



Market Development and Outlook from European Sawmillers' Perspective

Sampsa J. Auvinen
President, European Organization of the Sawmill Industry

A look into the future



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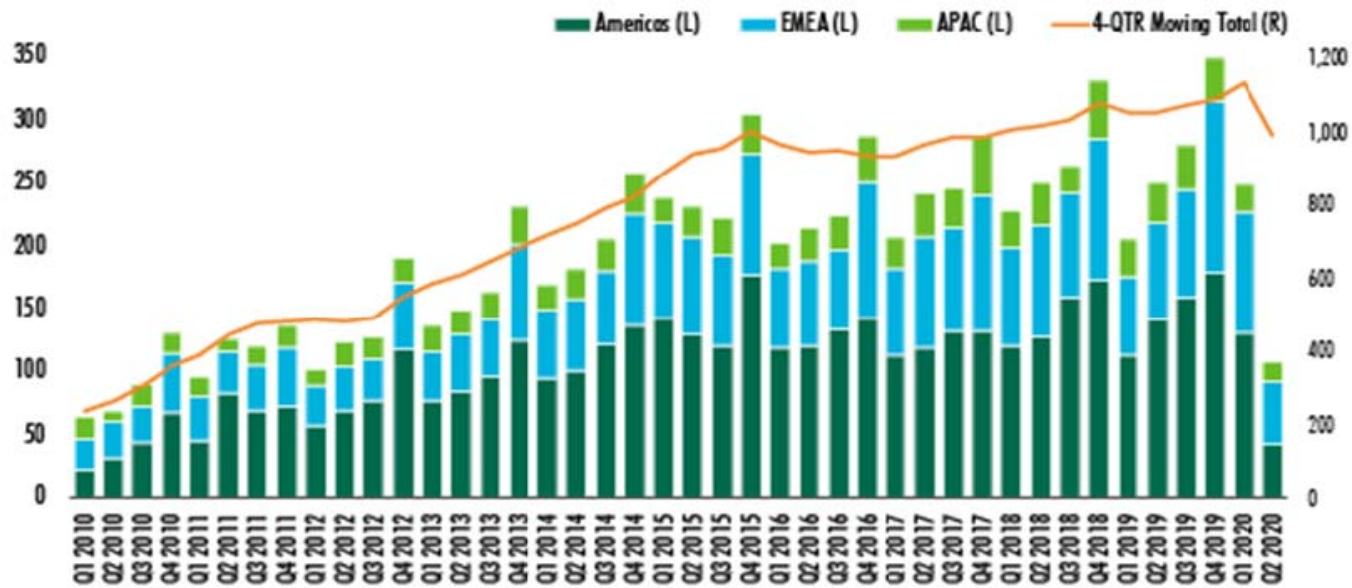
Covid: What we know and what could happen



Covid-19 has upended economic and social life at unprecedented speed. Several trends that became apparent during the spring lockdown might be here to stay, at least partially:

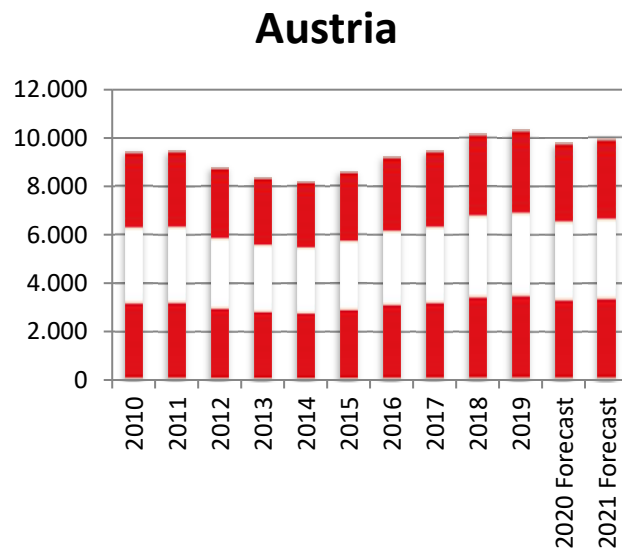
- Consumers spending more time at home and buying online => strong DIY and packaging sectors.
 - Moving to the countryside => strong DIY.
 - Increased risk-aversion => home renovation to remain stronger than new build sector?
 - People spending less time in the office => companies investing less in office space, office furniture, faster increase in digitalization.
 - Slowdown of construction looming.
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Commercial Real Estate taking unprecedented hit



Source: CBRE Research, RCA (Americas), Q2 2020

Austria

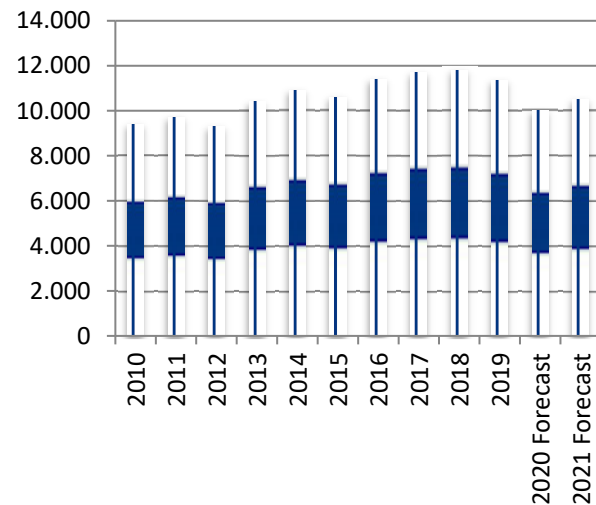


- The quality distribution of roundwood ranges in the summer months remains a challenge for everyone in the industry.
- Large construction projects have been postponed. During summer, the projects postponed from the previous months were restarted but future is uncertain.
- Sawnwood markets: DACH area doing well, rest of Europe is weaker, but US and China overall satisfactory or good.

Finland

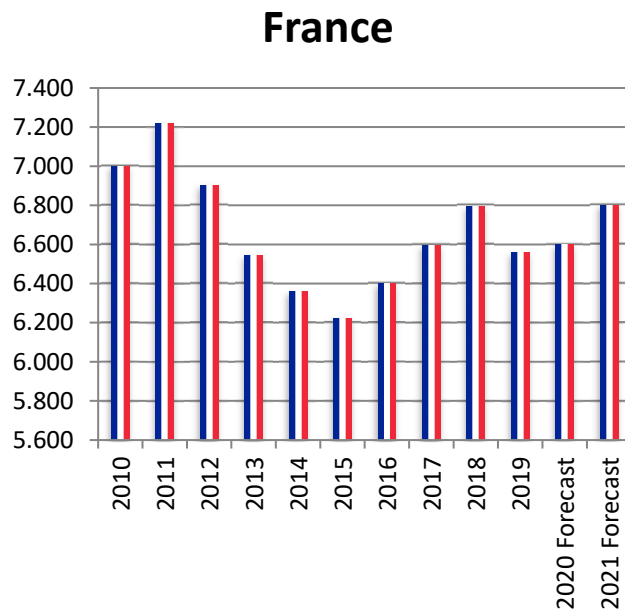


Finland



- Finnish sawmills are stronger than anticipated at the start of 2020, which was marred by strikes. Demand has been driven by the DIY and RMI segments as people have spent more time and money at home.
- Central European massive supply of storm- and beetle damaged sawn softwood and logs, volatility of foreign exchange and freight rates are challenging the Finnish mills. High raw material costs.
- Challenges with by-products and pulp logs due to weak pulp market.

France

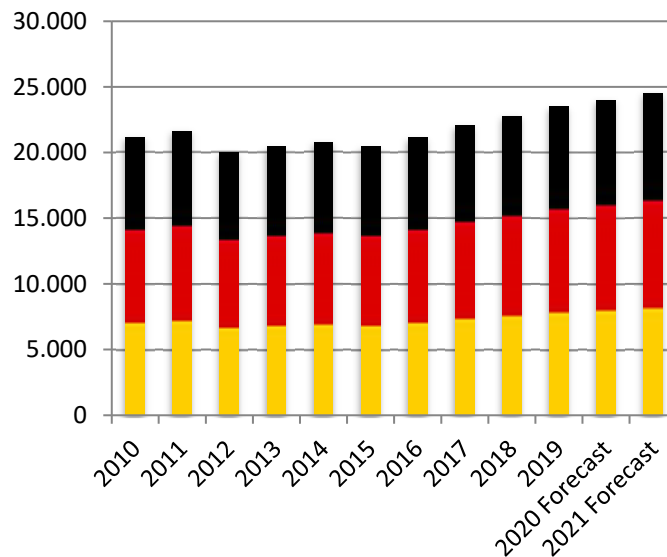


- Good availability of spruce, low of Douglas Fir.
- Heavy impact of Covid-19 at first on French economy; construction and DIY sector down. Since May catch-up effect and strong demand in construction. Strong sales.
- H1 production is down 5%, exports were strong to Central Europe.
- Challenge for by-products as paper industry is declining and panel industry is using more recycled wood.

Germany

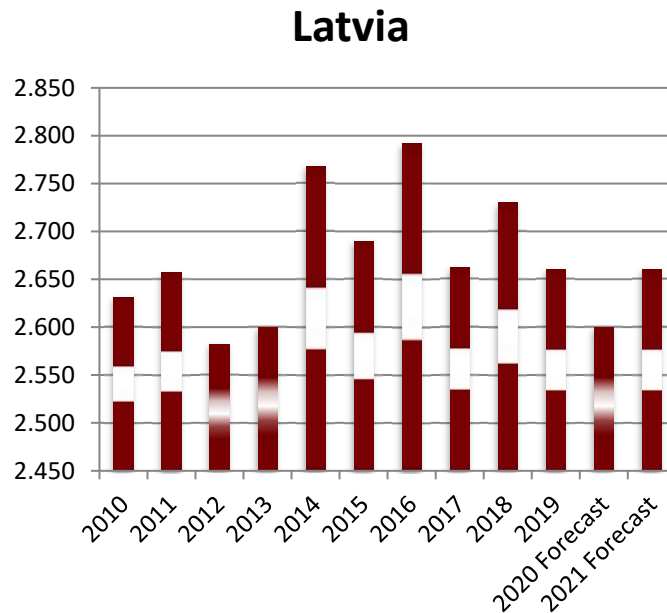


Germany



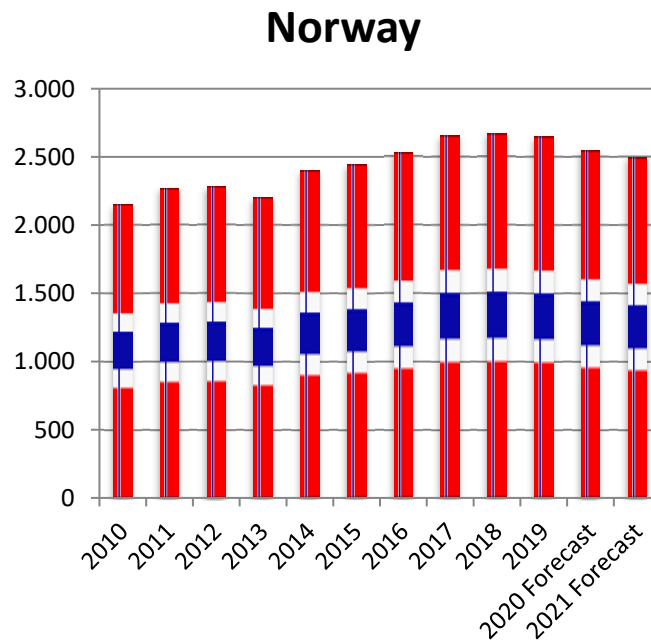
- For fourth year very high amount of beetle-damaged wood.
- Construction remains at a high level even during the corona period, resulting in very steady domestic demand overall.
- Other timber industry sectors were also able to recover and have recently recorded a significant improvement in production activity.
- Booming sawnwood exports to USA and China compensates weakness in other markets.

Latvia



- Covid didn't impact sawmilling industry operational possibilities and like in some other countries government provided several support option. H1 production declined 2%, exports -12% vs H1 2019.
- Construction sector was less productive due to social distancing. DIY sector is doing very well.
- Weak pulp log market is putting pressure on sawmills to increase sawlog prices.

Norway

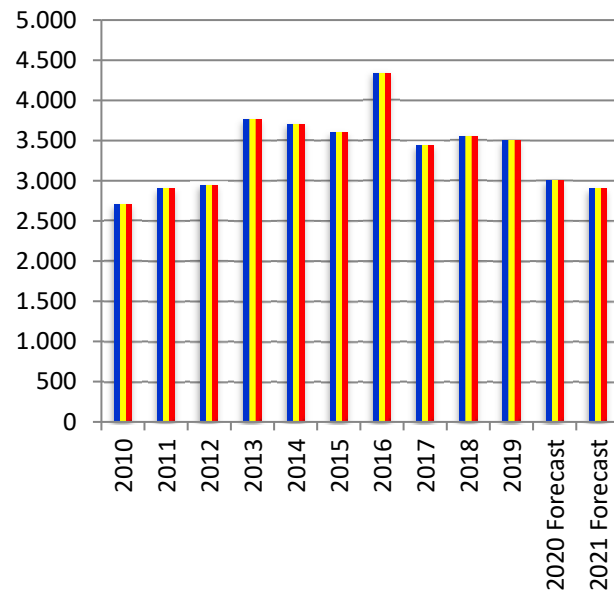


- Raw material situation has been satisfactory in 2020. Changes in demand in the pulp wood market may also affect availability of sawlogs in the coming months and next year.
- Great uncertainty has led to several projects being put on hold in construction sector. But activity has been better than expected.
- Market is turning towards more renovation. The demand for new office buildings may change because of new working routines, with more people working from home.

Romania



Romania

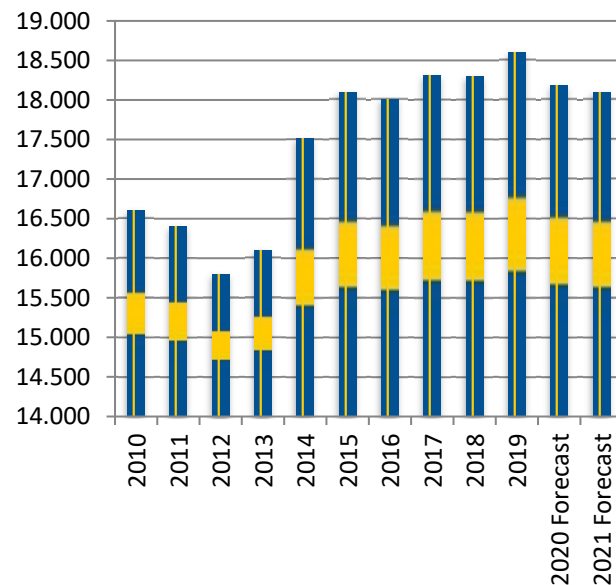


- Romania has been hit hard by the coronavirus crisis with furniture products particularly impacted.
- Exports are around 10-12% below 2019 but all in all it could have been worse.
- Sector was helped by government support both for technical unemployment and for supporting small and medium enterprises.

Sweden



Sweden

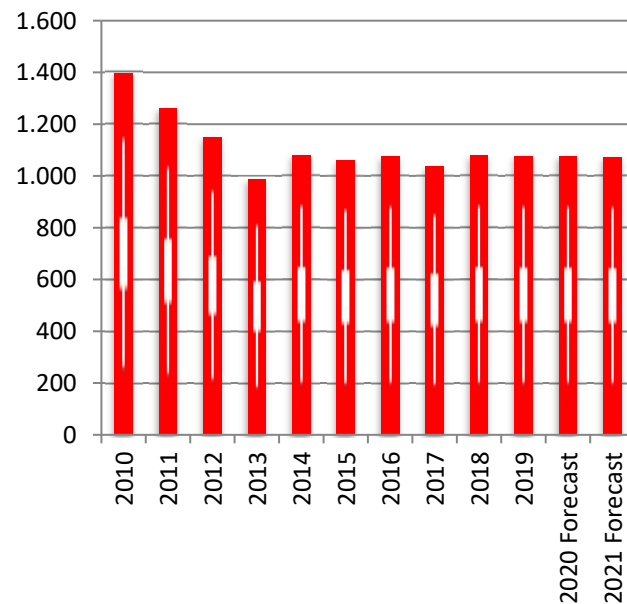


- Swedish production of sawn wood has decreased despite a high demand in response of uncertainties of pandemic effects on markets.
- Exports of Swedish sawnwood so far in 2020 have been strong. China (+60% vs H1 2019) and the US (+80%) stand out. Main market UK dropped (-15%) but Europe held up.
- By the end of 2020 wood consumption from the construction sector, as a whole, is expected to have declined by about 3-5%, and to decline further by 3-5% in 2021.

Switzerland



Switzerland

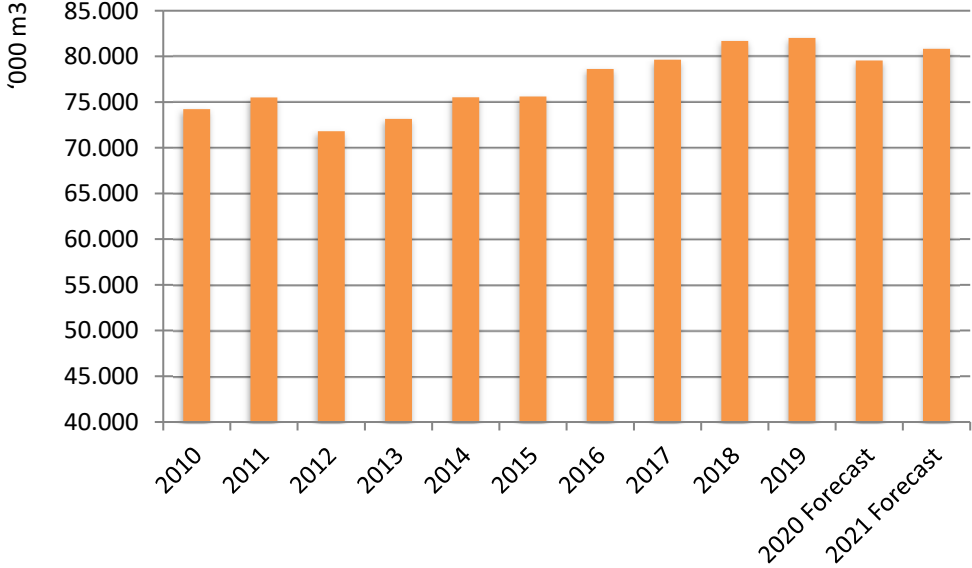


- Abundant raw material at low prices but bad quality in the market due to the bark beetle crisis.
- Covid-19 didn't affect Swiss industry too much as the government never did a lockdown. German-speaking part did better than rest of country as building sites never stopped.
- Probably the construction sector will be less active because of fewer investments. This is going to impact the pallet sector and eventually the furniture sector in new construction.

Sawn softwood production



In the EOS member countries*, total production of sawn softwood increased by 0,42 % in 2019 and reached 82,0 million m3. In 2020, production is expected to decrease 3,1 % to 79,6 million m3. In 2021, the production is expected to increase 1,6%.

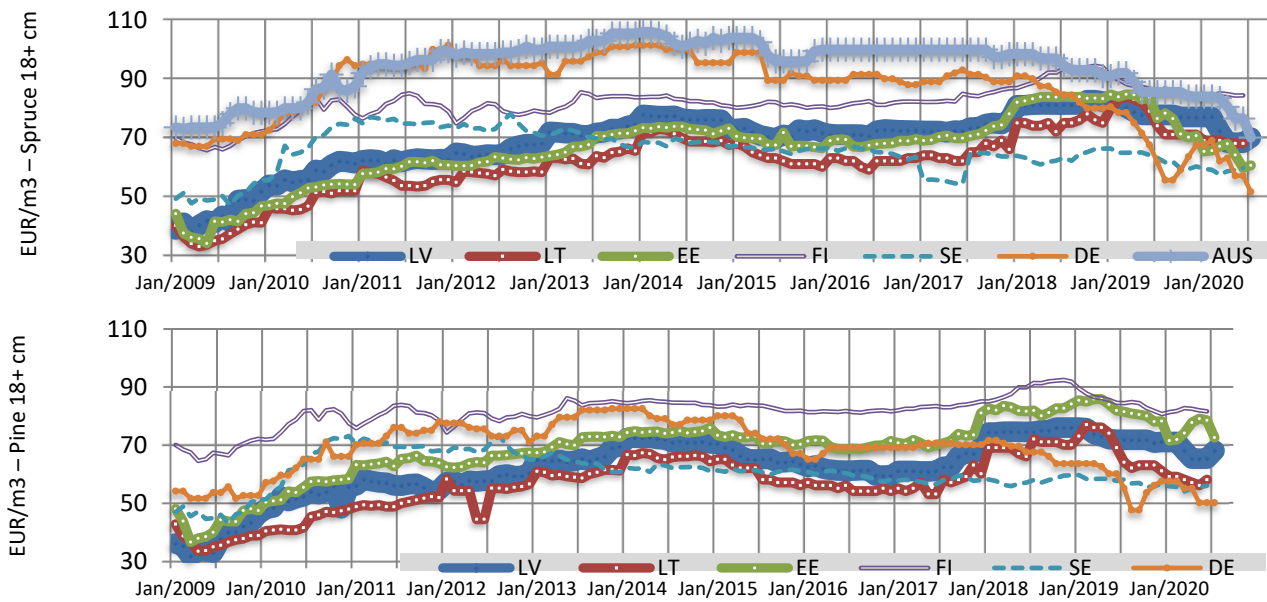


- *EOS countries:
 - Austria
 - Belgium
 - Denmark
 - Finland
 - France
 - Germany
 - Latvia
 - Norway
 - Romania
 - Sweden
 - Switzerland

Source: European Organization of the Sawmill Industry

EOS

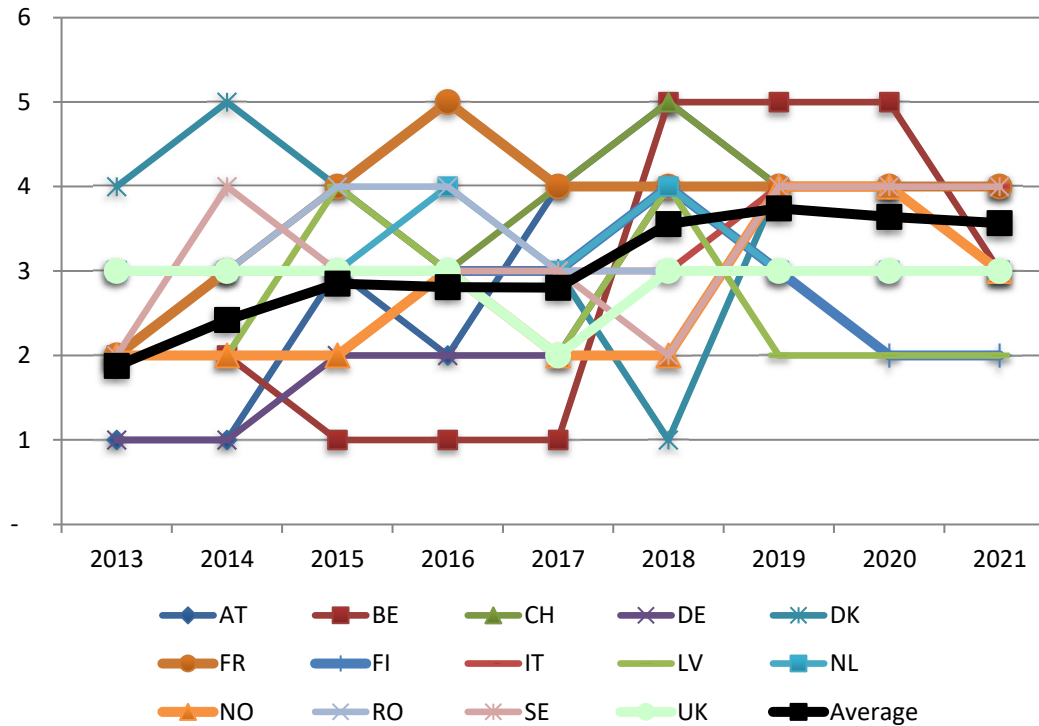
Raw material prices to update



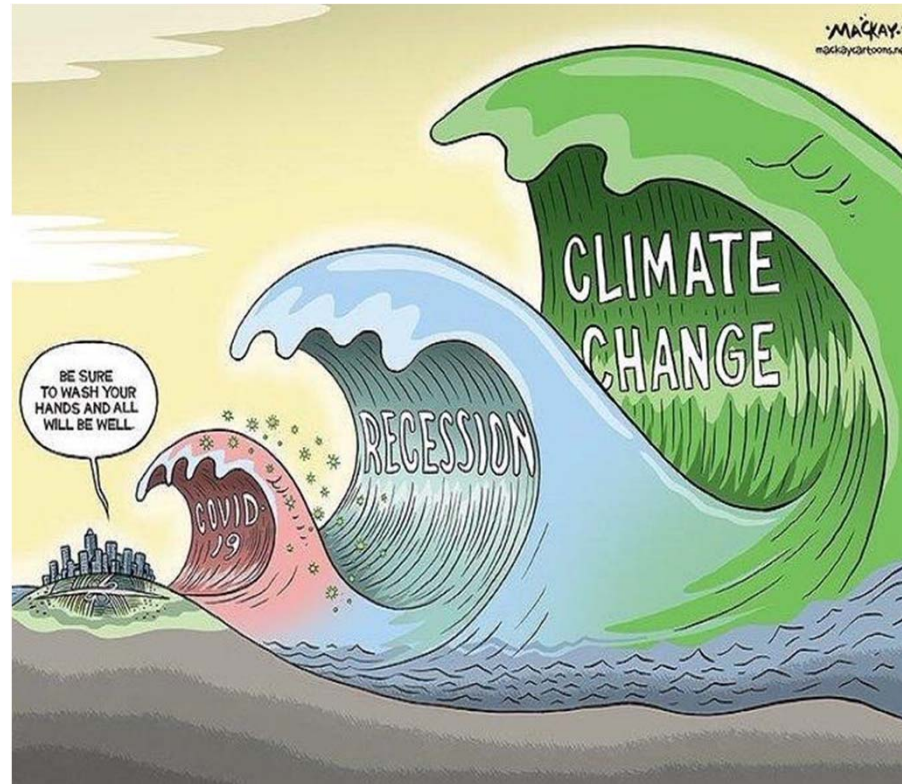
Latvia, Estonia, Sweden and Finland – prices are DLD to mill.
Germany, Austria and Lithuania – prices are ex forest road side.

Source: Latvian Forest and Wood Products Research and Development Institute

Raw Material Availability



1 = low; 2 = medium low; 3 = normal; 4 = medium high; 5 = high



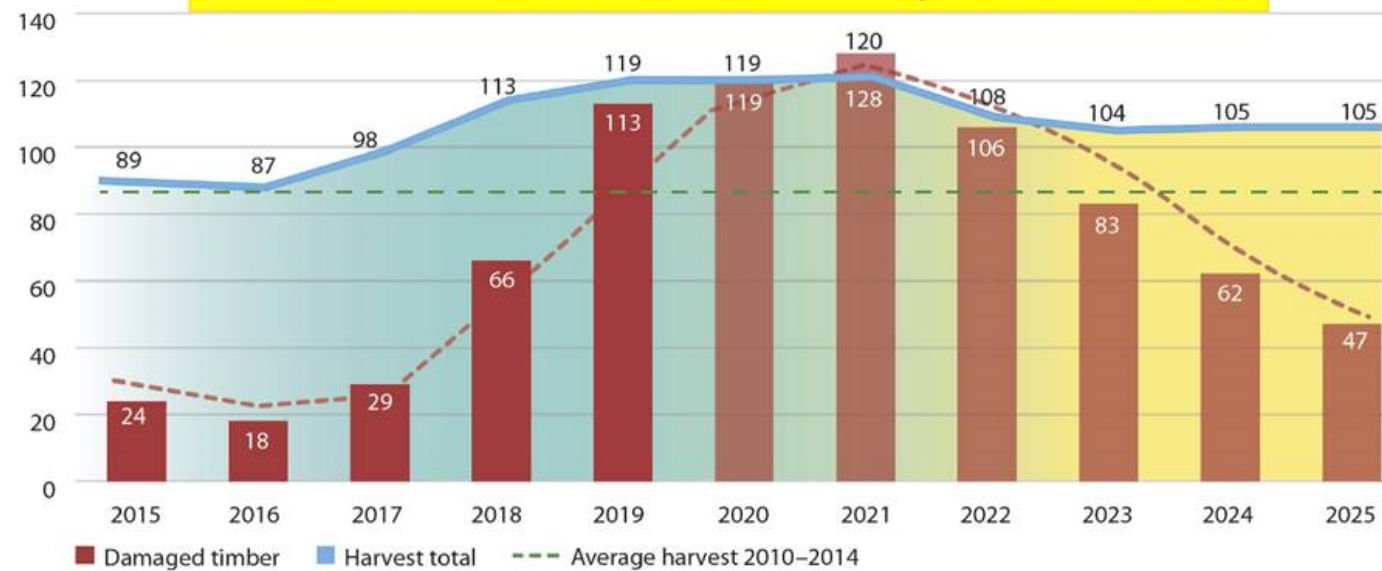
Beetle-damaged raw materials compound corona challenge



TOTAL AMOUNT OF DAMAGED WOOD | 2015–2025

in million m³

„The Permanent Storm“ (2015-20??)



Short-term effects



The bark-beetle crisis in Central Europe is causing an unprecedented abundance of raw materials in our industry which has many consequences:

- In the short term we are seeing that lower prices for Central European logs are improving the competitive position of many companies in Central Europe.
 - This has repercussions all over Europe as companies in areas which are not affected by high quantities of damaged logs, will be continually challenged. Sweden looks in a better position than Finland and Baltics due to weak SEK over the last decade.
 - European softwood industry can increase market share overseas.
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Medium-term effects



There is a boom in expansions at sawmills and processing companies.

In central Europe, there will be 27 new projects within 2022:

- 9 upgrade/greenfield sawmills (+5 Mio. m³/input capacity)
 - 10 CLT-productions
 - Gluelam-, prefab-plants
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Medium-term effects



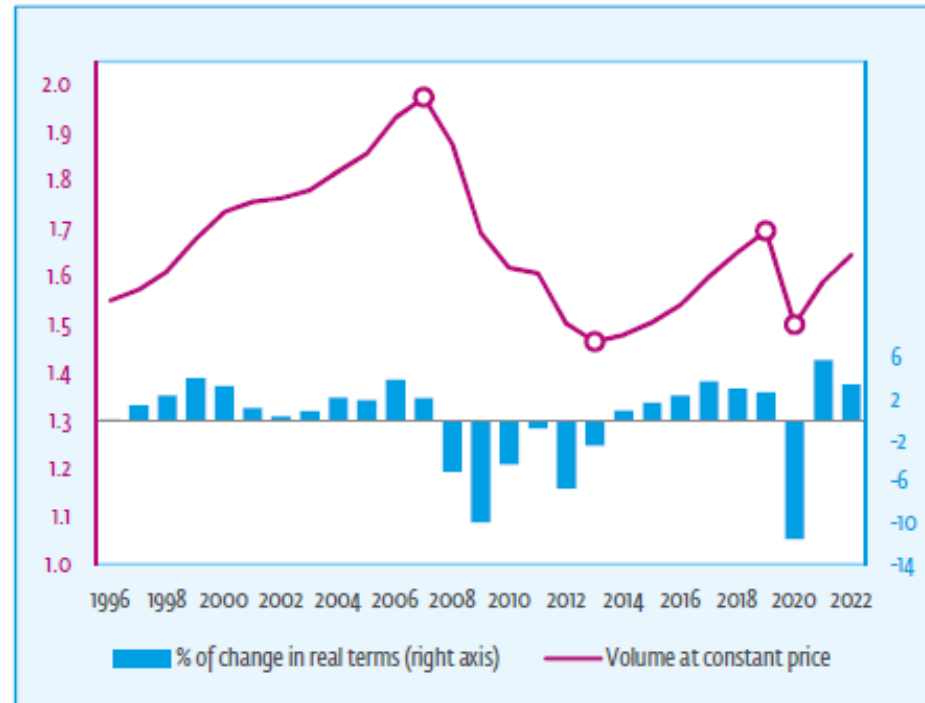
- At some point, maybe in the middle of the decade, the damaged-wood binge will be over. Climate change will continue taking a heavy toll on European forests.
 - The supply of raw materials in Central Europe will greatly diminish and there might be scarcity.
 - As of today, companies need to be able to position themselves through targeted investments to survive in a much tougher competitive landscape.
 - There might be further industry consolidation in Central Europe.
 - EU Policies might also play an important role: if the social and environmental functions of forests are more and more privileged vs the economic one, we might have raw materials provision reduction.
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Demand side in Europe



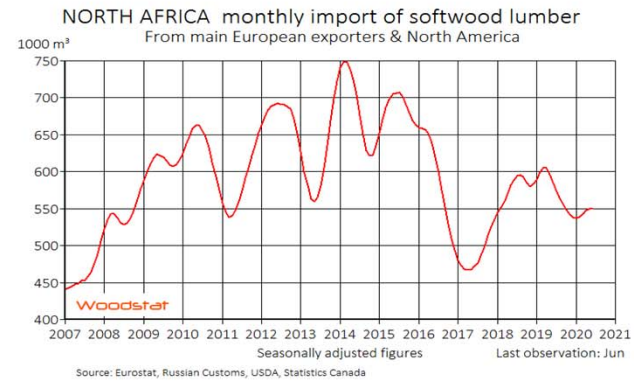
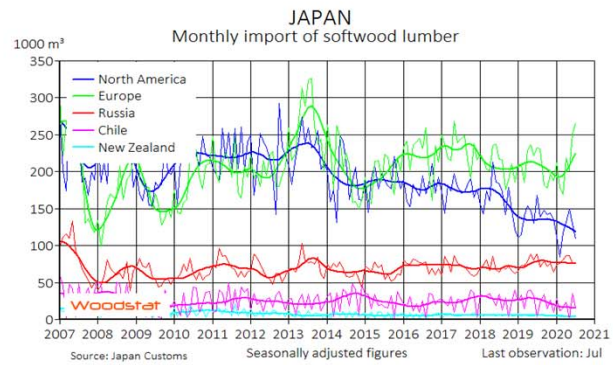
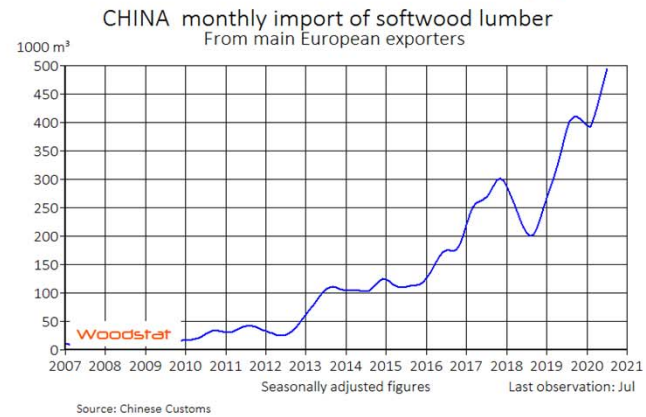
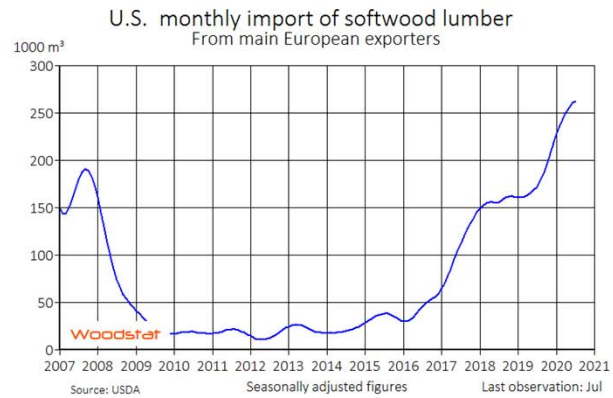
Total Construction Output since 1995

volume in trillion 2019 euro and year to year change in %



Source: EUROCONSTRUCT, June 2020

Overseas Exports

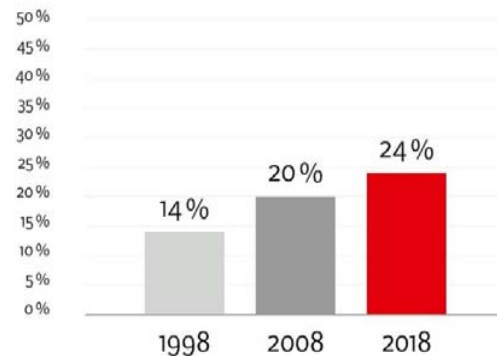


Wood as a Building Material Gaining Market Share

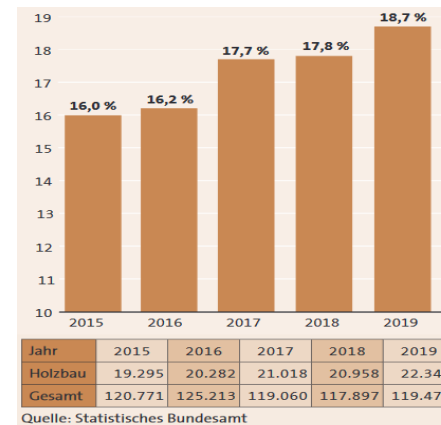


Macro-trends are broadly supportive of our industry: increasing recognition of benefits of using wood products to mitigate climate change, particularly in the building sector, both at EU level and even in countries where it is traditionally less utilized as a building material.

Austria: The market share of timber jumped from 14% to 24% in 20 years, based on the total usable space in the building sector



Germany: in 2019 residential construction (new constr.) permits with predominantly used building material wood reached approx. 19% (2007: 13%).



Conclusions



- Coronavirus crisis impact on our industry has been diverse with huge intra-European differences (North better than South).
 - Some sectors (DIY, packaging) did well and as people spend more time at home and will keep doing well even in the future.
 - Long-term outlook demand is good as wood products are gaining momentum in the fight against climate change and wood as a building material is increasing market share. Other materials are fighting though.
 - Bark-beetle crisis has altered competitiveness favoring in the short-term Central Europe (CE). But in the long-term raw material supply in CE might shrink so countries not affected by the bark beetle now might be winners later.
 - Shipments to the US might remain high as exports to overseas markets will keep playing an important role.
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What's next?

