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WOOD INDUSTRY

SECTOR OVERVIEW OCTOBER 2016

GLOBAL MARKET

The Global Sawlog Price Index (GSPI) increased by 4.2% in the second quarter of 2016 when compared to the first quarter

This increase is the greatest quarterly increase since the second quarter of 2011. Prices have risen in 16 out of the 19 regions monitored by this index and those were generally higher considered in dollars and local currencies. The greatest price increase in dollars occurred in Russia, Brazil, Germany and British Columbia. The only regions where the lower prices were recorded were Chile, where exports recorded a decrease, and north of the United States, where exports to Asia slowed in the first months of this year. During the first half of 2016, global trade in soft wood was higher by approximately 1% compared to the same period last year, as estimated by Wood Resources International. Almost 50% of global trade comprised import into the countries of Asia (specifically China, South Korea and Japan), followed by countries in Europe and North America. Asia's share of world trade has decreased from 52% in 2015 due to lower imports into China. The greatest change in flows of trade in logs in the past decade was the drop in the share of the Nordic countries from almost 18% in 2005 to 9% in 2015. The cause for such a decrease in an increase of the Nordic countries in their domestic production with a purpose of reduction in reliance on imports of raw wood.

The most important trade flows in 2015 were:

1. New Zealand - China
2. Russia - China
3. USA - China
4. USA - Canada
5. Norway - Sweden

GSPI 1995-2016 (Wood Resource Quarterly)



The level of activity of world trade continued at a healthy pace early in the third quarter of 2016, with the higher volume of raw materials supply when compared to the same period in 2015.

Tropical suppliers lose their presence in the European market of floors

Domestic production in the EU is increasing, while the use of oak is becoming more dominant. Also, additional difficulties for importers in the EU are created by a growing competition from manufacturers of laminated flooring and flooring made from other materials. European Federation of the parquet industry states that, despite the rise in production, every year since 2009, the production is still 20% lower than at its peak in 2007 of 98.3 m². Oak flooring accounted for 78% of all manufactured flooring in the EU in 2015, which is an increase when compared to 2008 when this share amounted to 60%.

China and construction – the drivers of demand for plywood panels

The Plywood Global Strategic Business Report 2016 comprised an information that it was expected that the global market for plywood panels would reach a trade volume of 223.4 million of cubic meters by 2022, and the main growth drivers were the global recovery of construction and the growing interest in the use of plywood panels in interior design, especially for floors, ceilings and walls, and furniture.

Significance of plywood panels in the construction sector increased significantly over the past decade due to various advantages such as sustainability, the power to weight ratio and the price. Globally taken, plywood panels production has migrated from North America, Europe and South Asia to China. During 2015, the offer from Russia has left its mark on global trade, particularly in the EU market, mostly driven by the relatively lower prices of Russian birch plywood. The report also noted that China is currently the greatest plywood market in the world guided by activities in construction, especially during the first half of 2016. However, in the near future, it is expected that slowdown in GDP growth and a higher level of available housing capacities will affect the reduced demand. The fastest growth of plywood market is shown by India with a growth rate of 9.2%.

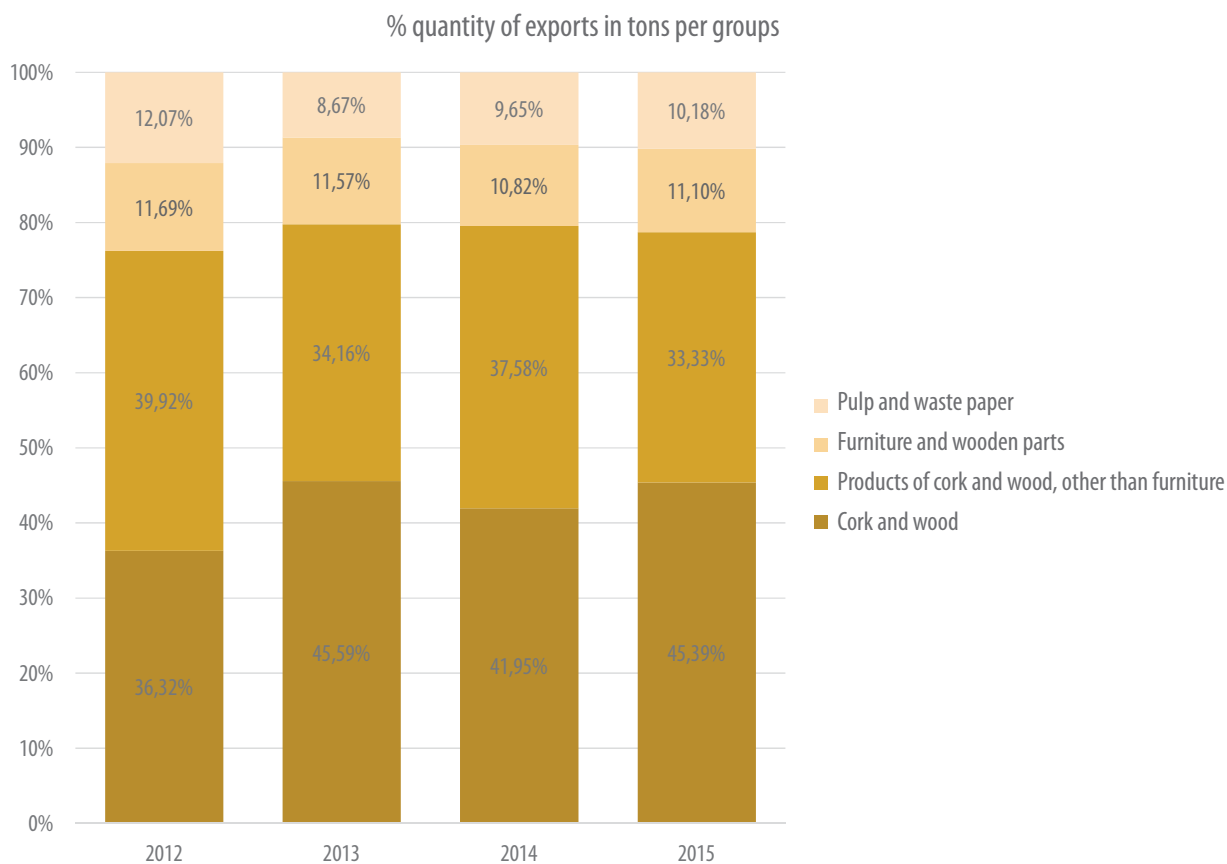
DOMESTIC MARKET

Analysis of the structure of exports indicates a potential for growth

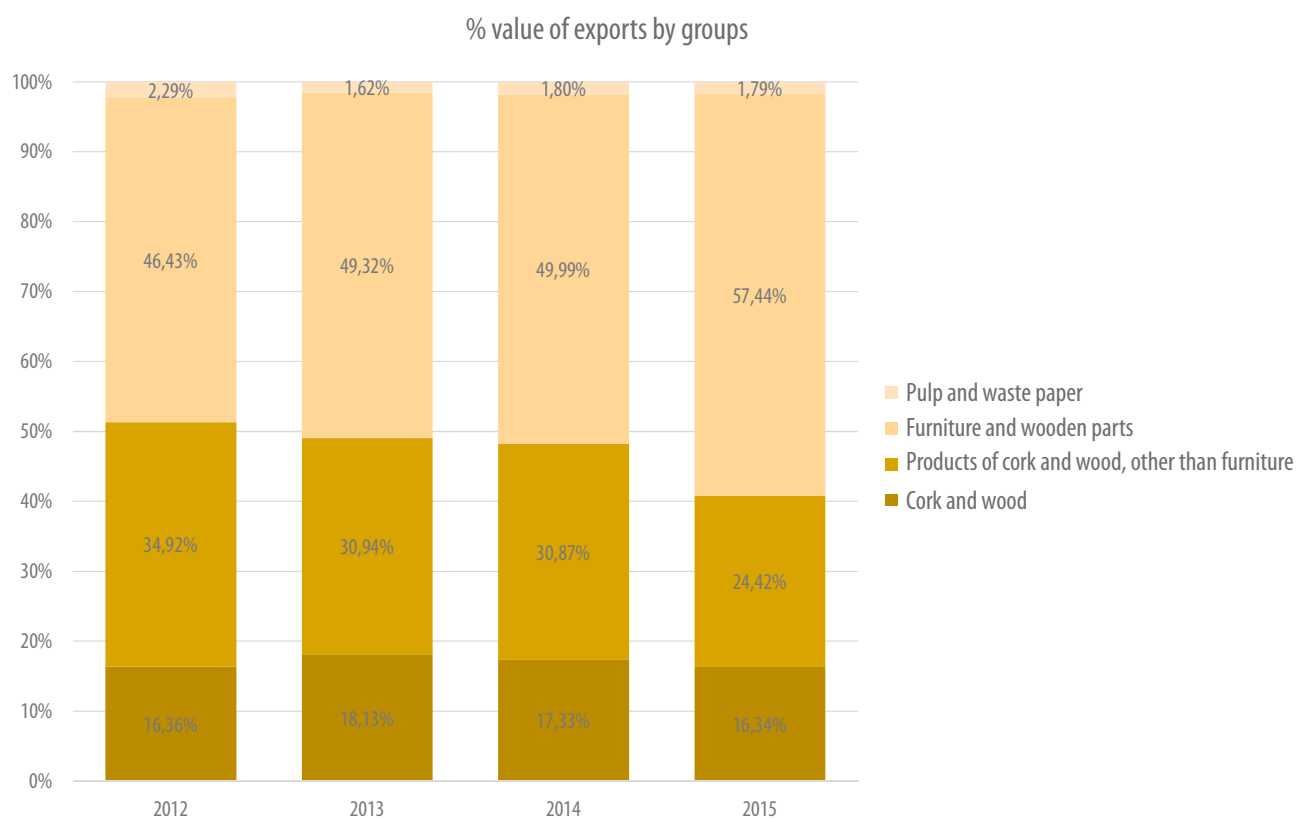
A great difference between the quantity and value of exports of various product groups indicates the unused potential for creating added value. The charts on the right show the movement of the share of group of wood products in the total exported volume and value of products and raw materials of wood for the period 2012-2015.

In the exported quantity in tonnes, cork and wood dominate, as well as products of cork and wood (except furniture), while a much smaller share belongs to furniture and parts made of wood, as well as pulp and waste paper.

On the other hand, the shares of groups in the total value of exports showed a different structure. The greatest share of the value of total exports of goods and raw materials of wood belongs to a group of furniture and parts made of wood. It should be noted that, in this analysis, all products that do not contain wood were left out of this group, such as furniture made of metal and the like. The second position, considering the participation, is taken by the groups of products of cork and wood (except furniture), while the share of all raw materials is below 20%.



(Source: RSO)



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This data indicates underutilization of the potential of use of raw materials in domestic market for creation of added value. Instead of export of large quantity of raw materials for a lower total value, their use for production and export of products of higher level of processing would result in higher revenues and profits to domestic producers. In addition, during the monitored period, an upward trend was noted in the share of products with higher added value in the total value of exports, while their share of the tonnage did not change significantly, which means that these products have increasing prices in the world market. In contrast, the share of raw cork and wood in the total value of export shows no growth along with the growth of the quantity of share. These facts are consistent with the falling prices of raw wood on the world market and support the projection of recovery in demand for wood products in the world market.



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