



Market development and outlook from European sawmillers' perspective

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As the pandemic effects came down in Europe, the war has again caused turmoil in the European and global economy. The sawn softwood producers have also been strongly impacted.

- Q1 and part of Q2 2022 were very positive, with brisk demand at good prices over Europe
 - Since end of spring markets have remarkably slowed down for a few reasons: excessive stockpiling in first part of the year (fear of repeat of H1 2021), DIY down (ease of Covid restrictions) after two good years and, most importantly, much lower consumer demand due to high inflation, which has also caused high costs for building materials
 - Lumber prices have gone down, sawmill margins from record high to very low
 - Lack of sawn goods imports from Russia (sanctions from July 10) to EU have not materialized in shortages so far due to lower consumer demand and high imports until last minute
 - High energy prices are taking a strong toll in the sawmill industry; however, they foster a record demand for sawmill residues which is helping the mills balance sheets
 - Exports, particularly to the US, have supported and stabilized the sawmill industry, thanks also to a weaker euro and krona vs. the dollar
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U.S. Lumber futures price (weekly average)



Source: investing.com. Prices refer to current contract at applicable date.



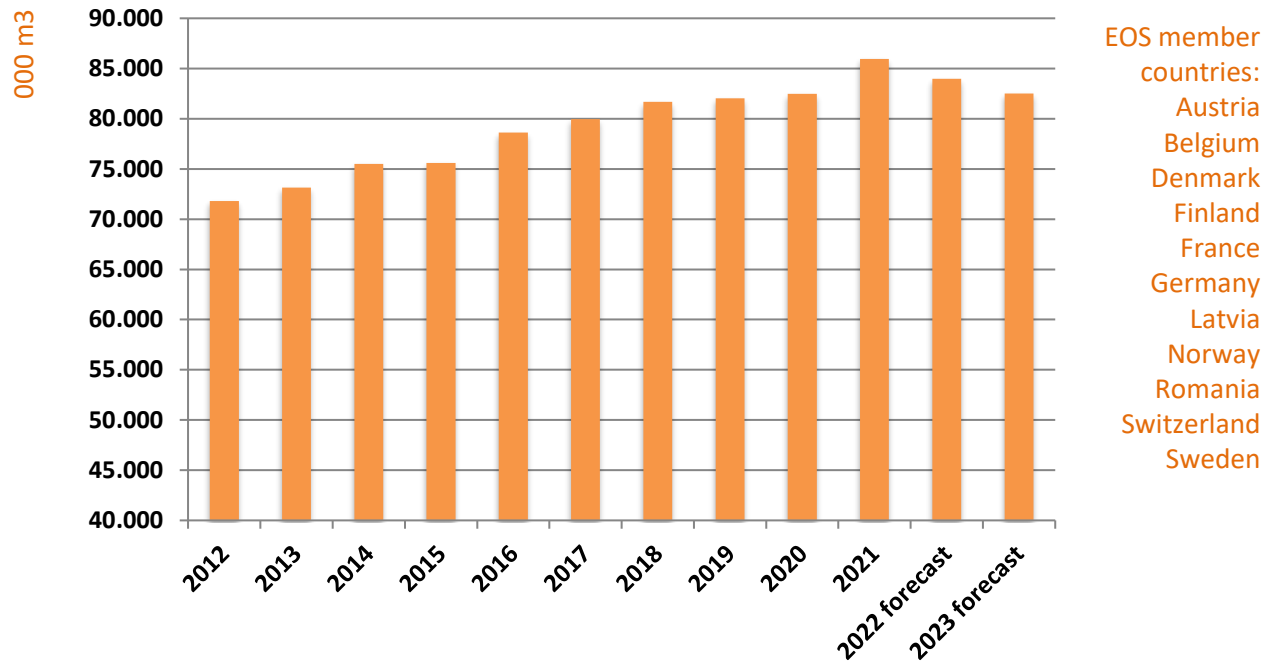
Production

EOS Production overview

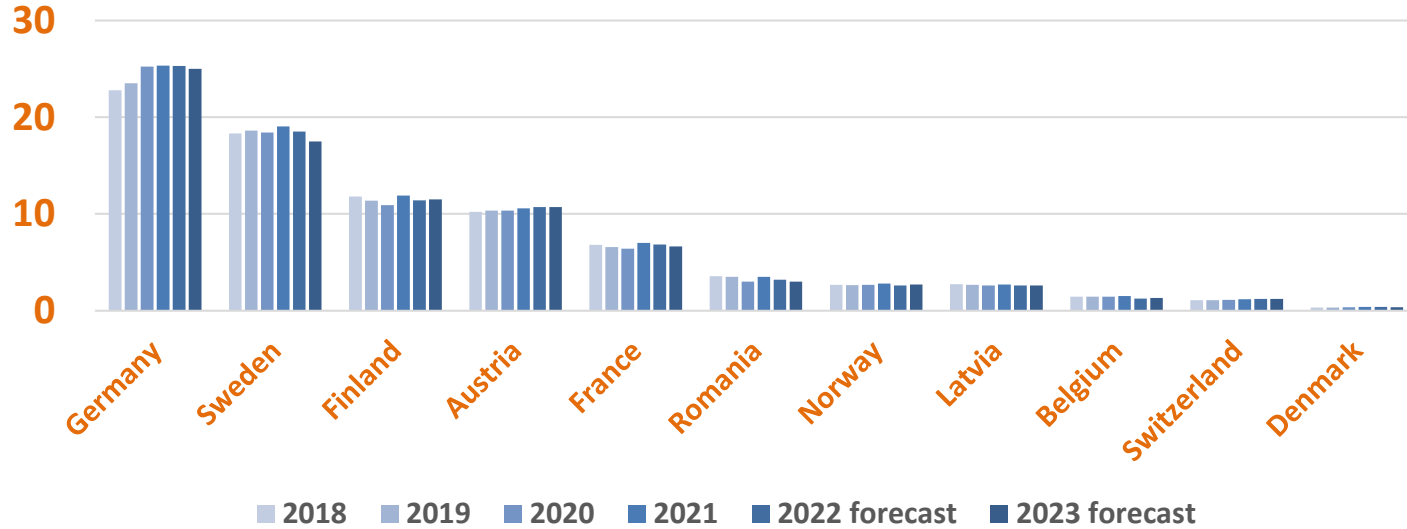


In 2021 sawn softwood production in the EOS member countries peaked at 86 million m³. This year production is expected to decline by 2.3% to around 84 million m³.

In 2023 production could further decline by 1.8%



EOS Production country by country in million m3

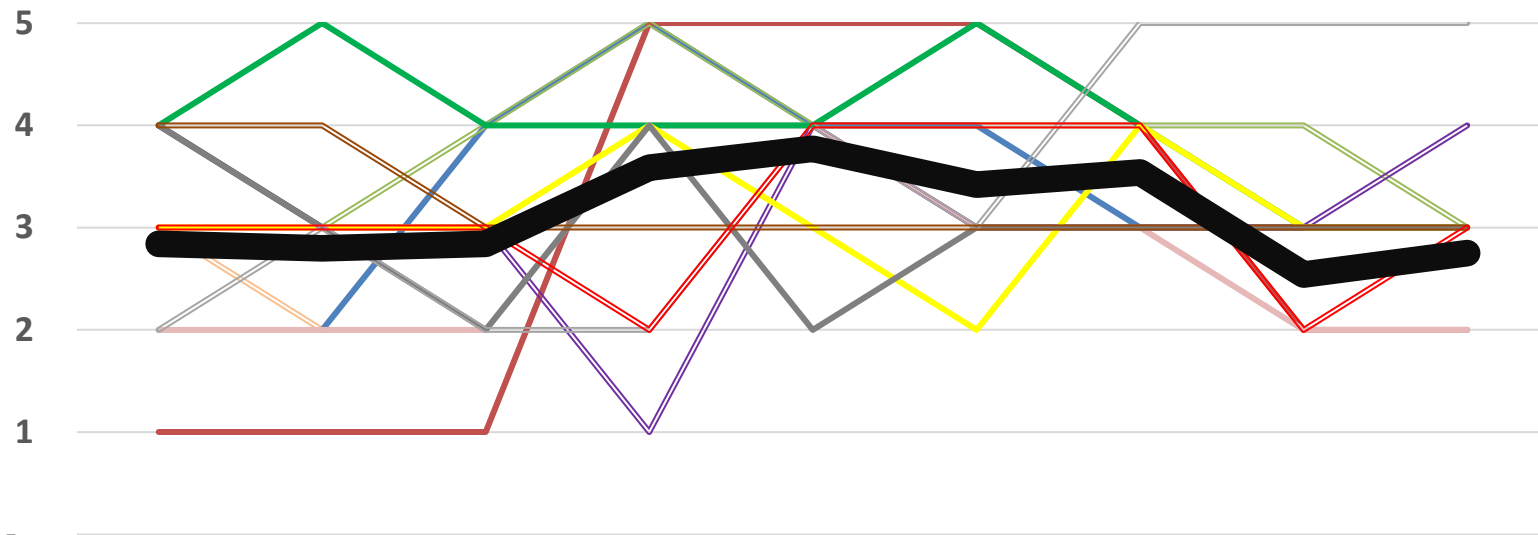


- EOS member countries:
- Austria
 - Belgium
 - Denmark
 - Finland
 - France
 - Germany
 - Latvia
 - Norway
 - Romania
 - Switzerland
 - Sweden



Raw Materials

Raw material availability index declining this year



2015 2016 2017 2018 2019 2020 2021 2022 2023

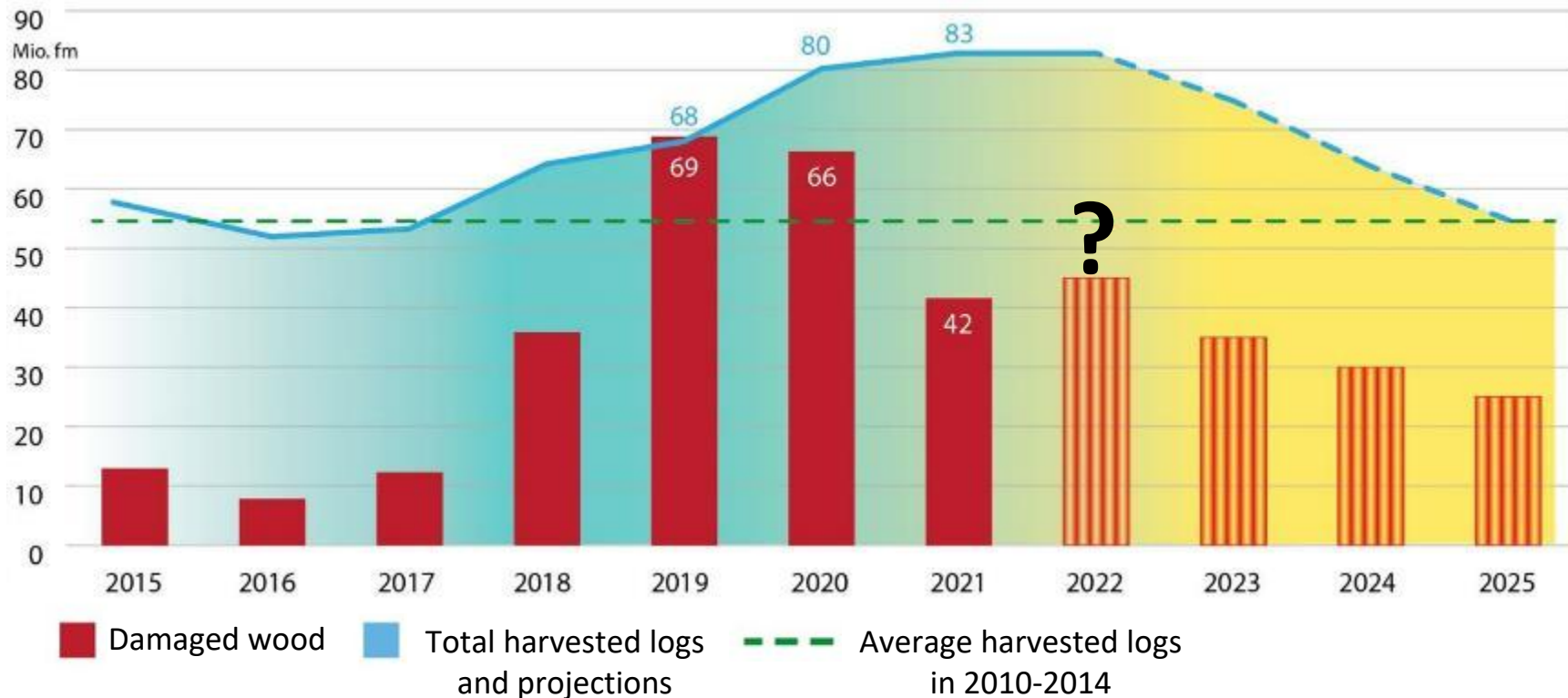
— AT — BE — CH — DE — DK — FR
— FI — LV — NO — RO — SE — Average

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

Bark beetle continues to be an important factor



Harvested logs in Germany



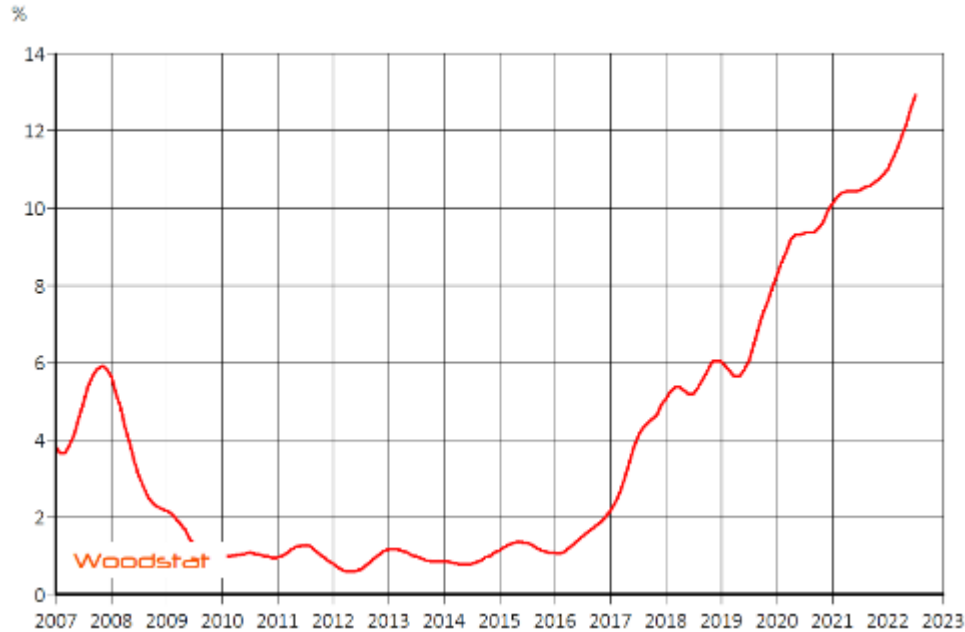
Source: Holzkurier

- For the companies in the sawmill industry, the stable and predictable supply of raw materials is the prerequisite for jobs and value creation
 - European domestic forests remain basically the only source of logs to the European sawmill industry. Log prices have been high during the year tracking the dynamics of sawnwood prices
 - The subsiding of the bark beetle crisis will probably create a potential shortage of logs in Central Europe
 - At the same time, some pieces of European legislation endanger the stable future provision of logs to the industry
 - Raw materials will remain the main challenge for the industry in the coming years
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Export Markets

Share of import from Europe

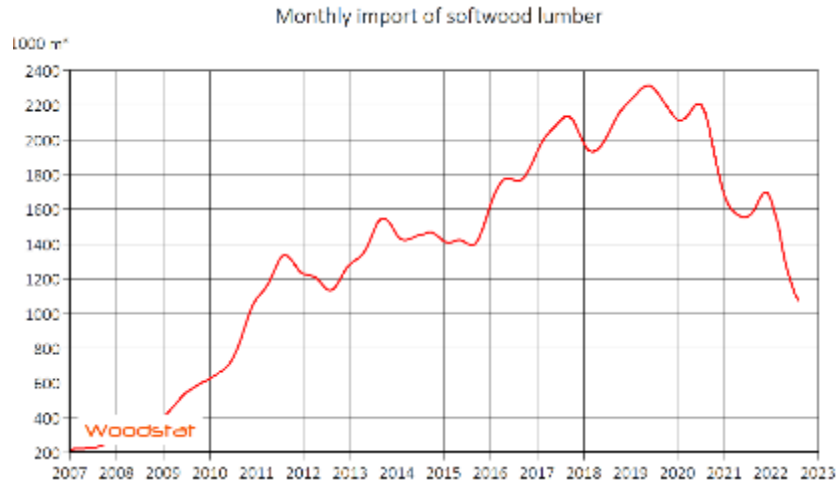


**U.S. import of softwood lumber
from leading exporters (1 000 m³)**

	Jan - Jul 2022	Jan - Jul 2021	2022/2021
Germany	1 305	1 125	+16%
Sweden	510	414	+23%
Austria	277	248	+12%
Romania	272	299	-9%
Baltics	131	87	+51%
Czech Republics	88	41	+115%
Finland	49	78	-37%
Russia	41	67	-39%
Total Europe	2 673	2 359	+13%
Canada	17 925	19 375	-7%

- US market is slowing down (single-family housing starts) but declining imports from Canada determine big opportunities for European exporters

Chinese Market



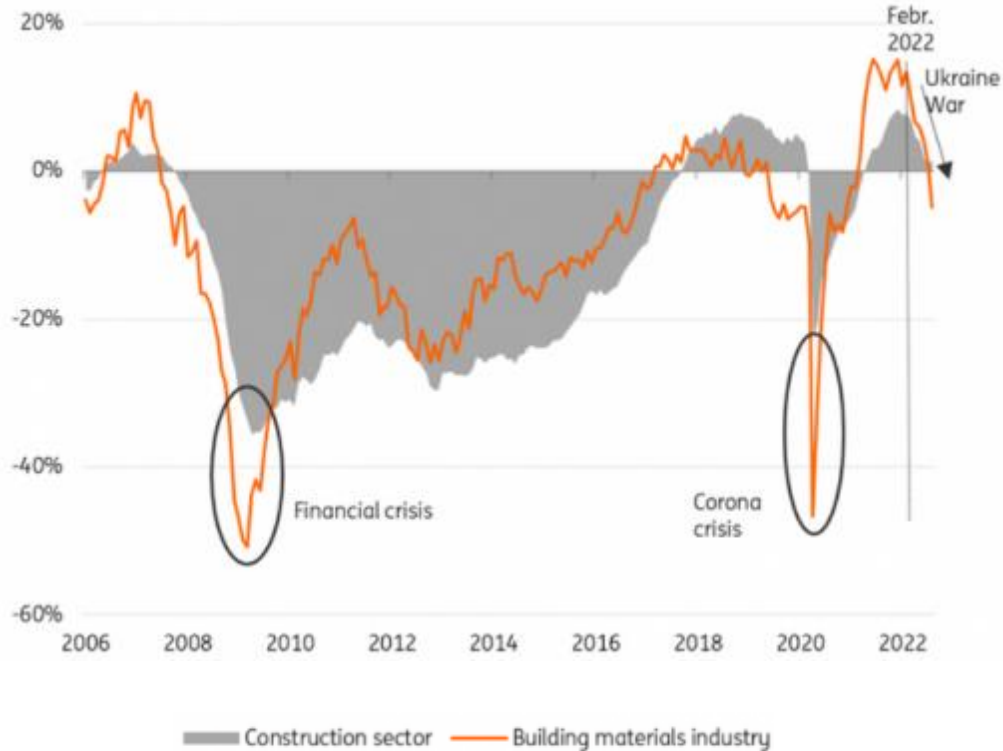
China's import of softwood lumber (1 000 m ³)			
	Jan - Aug 2022	Jan - Aug 2021	2022/2021
Russia	7 754	8 743	-11%
Europe	1 777	2 296	-23%
Canada	849	950	-11%
Chile	189	325	-42%
Brazil	140	214	-35%
U.S.	74	93	-20%
New Zealand	63	116	-46%
Argentina	41	52	-21%
Other	148	163	-9%
Total	11 035	12 952	-15%

- Chinese imports have gone down to level unseen for almost ten years due to corona restrictions and construction markets tensions. With the exceptions of Belarus, all major exporters have seen their deliveries decline
- Europe's (without Russia) markets share peaked at the end of 2020 with over 20% and it is now 15%



Construction markets

Producer Confidence indicator European Union (construction sector)



Source: ING Economic and Financial Analysis

Volume output construction sector, % YoY



	2020	2021	2022	2023
Austria	-3.0%	5.0%	1.5%	1.0%
Belgium	-8.2%	4.2%	2.5%	0.0%
France	-14.7%	11.2%	-0.5%	-0.5%
Germany	3.0%	-1.6%	-1.0%	0.0%
Netherlands	-0.2%	2.7%	2.5%	1.0%
Spain	-12.9%	-6.2%	-2.0%	1.0%
EU	-4.9%	4.9%	1.0%	0.5%

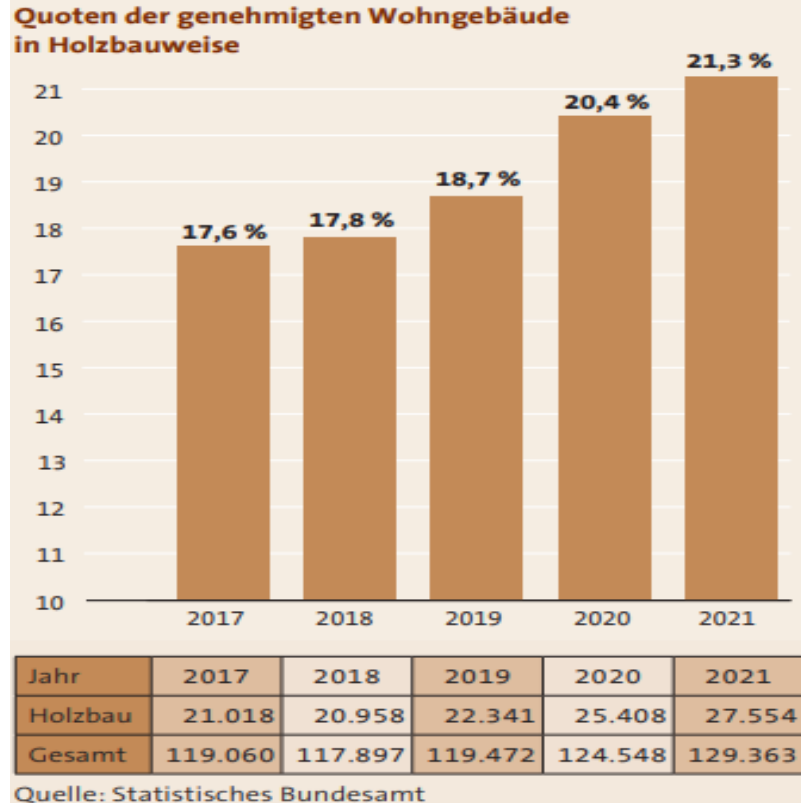
Source: ING, Eurostat, EOS re-elaboration

- Around 50% of produced sawn softwood timber is consumed by construction markets
- Construction markets (as per most recent forecasts in September 2022) might remain in positive territory but will massively slow down
- Inflation, energy prices, high interest rates are resulting in deteriorating consumer confidence which will result in slowing demand from households and smaller residential investors
- Some EOS Members emphasize that the renovation and maintenance sector can offset the trends in the new build sector as the wood industry can contribute in renovations to make existing buildings more energy efficient

Wood as a building material keeps gaining market share



Germany: Residential building
(new building) 2021
Permits with wood as
predominantly used material





Challenges and opportunities

- **Raw materials, raw materials, raw materials** ✓

In the long-term we have to find the way to keep getting enough wood out of the forests amid many challenges (climate change, bark beetle, EU legislation)

- **Attractiveness of our sector** ✓

Aging workforce and lack of skilled workers are a challenge not just for the sawmill industry but for the whole woodworking industry

- **Energy** ✓ ✓

High energy costs are the big challenge of the moment for the sawmill industry with energy costs accounting for a much higher share in the total operating costs. But competitive materials are in the same situation, or even worse

- **Macroeconomic situation** ✓ ✓

Increasing interest rates and high inflation are depressing demand causing a lot of uncertainty for the future particularly in the construction sector

- **Construction markets forecasted to remain lively** ❌

Construction markets were lively at the start of the year but turned quite flat lately and are not expected to improve in the coming months

- **Wood as a building material gaining market share** ✓

This is still the case and the drivers for wood in the construction sector seem to be fundamentally positive. Also, the wood industry can contribute in renovations to make existing buildings more energy efficient.

- **Foothold in the US market/importance of exports** ✓

The US market has kept being a very important export destination for European mills and we believe that the fundamentals are in place for a strong future as well. Weak euro favours exports to US and beyond

- **Wood products is recognized as solution to fight climate change** ✓ ❌

That is luckily the case as we see increasing recognition for wood products. However, we need to persuade policymakers that the industry needs raw materials to be able to offer wood products!

- The last couple of years have been very volatile for the sawmill industry, but we were up to the task and were able to ramp-up production to meet the extraordinary demand that we have seen
 - Now we have a completely different scenario as increasing energy prices and higher interest rates are generating the twin challenge of depressed demand and high costs
 - High energy prices can at least help the by-products markets, but we need to make sure that good logs are used for material purposes
 - Uncertainty is high, but it is probable that a new market balance will be found next year. The value of the product “wood” is increasingly recognized
 - Raw materials will remain a key question for the softwood producers
 - Wood as a building material gaining momentum not just in Europe, but also US, Australia ...
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Thank you for your attention!

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