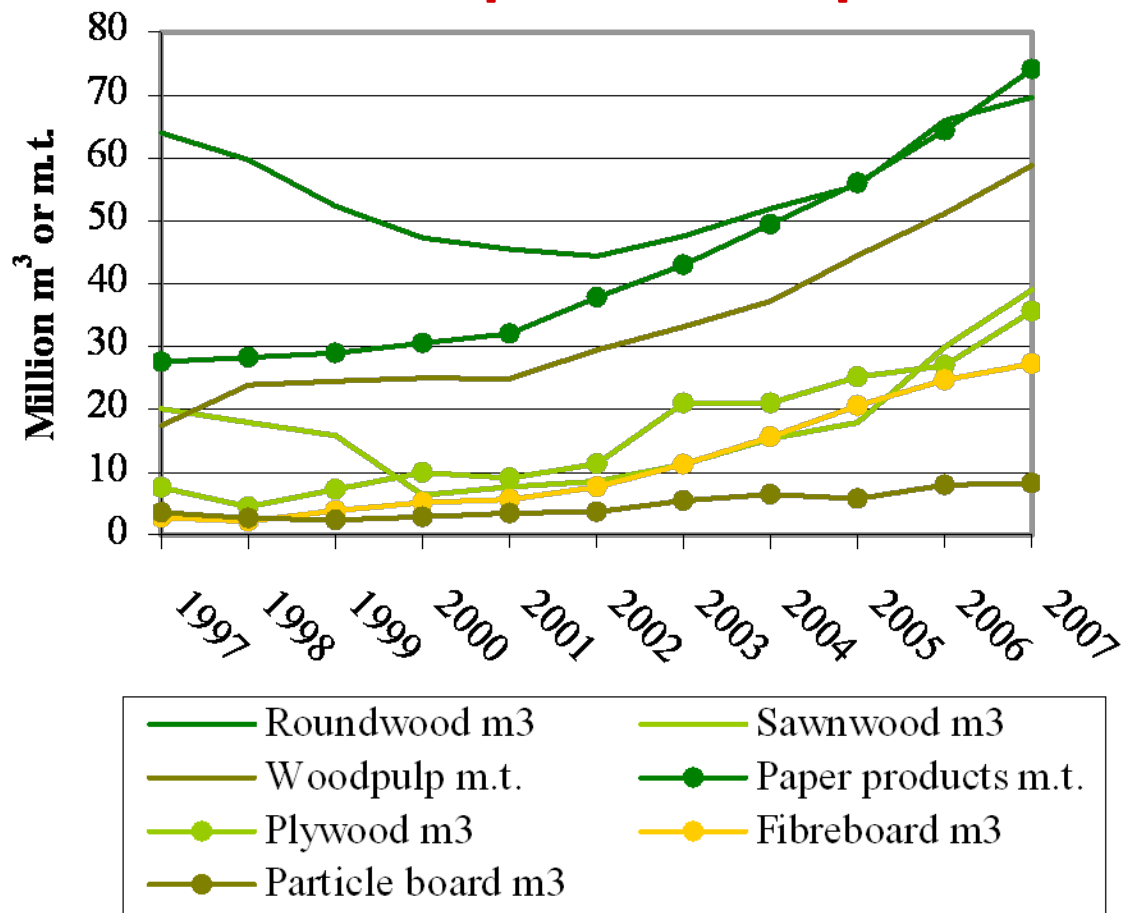
Source: International WOOD MARKETS Group, 2008.



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China's forest products production



Note: Woodpulp and paper products in million metric tons.

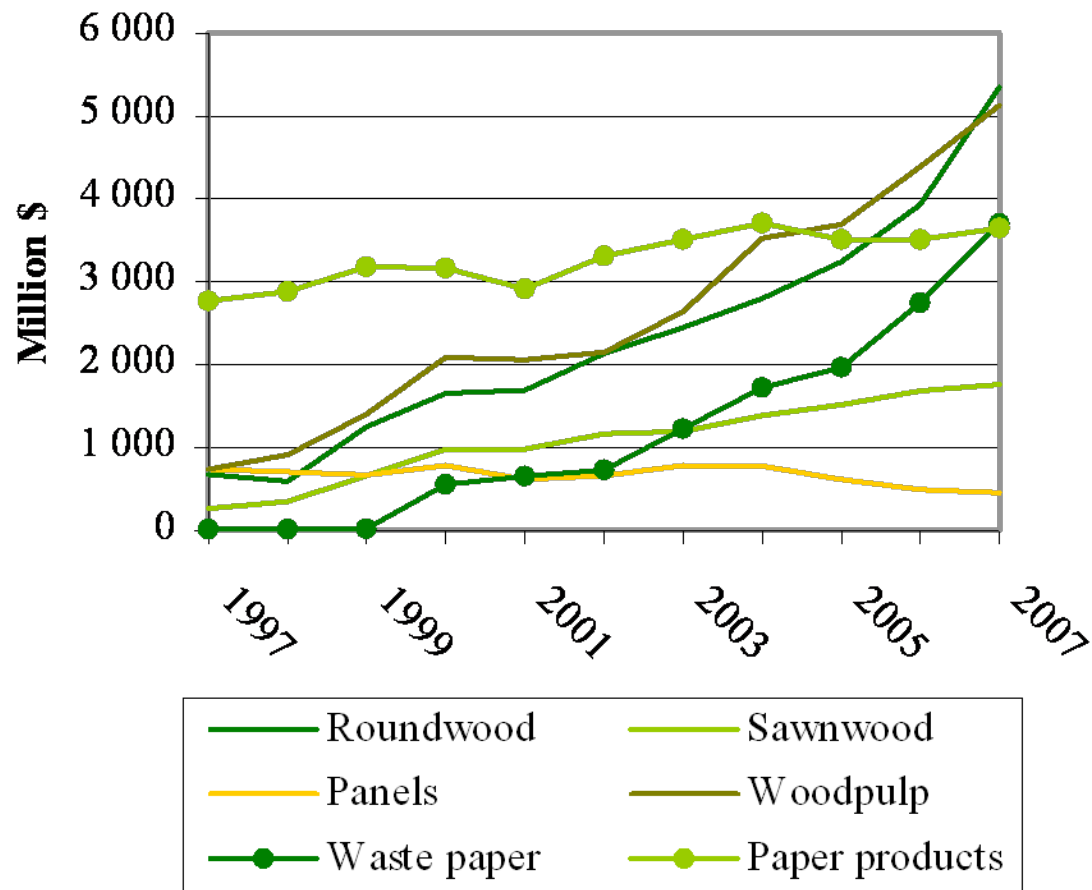
Source: International WOOD MARKETS Group, 2008.



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China's forest products imports



Note: 2007 woodpulp, waste paper and paper products imports are secretariat estimates.

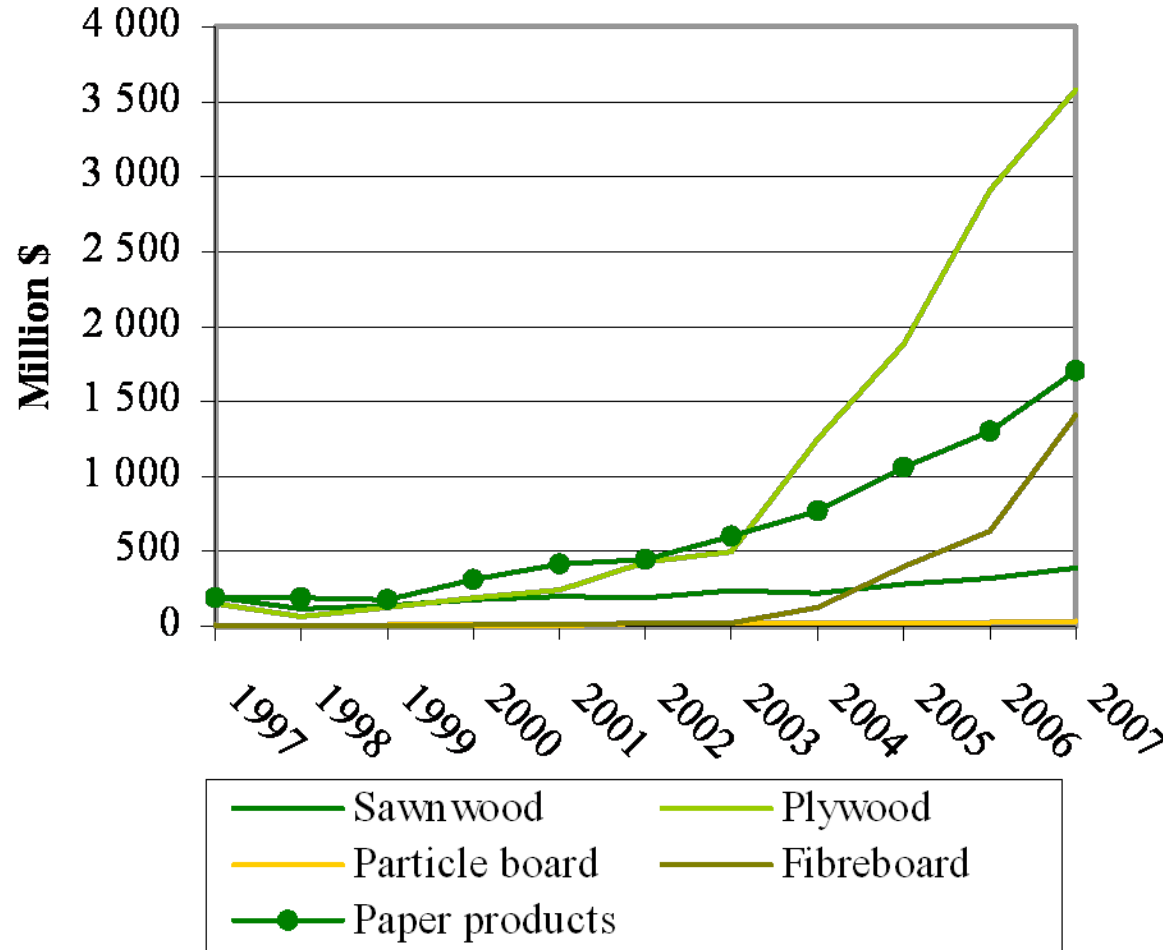
Source: International WOOD MARKETS Group, 2008.



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China's forest products exports



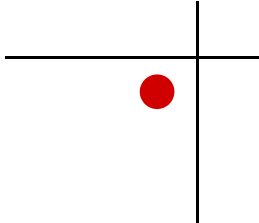
Note: 2007 paper products exports is a secretariat estimate.

Source: International WOOD MARKETS Group, 2008.

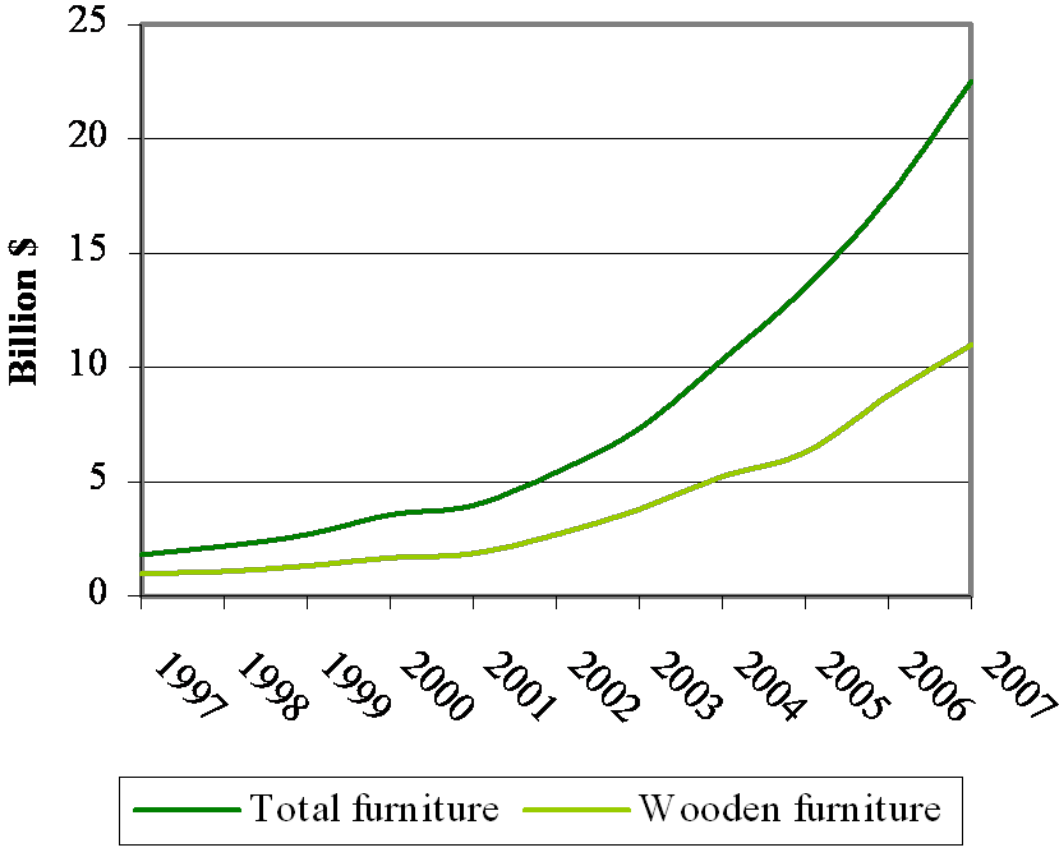


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China's furniture exports



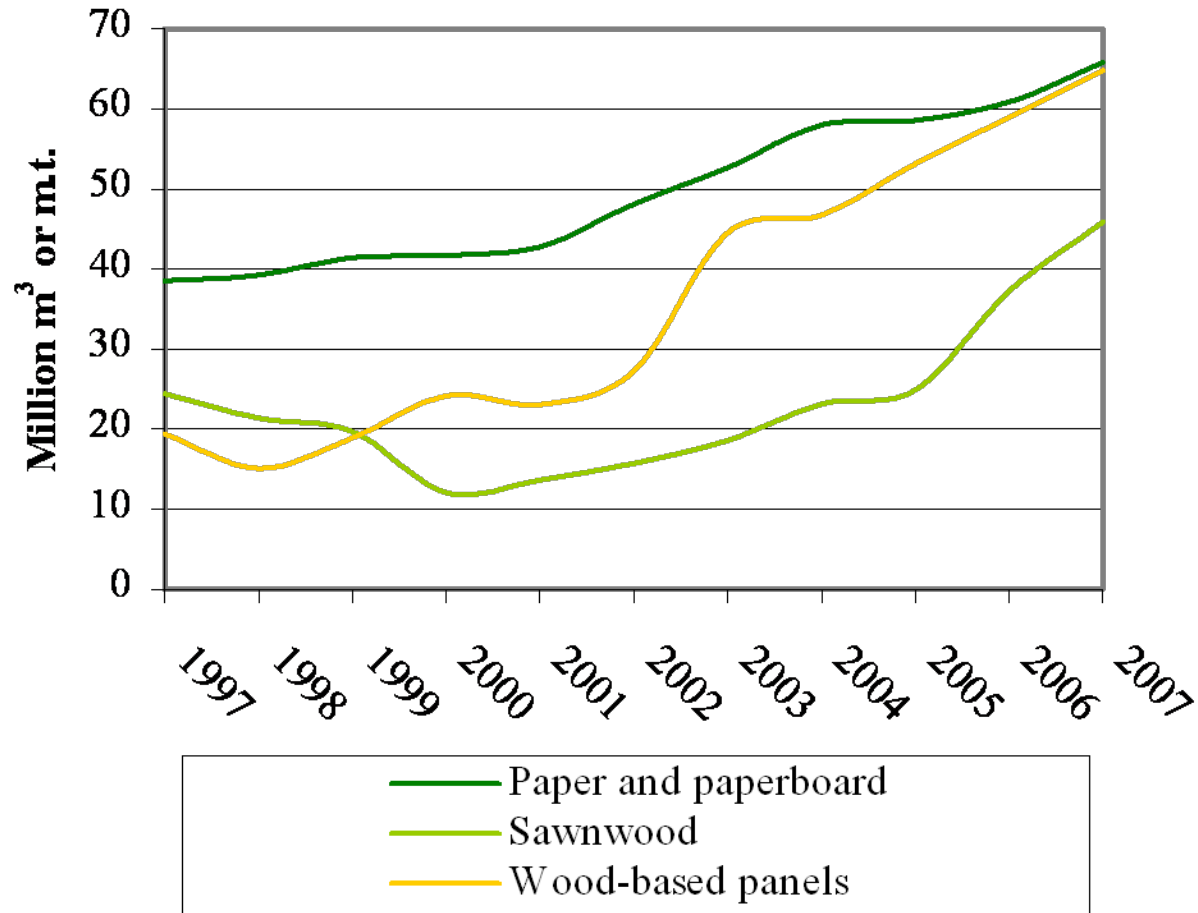
Note: 2007 total furniture exports is a secretariat estimate.
Sources: IBIS World, 2008, and Tan, X. et al., 2007.



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China's forest products consumption



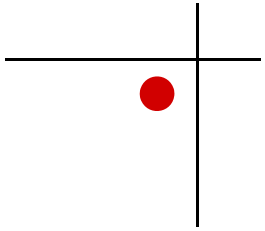
Note: 2007 apparent consumption is a secretariat estimate.

Sources: FAOSTAT and Tan, X. et al., 2007.



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II. Sawn softwood developments



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Forest Products Annual Market Review: sawn softwood findings

- US housing market collapse caused 25% of N.A. industry capacity to curtail or close
- In 2007 and mid-2008, European prices fluctuated and then declined
- N.A. prices sunk – lowest since 1991
 - Maximum export tax for Canadian exporters
- Russian exports of sawn softwood continued climbing in 2007, by nearly 9%



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Forest Products Annual Market Review: sawn softwood findings

- N.A. sawmillers kept mills running, sometimes below costs:
 - To maintain long-term contracts and relationships with customers
 - To ensure log supply contracts in the future
 - To keep trained and skilled labour force
 - To generate some revenues to meet fixed costs, e.g. bank loans



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Forest Products Annual Market Review: sawn softwood findings

- After profitable 2006, European sawmill revenues declined in mid-2007 and into mid-2008
- Mid-2008: oversupply in most markets as sawnwood intended for Japan and the US were redirected to Europe or the Middle East



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Forest Products Annual Market Review: sawn softwood findings

- German exporters maintained a US market share in 2007
 - Honored commitments of long-term contracts
 - Maintained customer relations
 - Flexibility in pricing, in part due to
 - Low-cost logs from winter storms
 - Increased capacity – decline domestic consumption = export (+35% early 2008, 6.7% forecast [total exports, not only US])



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Forest Products Annual Market Review: sawn softwood findings

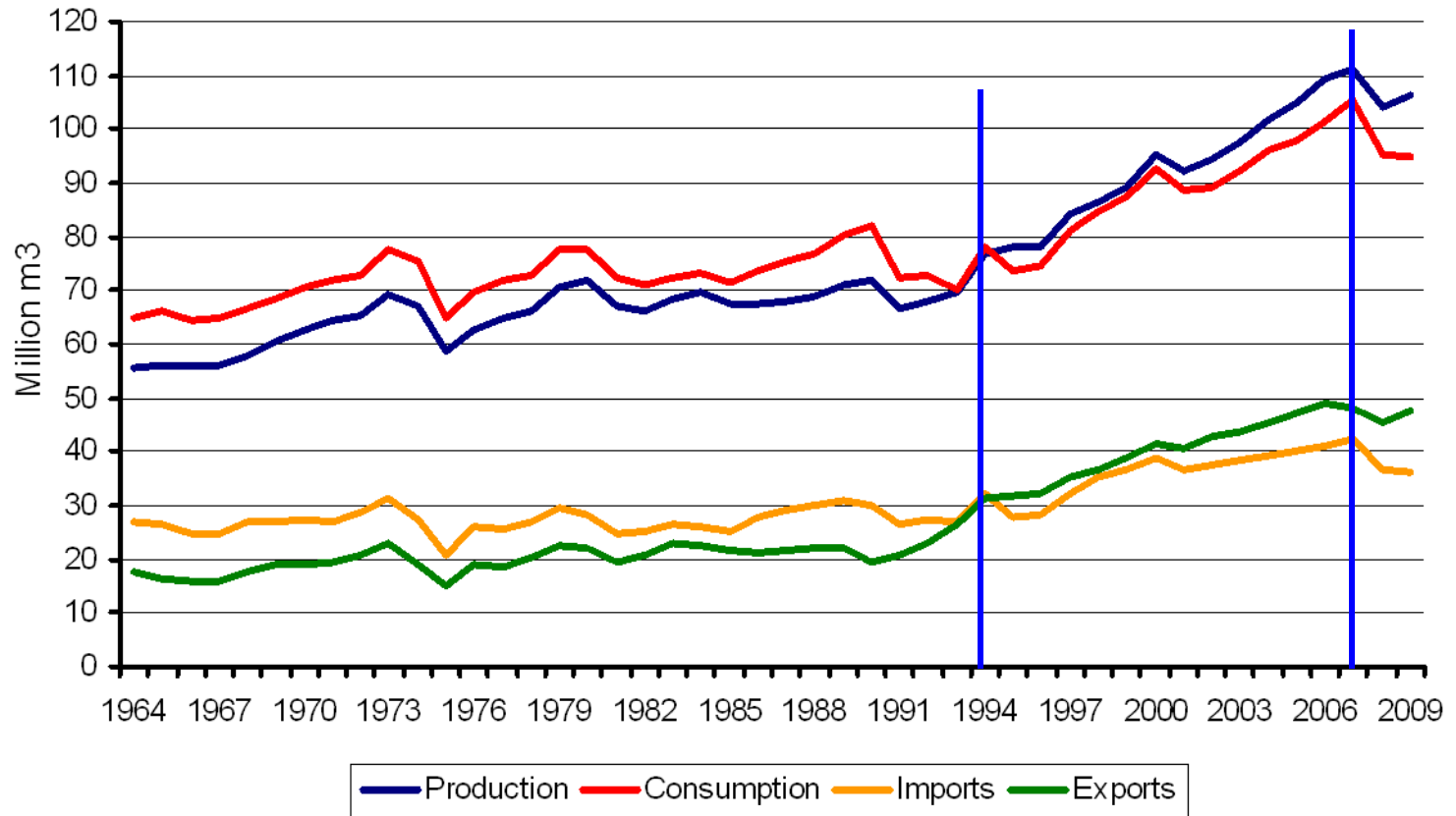
- Russian export taxes on roundwood are changing trade patterns
 - €50 per m³ in January 2009
 - Does tax significantly boost value-added production in Russia?
 - Impact on log importers: Finland, China, Baltic Countries, etc.
 - New trade channels...Serbia?



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Sawn softwood – UNECE's Europe



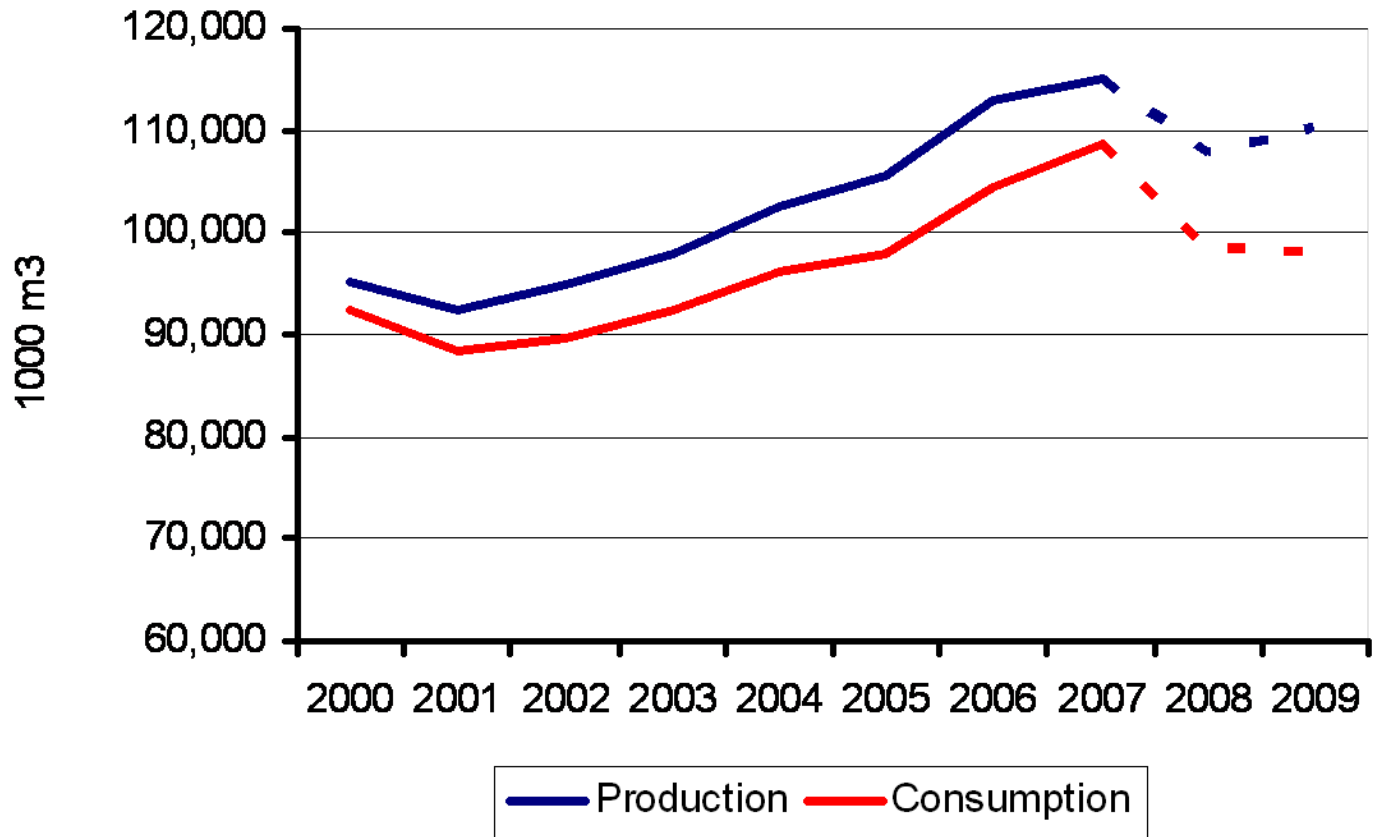
Source: UNECE/FAO Timber Database & forecasts



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Sawn softwood – UNECE Europe



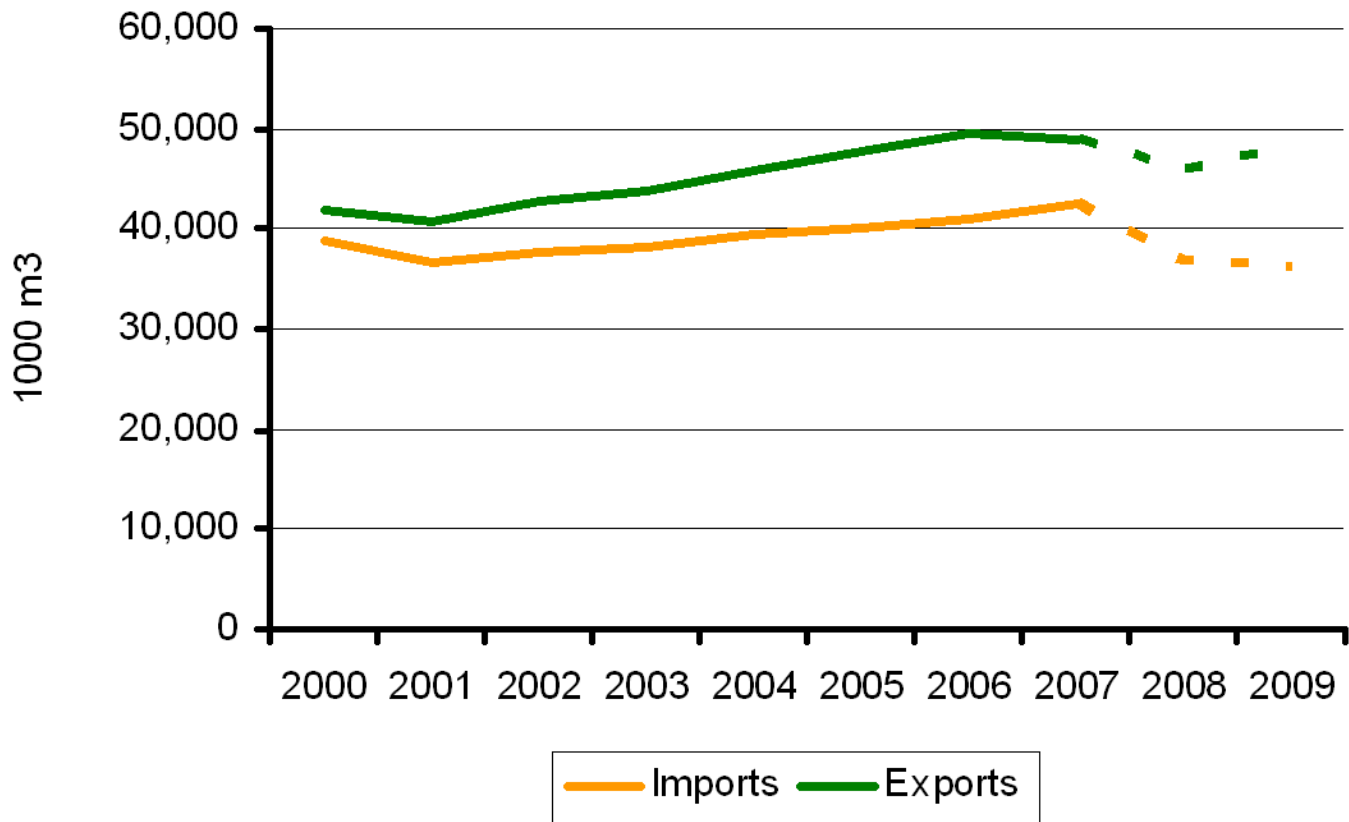
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Sawn softwood – UNECE Europe



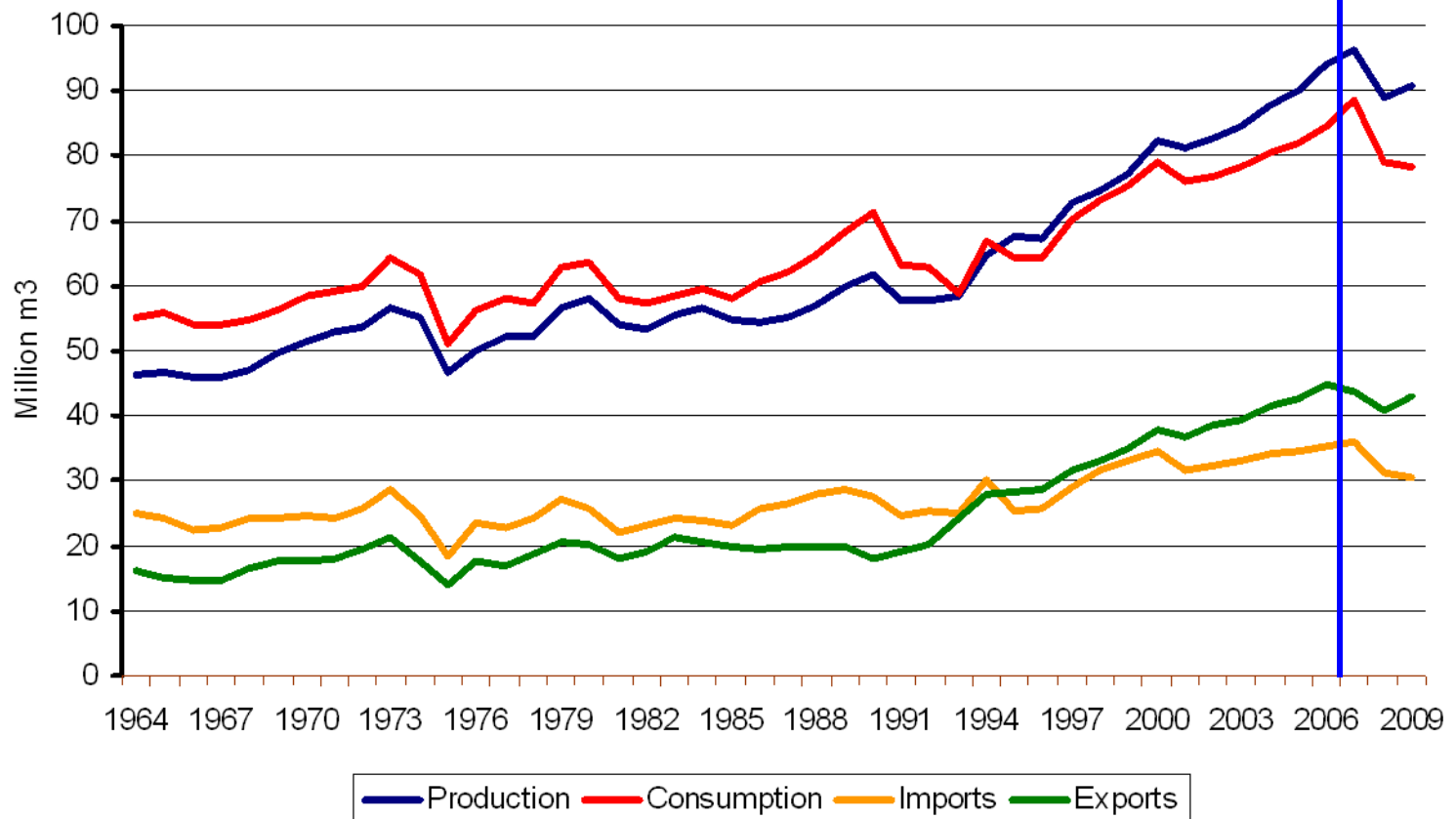
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Sawn softwood – ISC's Europe



Source: UNECE/FAO Timber Database & EOS forecasts

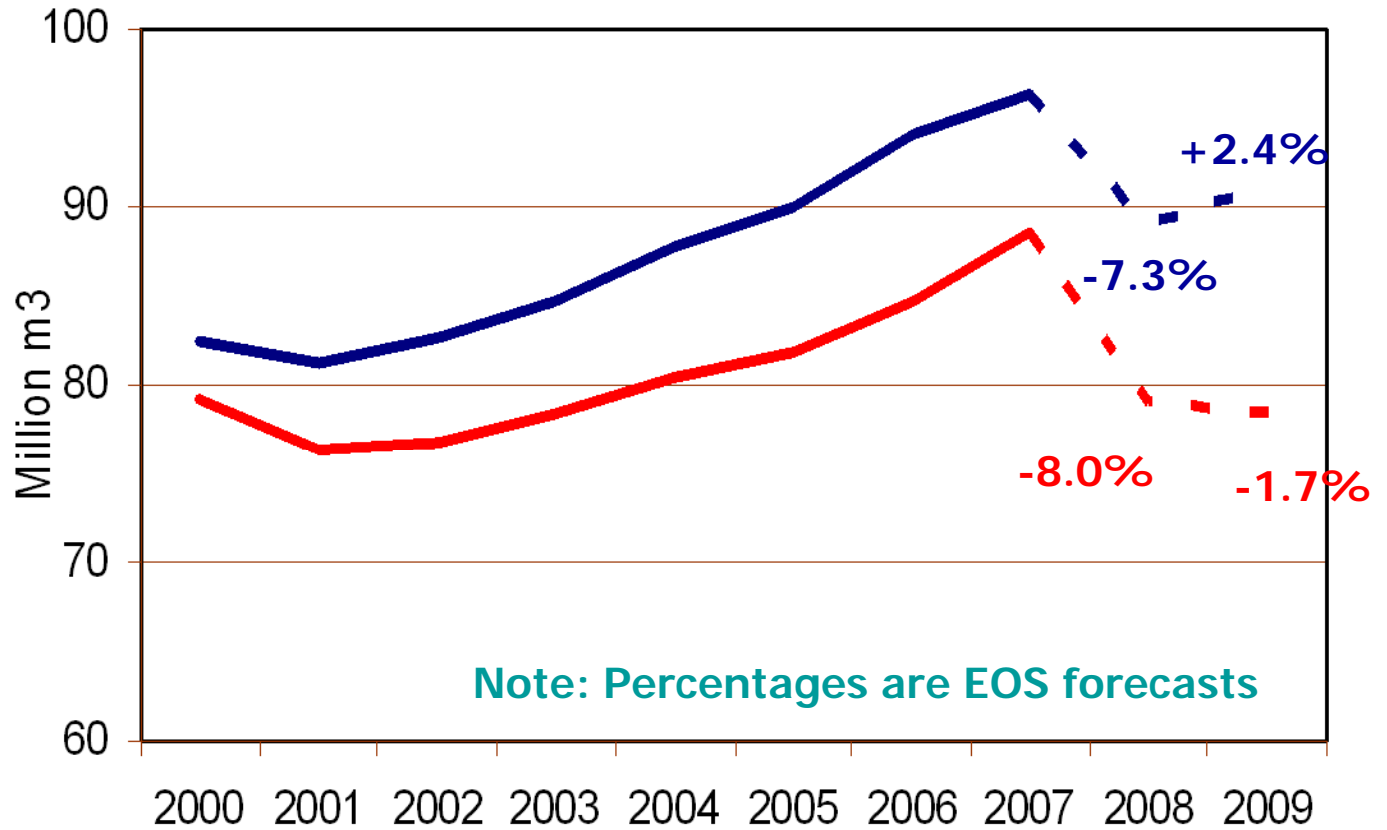


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Sawn softwood – ISC's Europe



Note: Percentages are EOS forecasts

— Production — Consumption

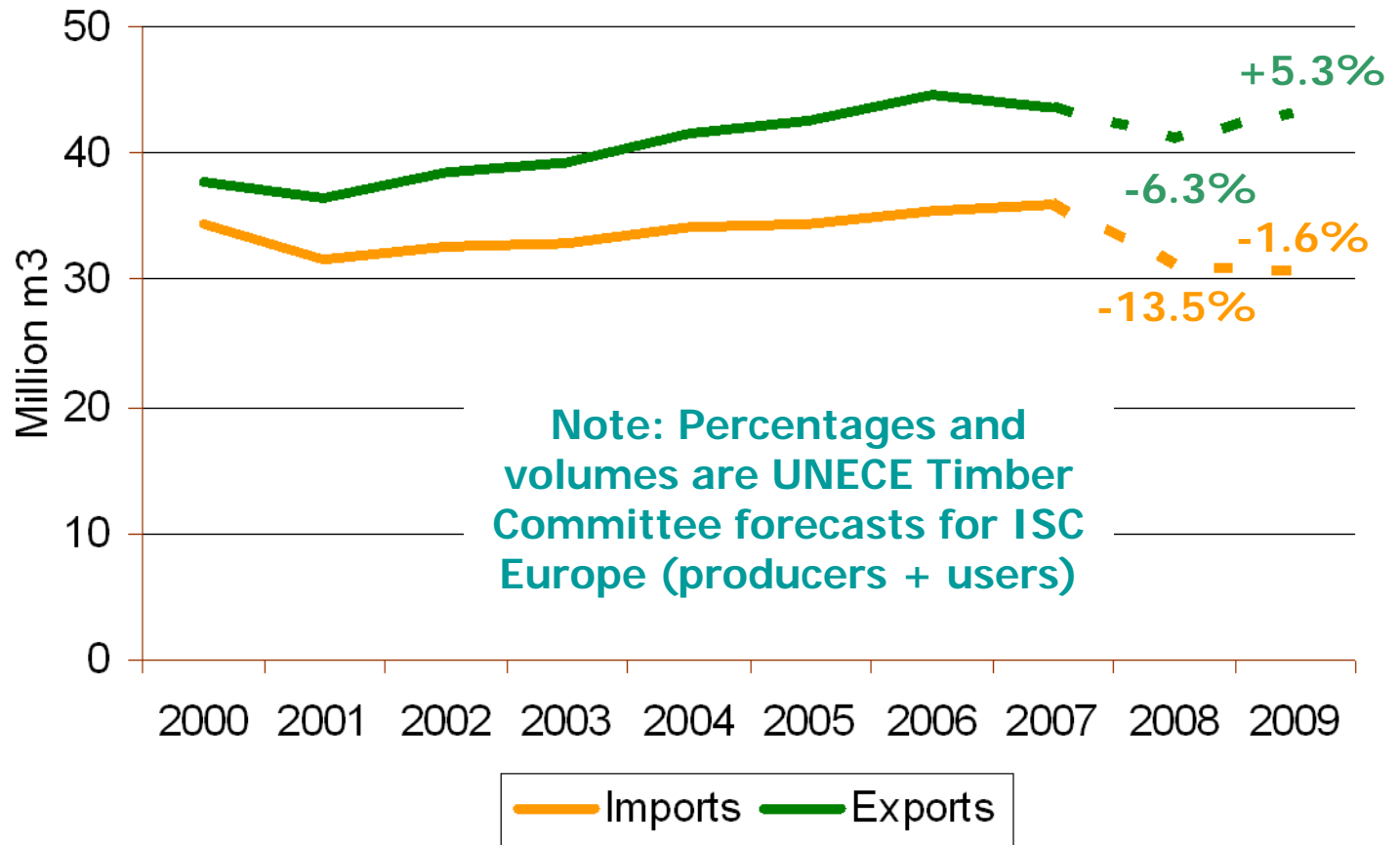
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Sawn softwood – ISC's Europe



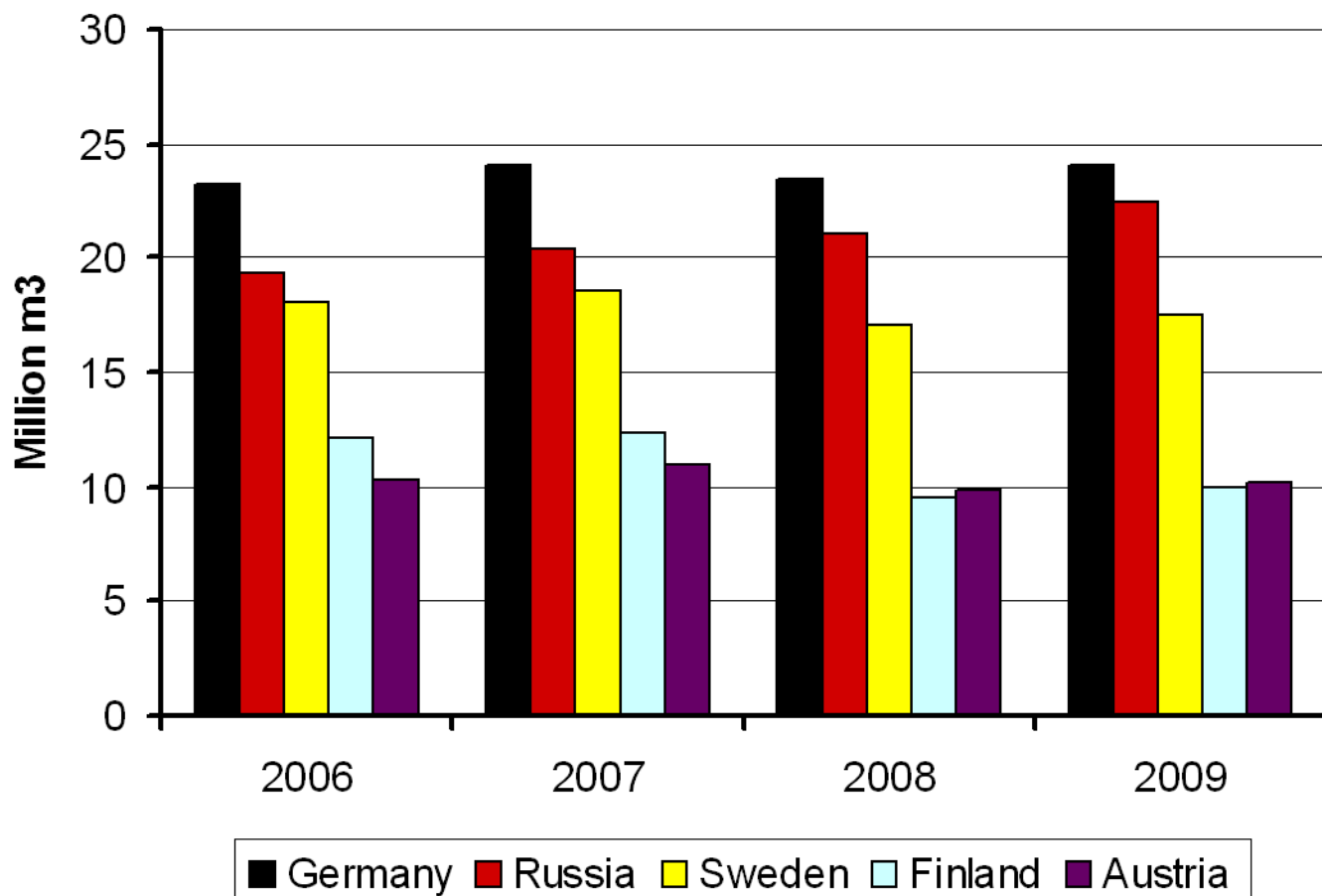
Source: UNECE/FAO Timber Database & EOS forecasts



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Selected sawn softwood producers



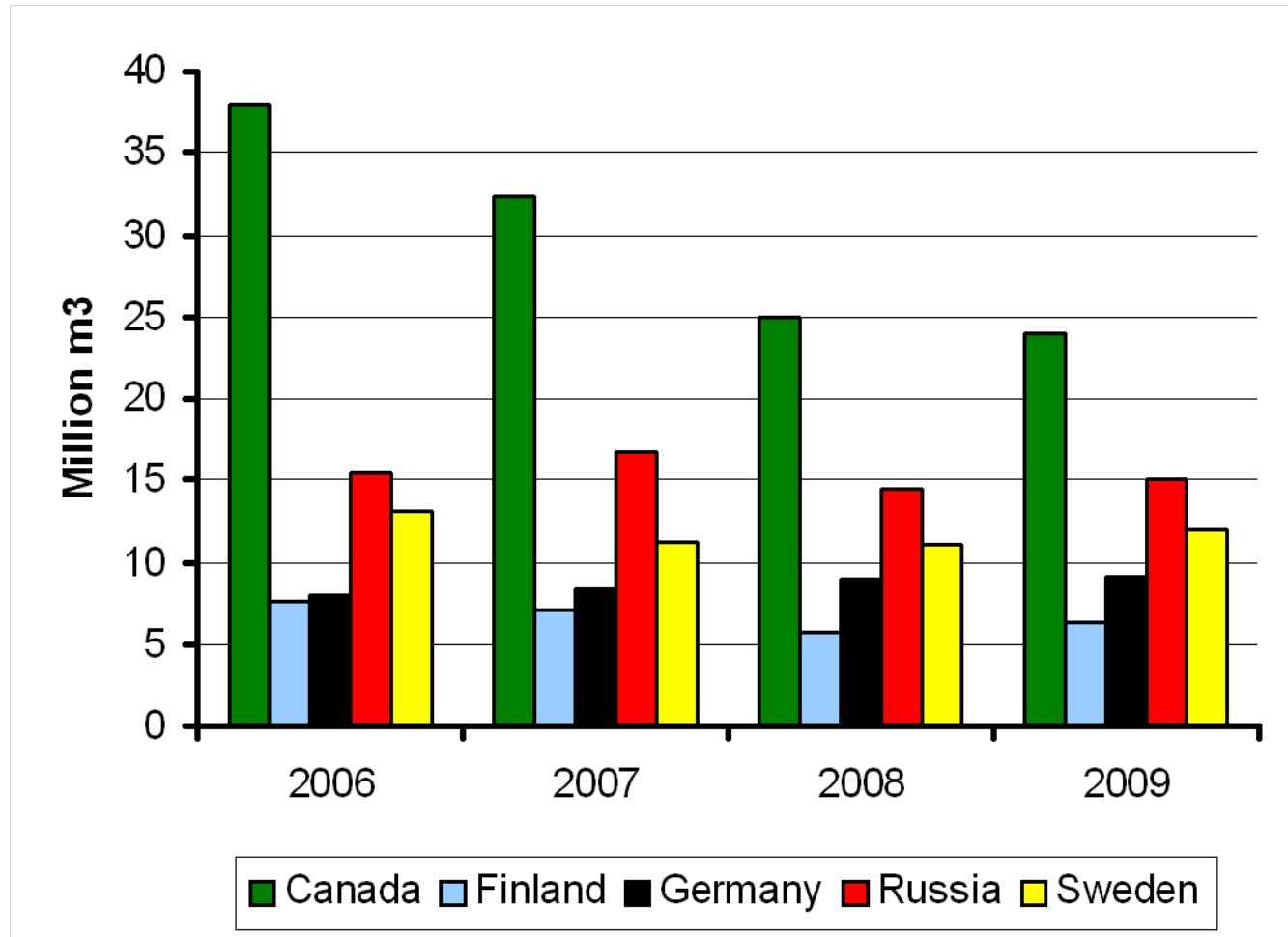
Source: UNECE/FAO Timber Database & EOS forecasts



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Selected sawn softwood exporters



Source: UNECE/FAO Timber Database & EOS forecasts

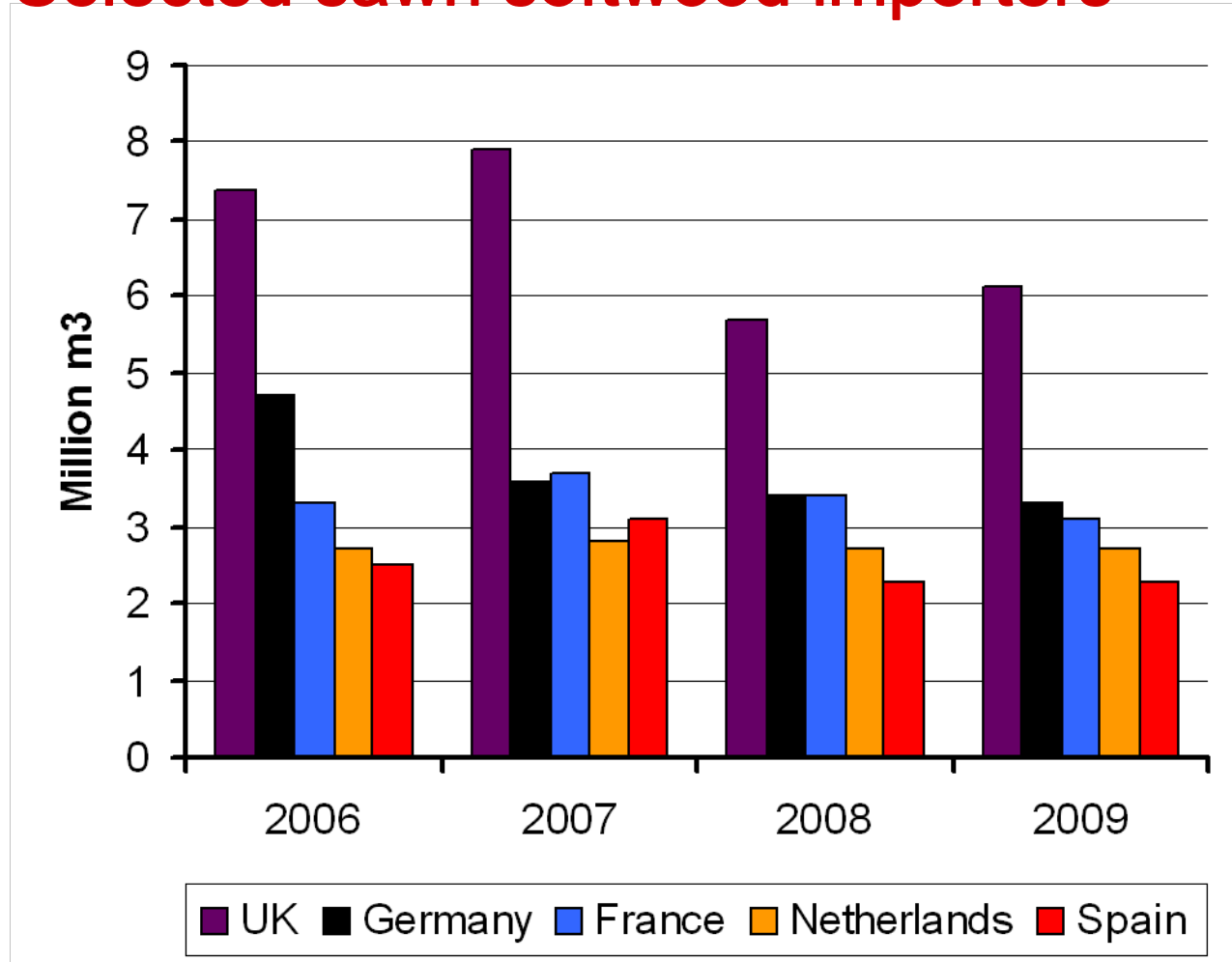


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Selected sawn softwood importers



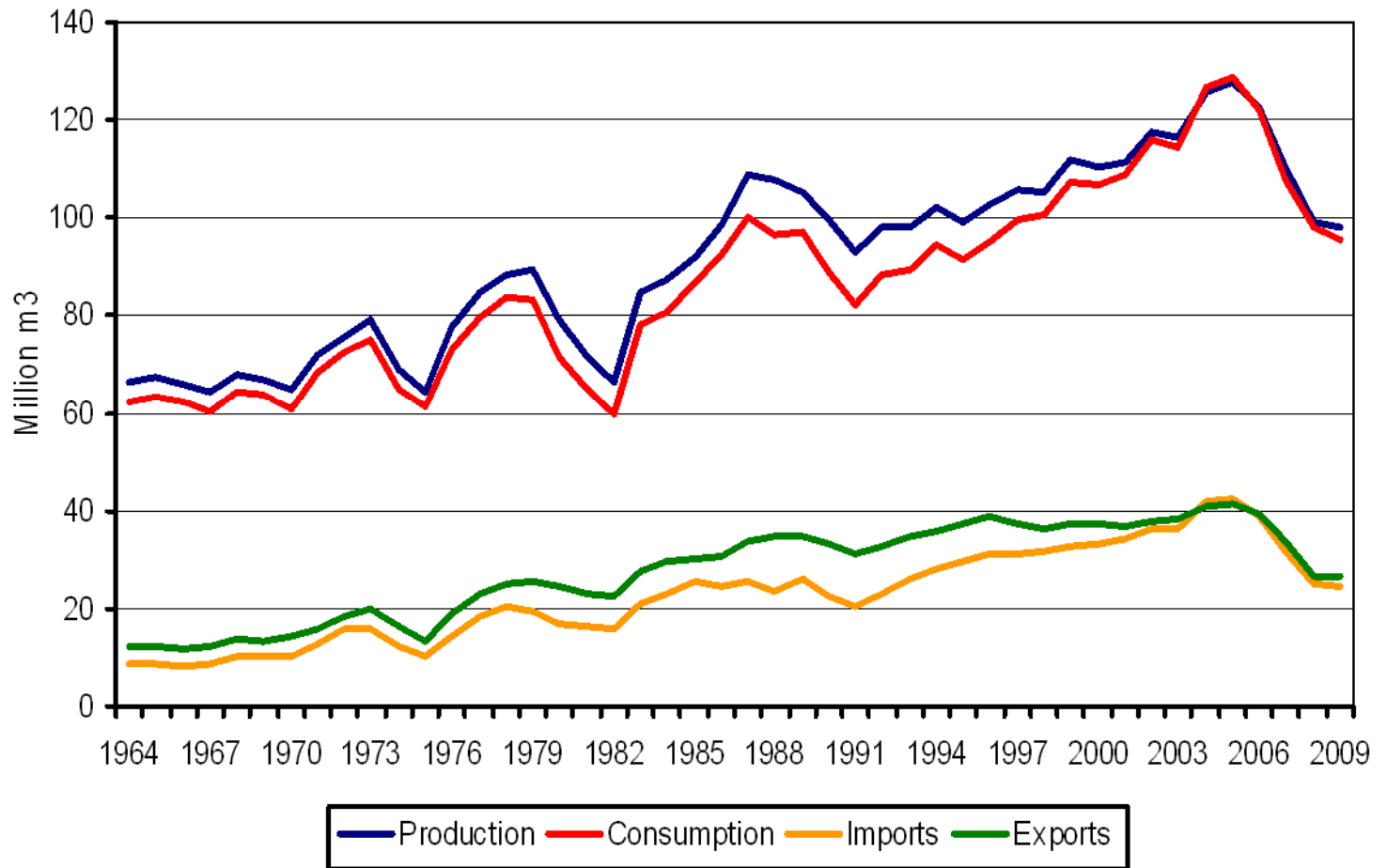
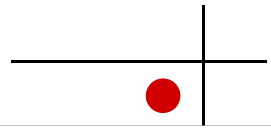
Source: UNECE/FAO Timber Database & EOS forecasts



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Sawn softwood – N. America



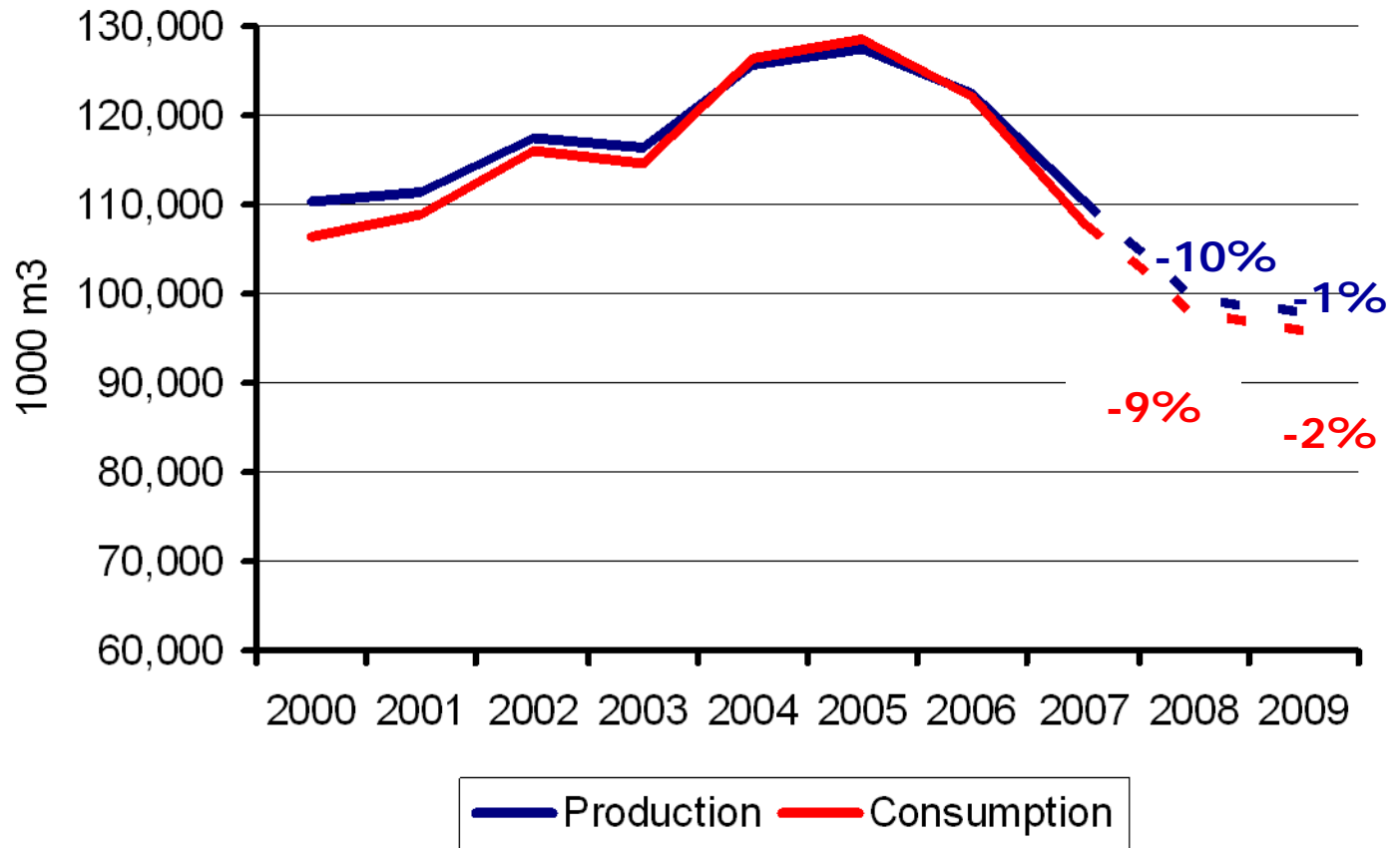
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Sawn softwood – N. America



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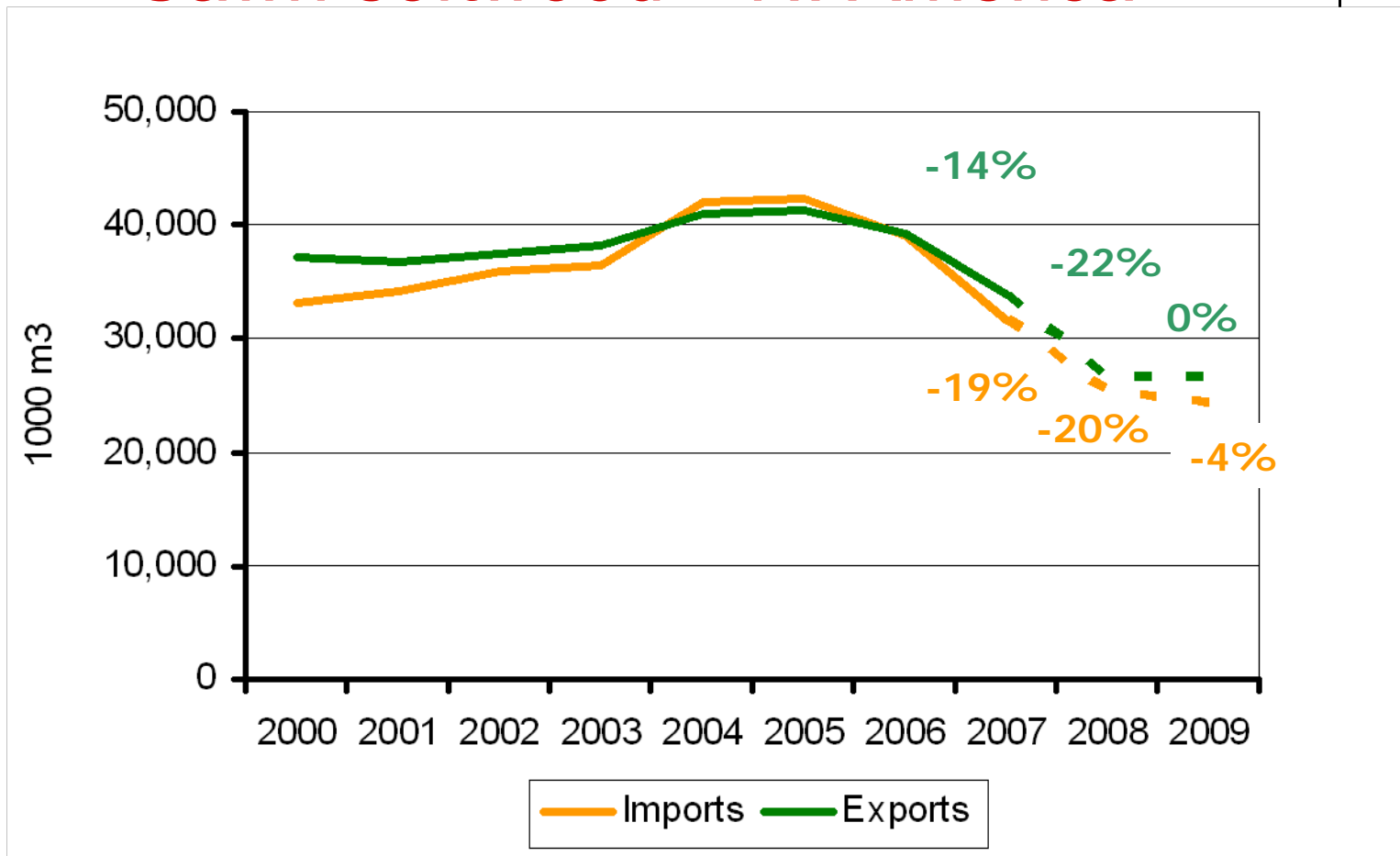
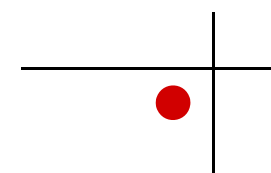


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Sawn softwood – N. America



Source: UNECE/FAO Timber Database & forecasts

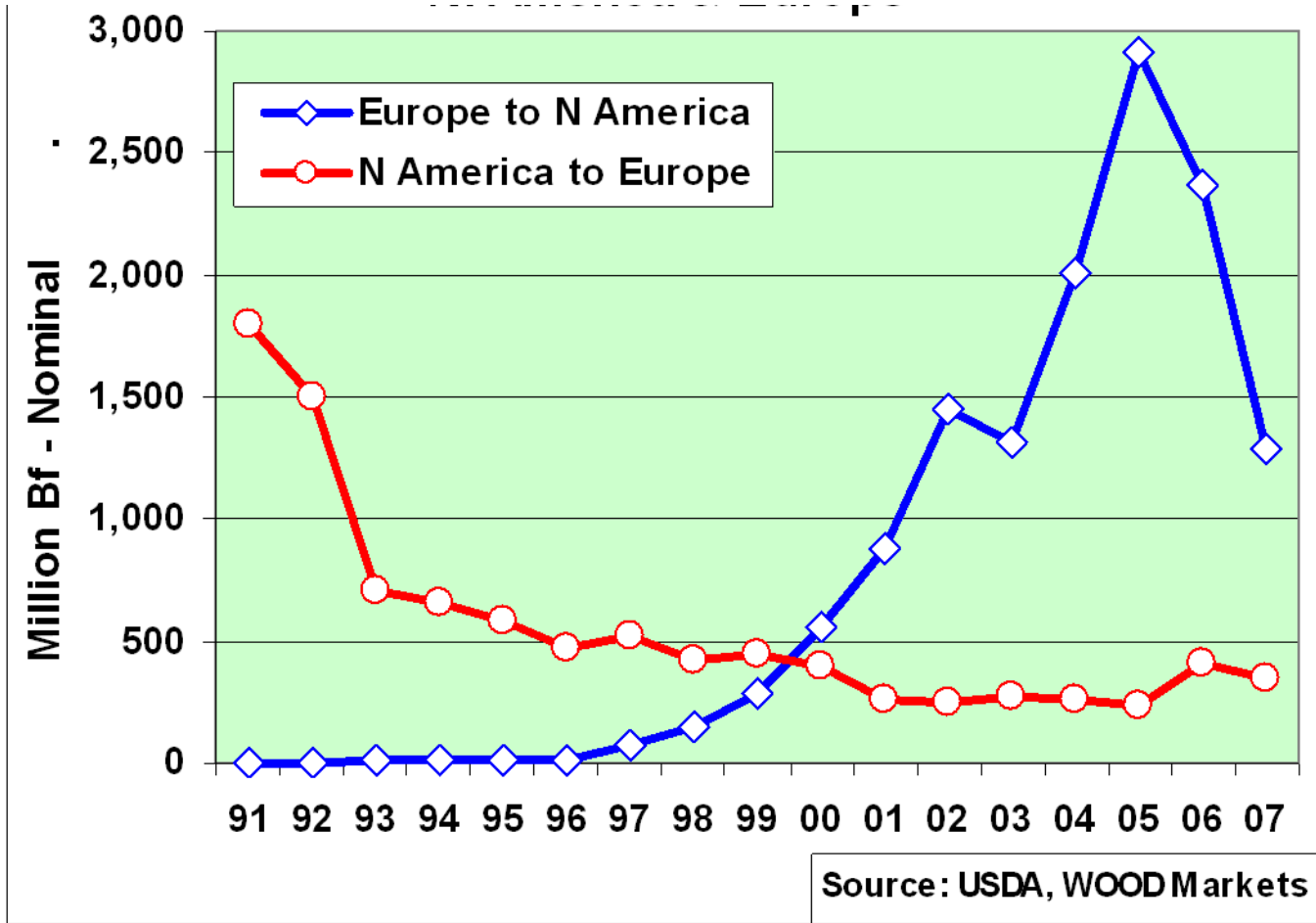


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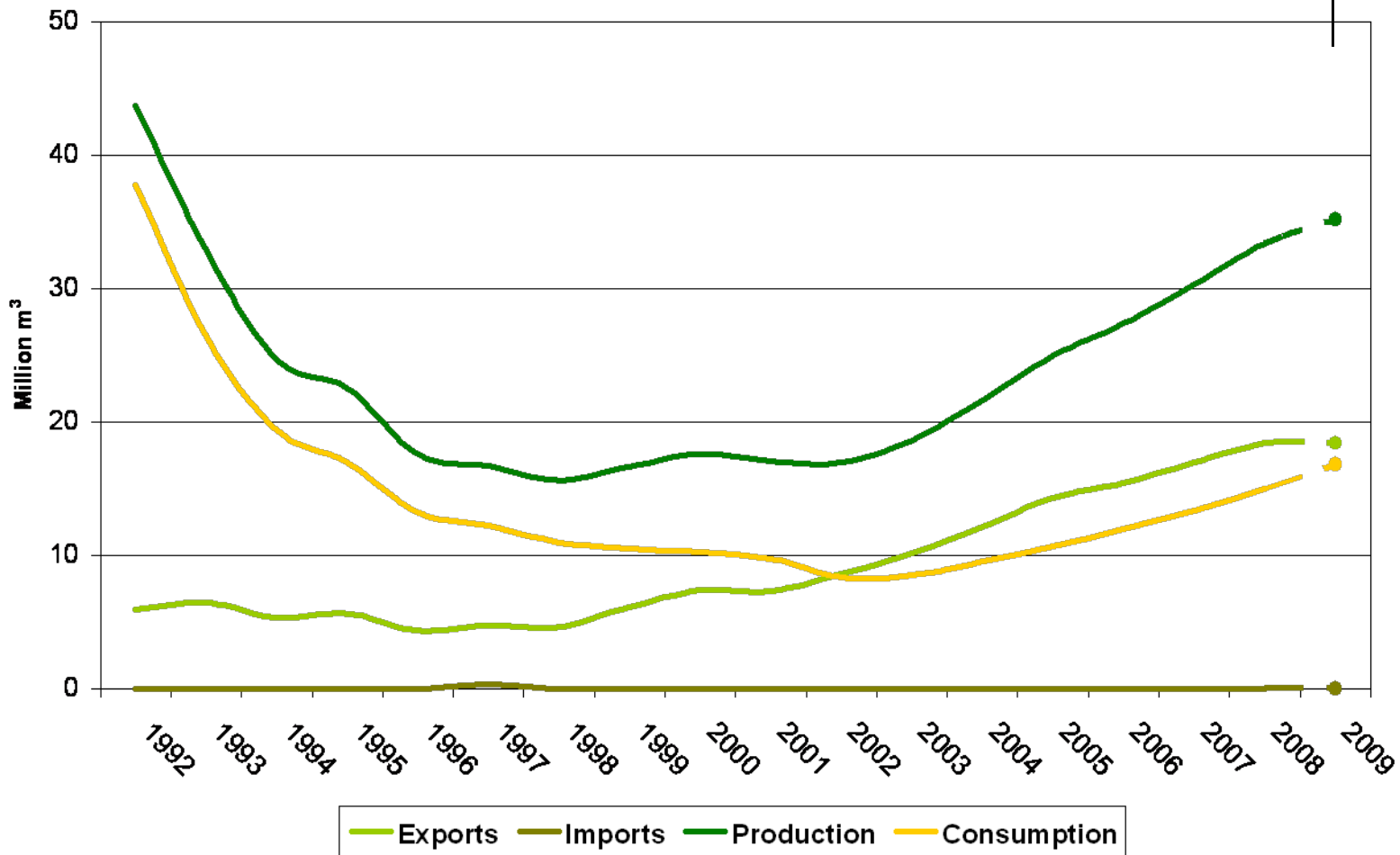
Sawn softwood trade flows



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Sawn softwood – Russia



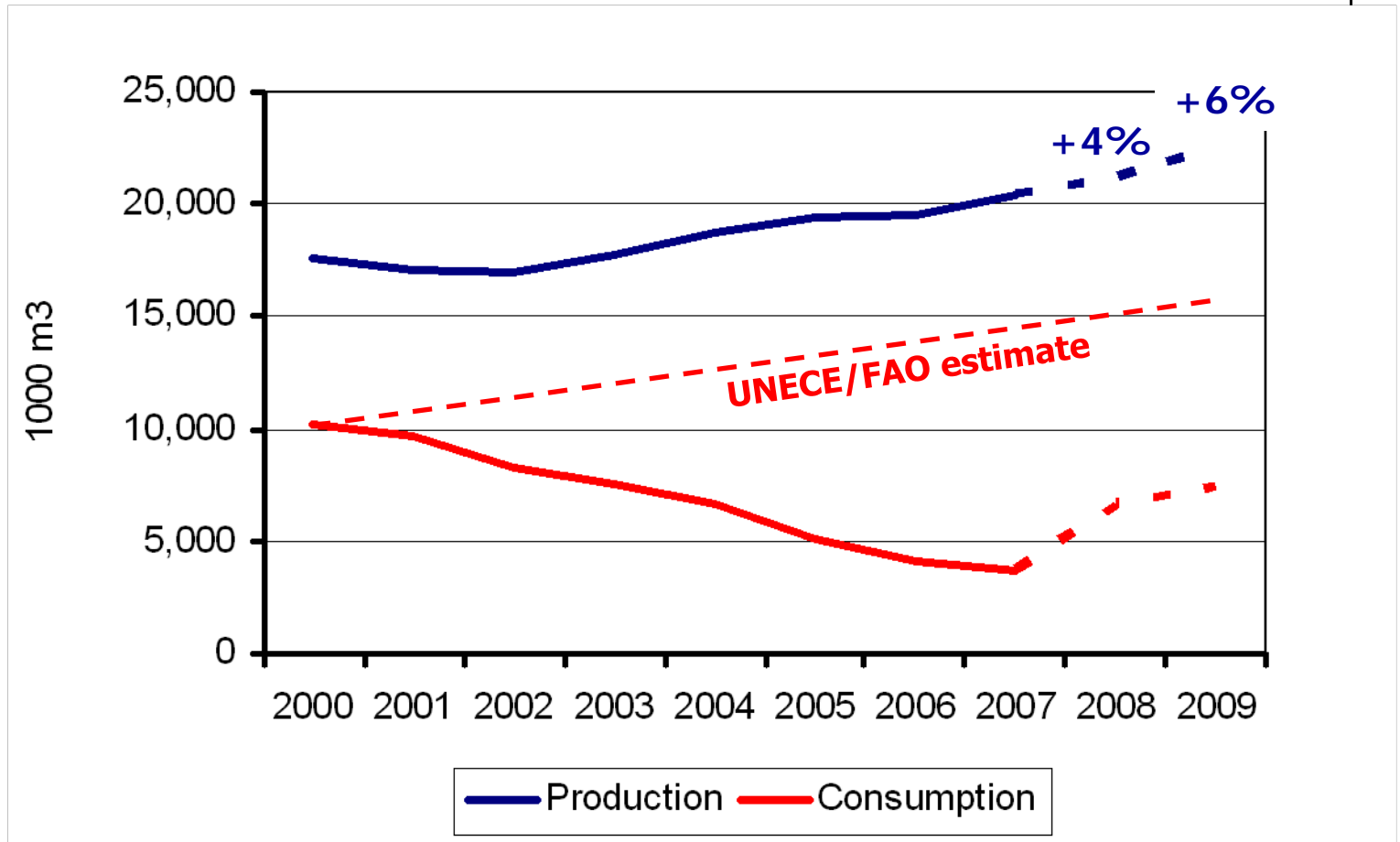
Source: UNECE/FAO Timber Database & forecasts



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Sawn softwood – Russia



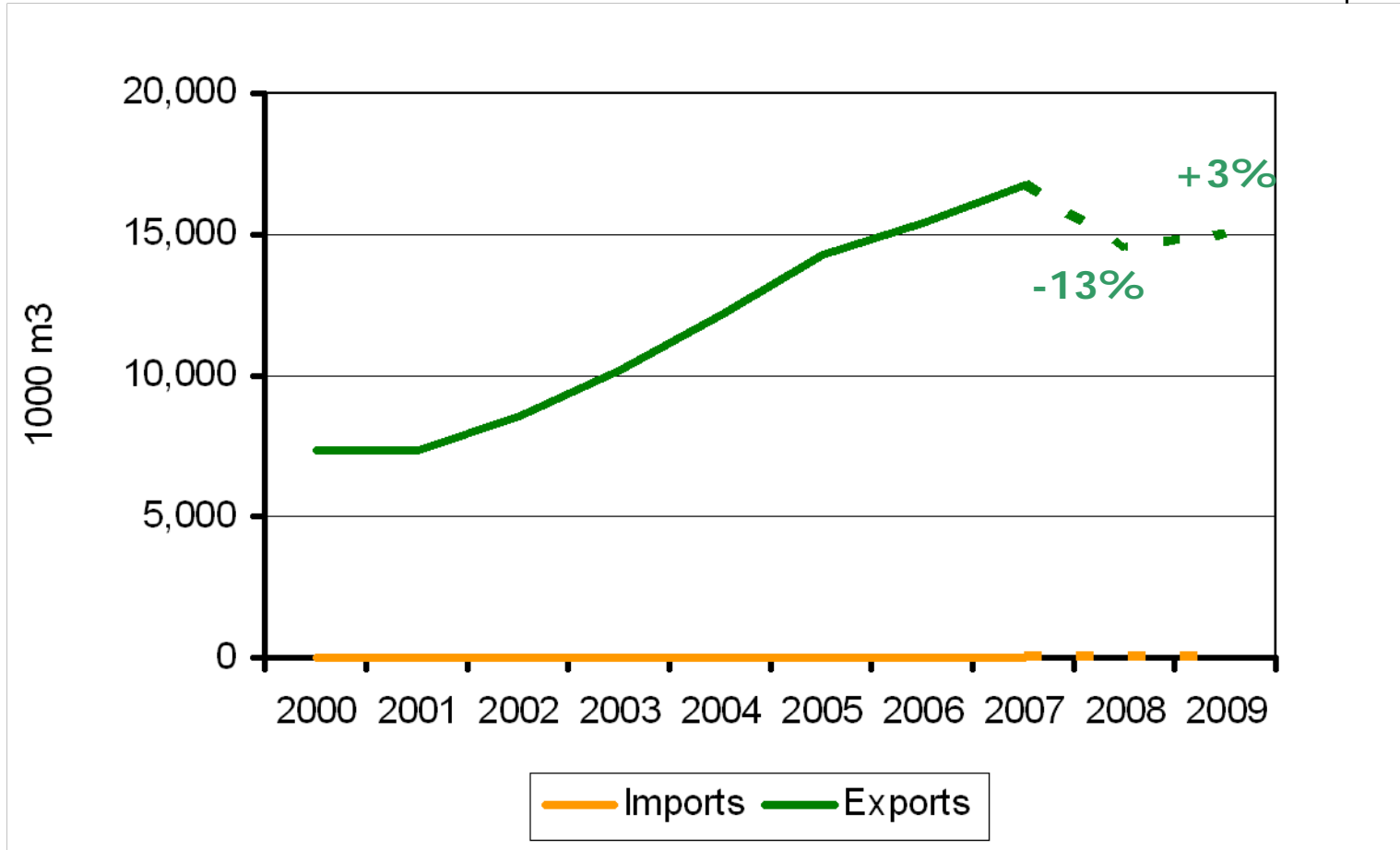
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Sawn softwood – Russia



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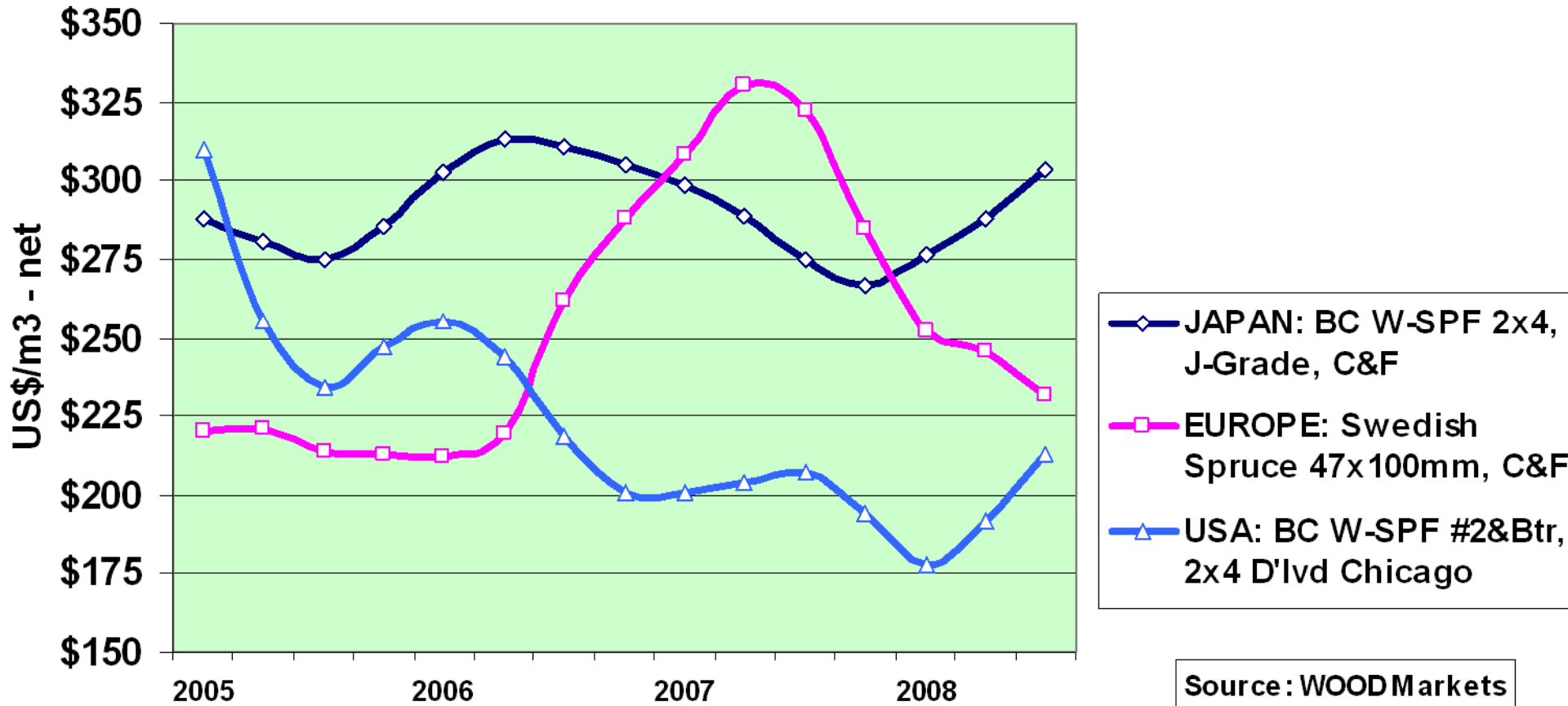
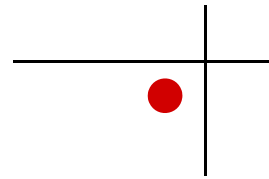


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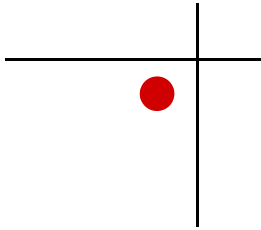


Sawn softwood prices



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III. Roundwood markets

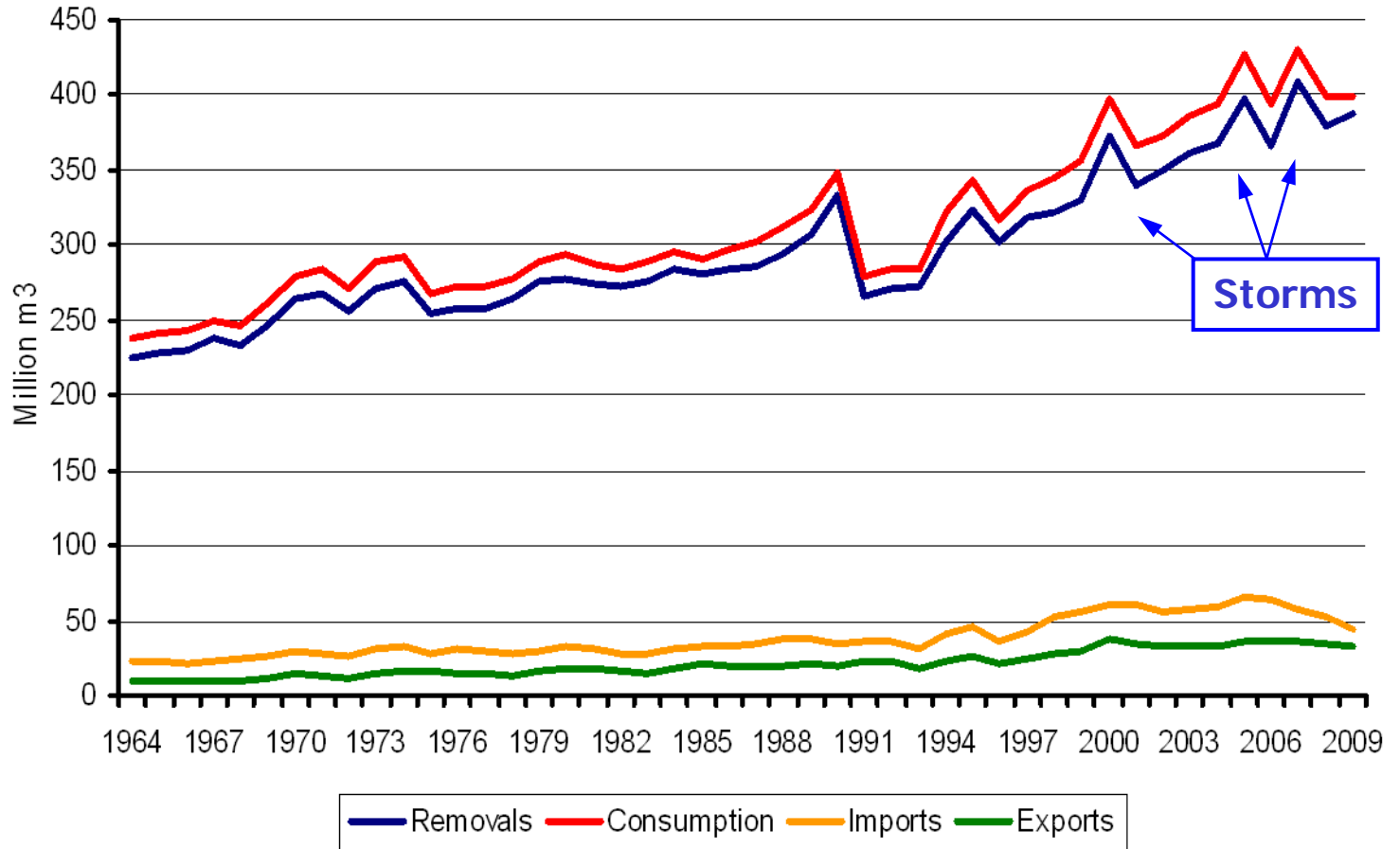
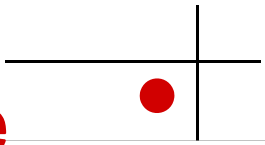


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Industrial roundwood – Europe



Source: UNECE/FAO Timber Database & forecasts

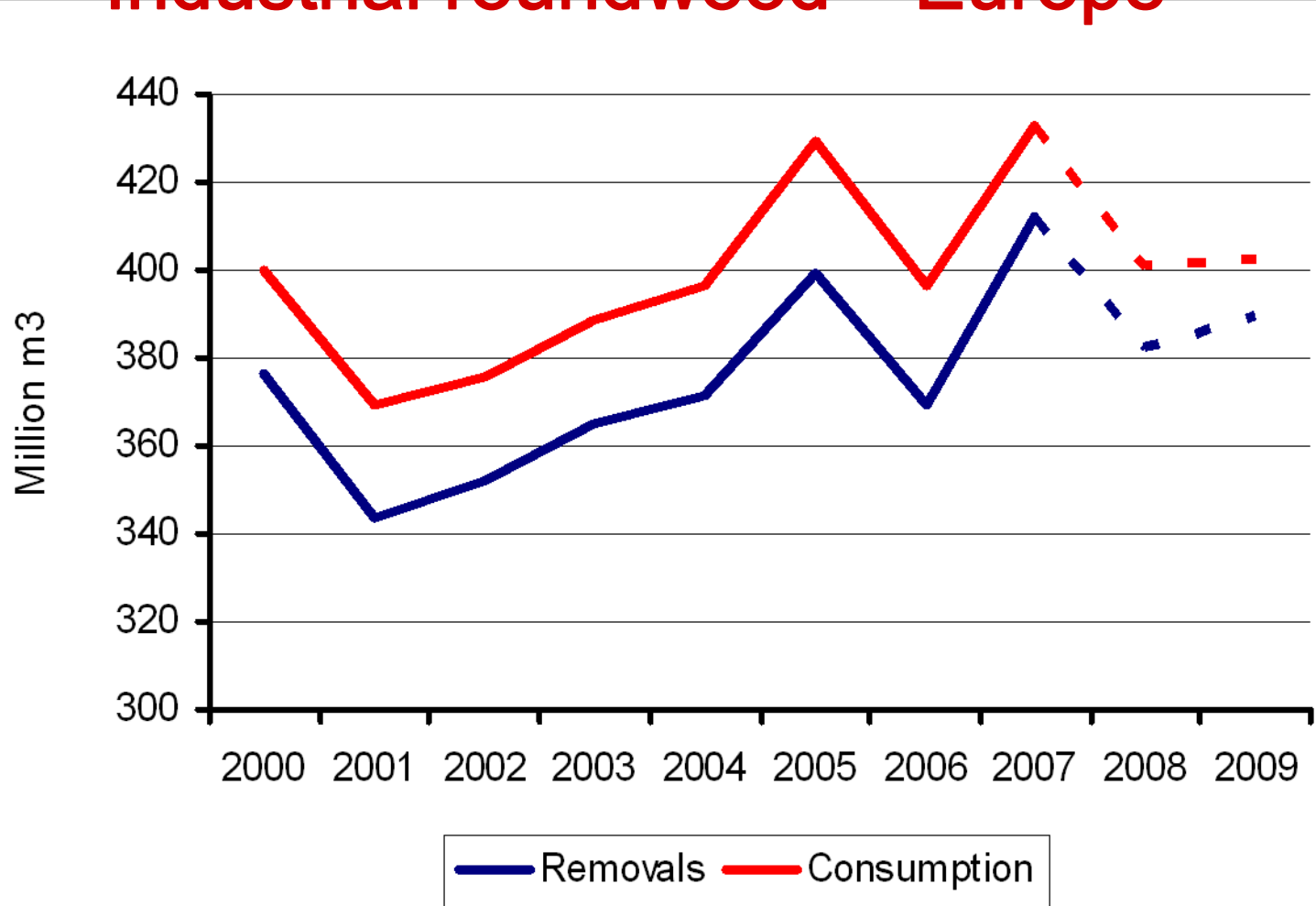


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Industrial roundwood – Europe



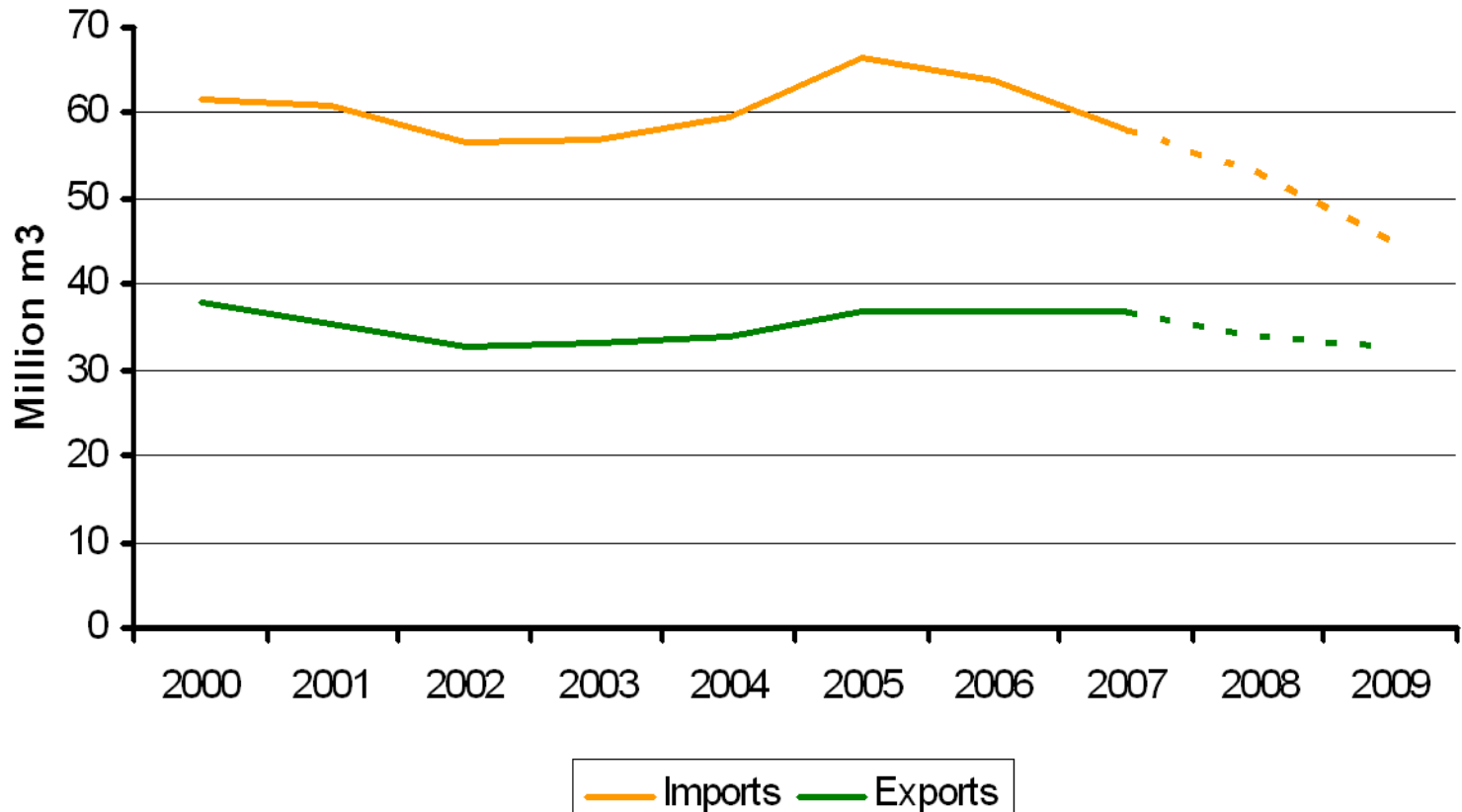
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Industrial roundwood – Europe



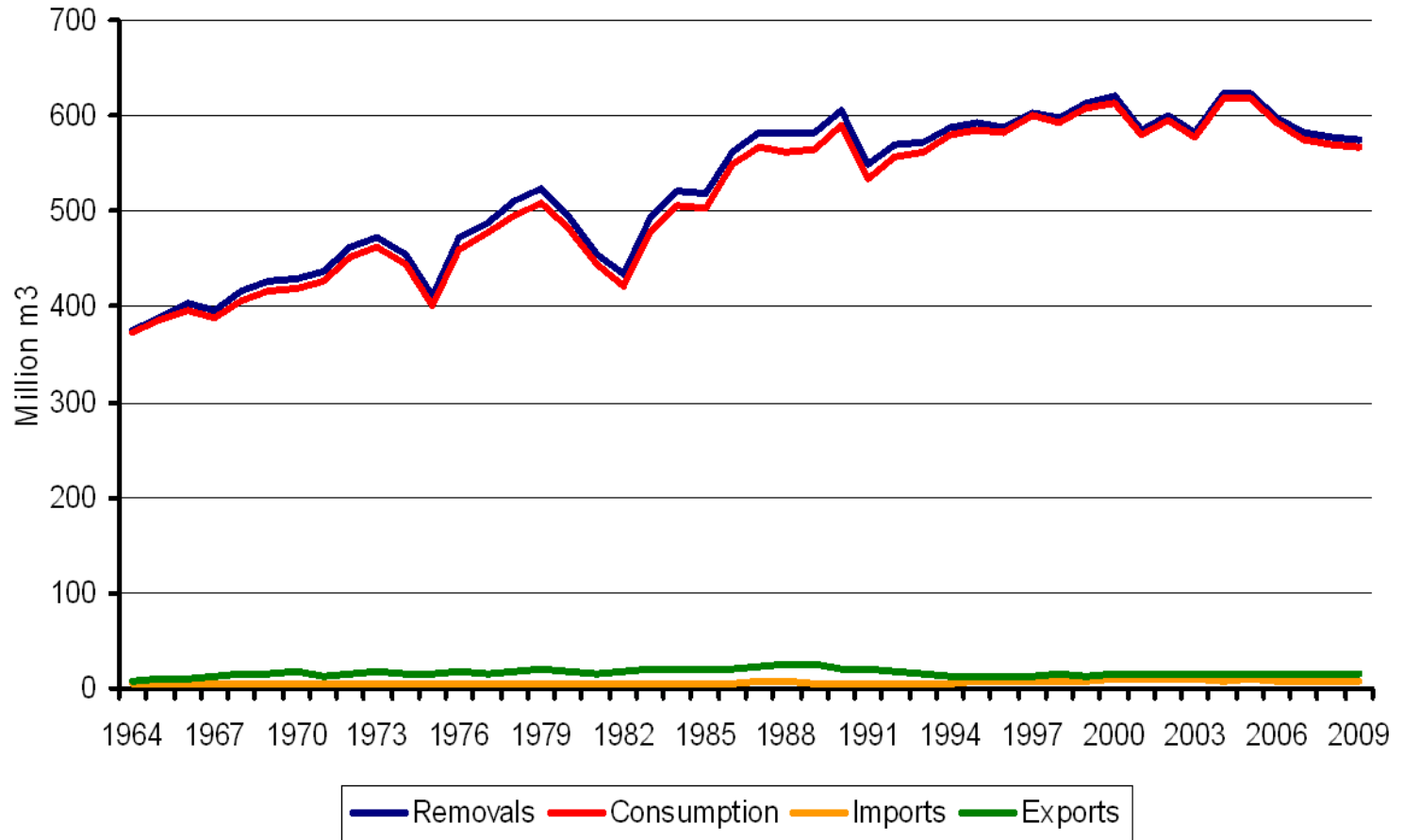
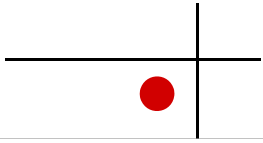
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Industrial roundwood – N. America



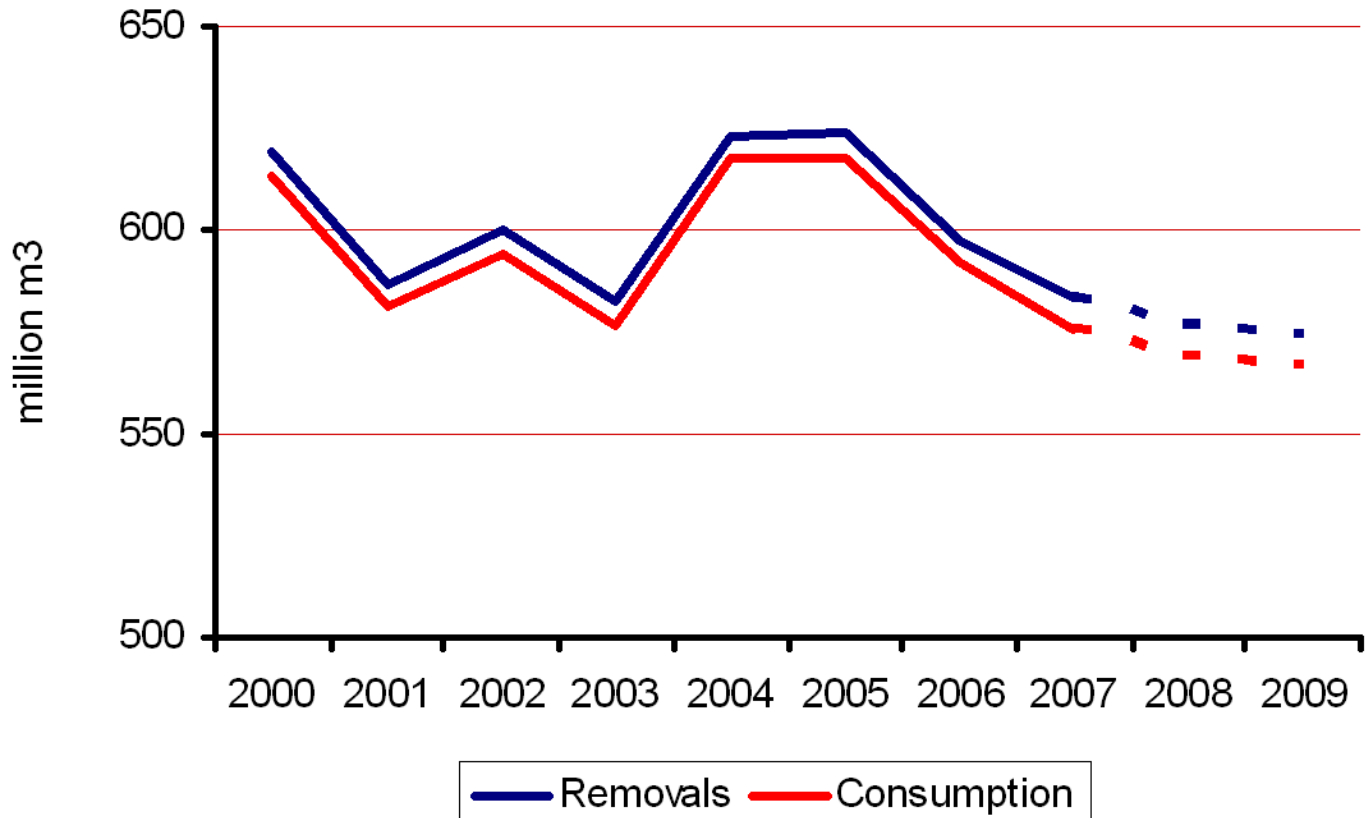
Source: UNECE/FAO Timber Database & forecasts



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Industrial roundwood – N. America



Source: UNECE/FAO Timber Database & forecasts



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Industrial roundwood – N. America



Source: UNECE/FAO Timber Database & forecasts

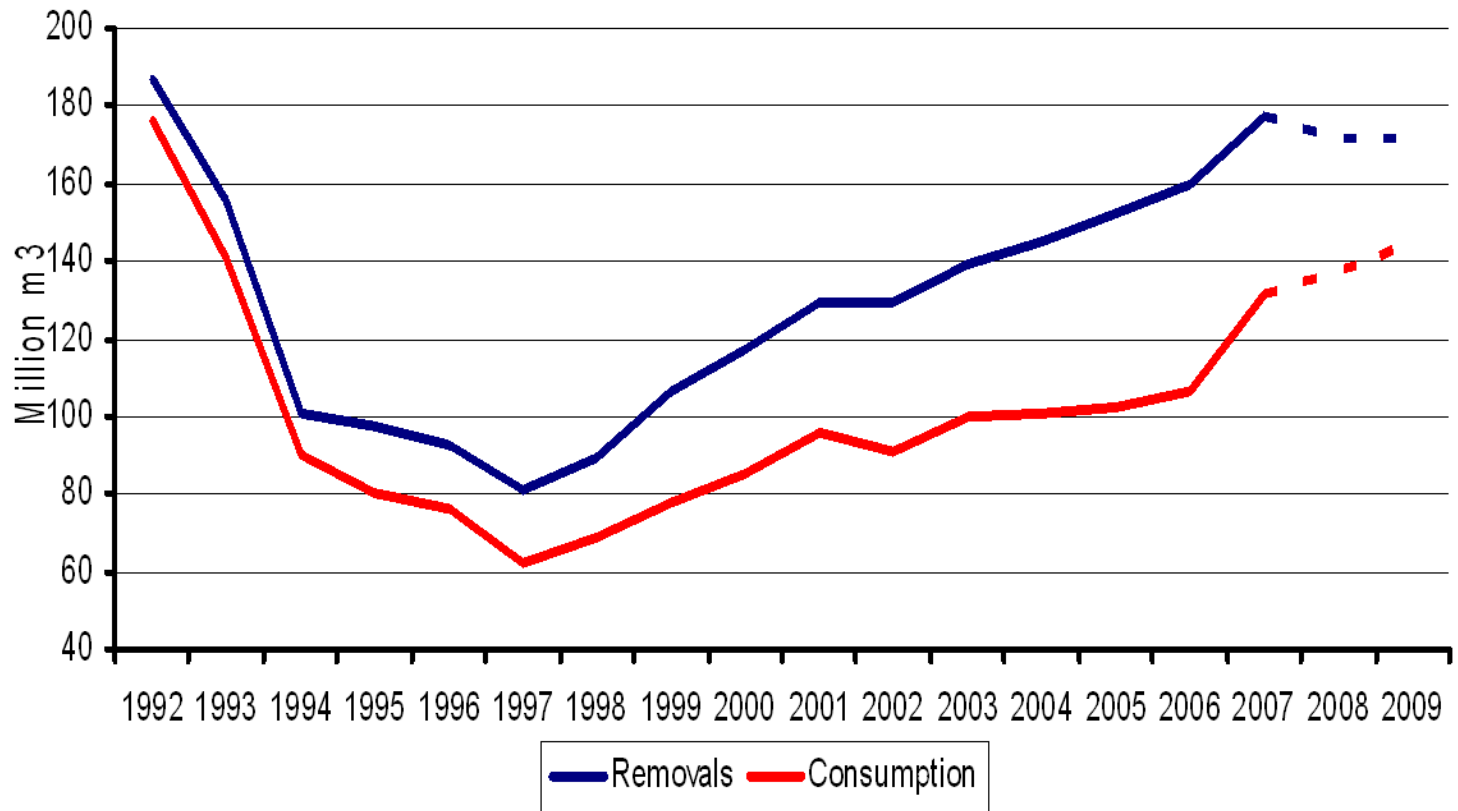
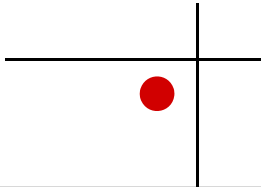


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Industrial roundwood – Russia



Source: UNECE/FAO Timber Database & forecasts

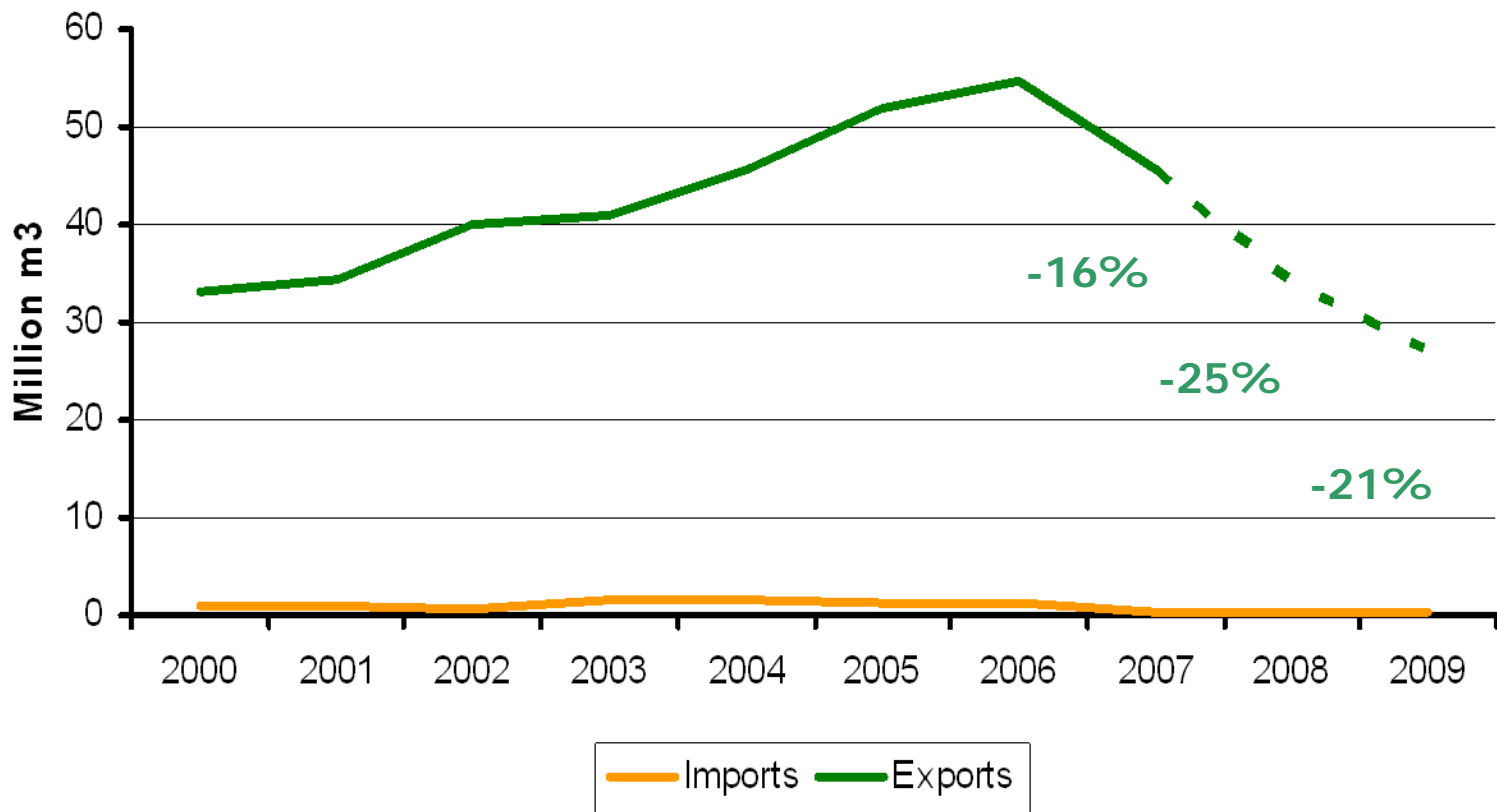
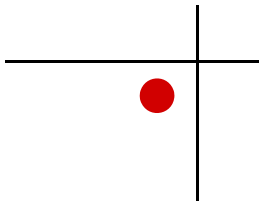


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Industrial roundwood – Russia

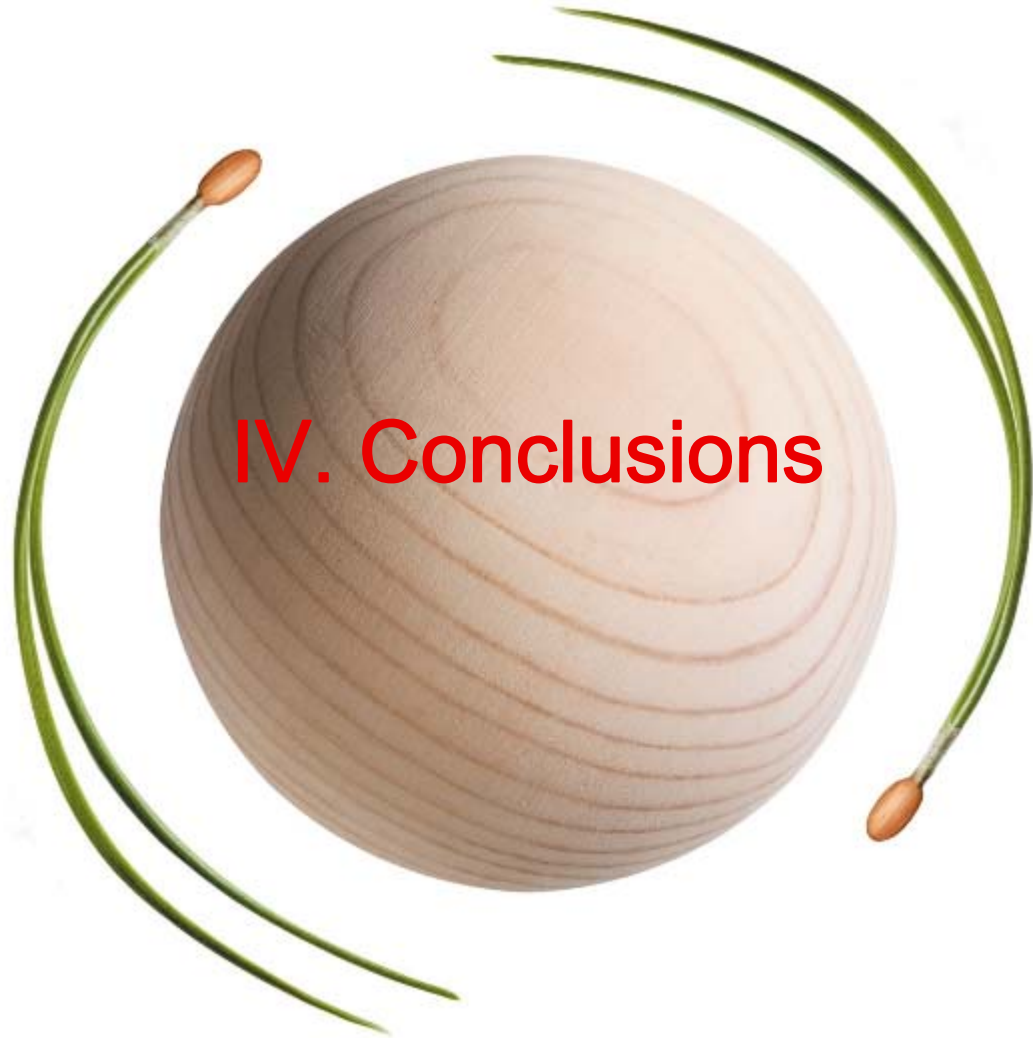
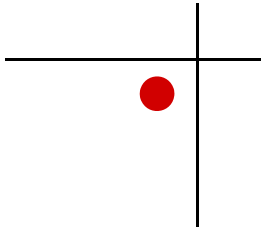


Source: UNECE/FAO Timber Database & forecasts



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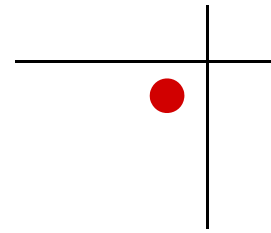
IV. Conclusions



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Conclusions



- Global economic crisis unfolding
- Forecasting uncertainty
- Markets dramatically down in N. America
- Markets weakening in Europe
- Markets forecast to strengthen in Russia



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Conclusions. Effects of scheduled Russian export tax increases

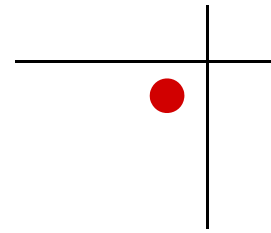
- Will tax go into effect in January 2009?
- Can domestic processing of logs increase to consume previously exported logs?
- Can countries dependent on Russian logs find alternative sources?
- What happens to Russian communities dependent on log exports?
- What happens to companies dependent on log imports?



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Conclusions



- US housing slump forecast to bottom out in 2009 (NAHB in early 2008, i.e. before severe economic crisis)
- Optimism in many forecasts for 2009



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Congratulations to Martti Ahtisaari and Finland!



- Nobel Peace Prize laureate
- Former President of Finland
- Ultimate UN Peacekeeper
- Africa, Asia, Mideast, Europe (Kosovo)
- Finnish qualities
 - Patience
 - Tenacity
 - Perseverance
 - Sisu



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Joint UNECE Timber Committee and European Forestry Commission Market Discussions, Rome

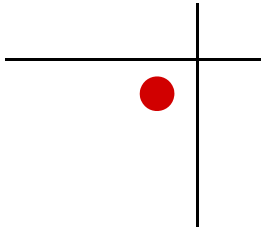


20-24 October 2008



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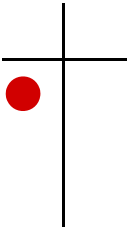


V. Discussion



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