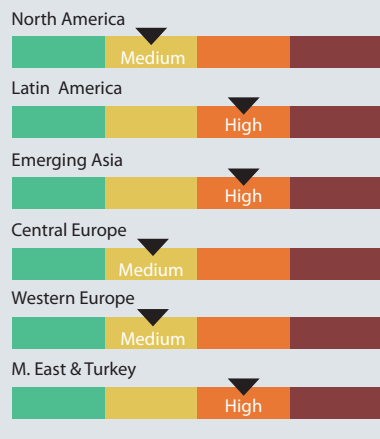


# WOOD

## COFACE REGIONAL SECTOR RISK ASSESSMENT



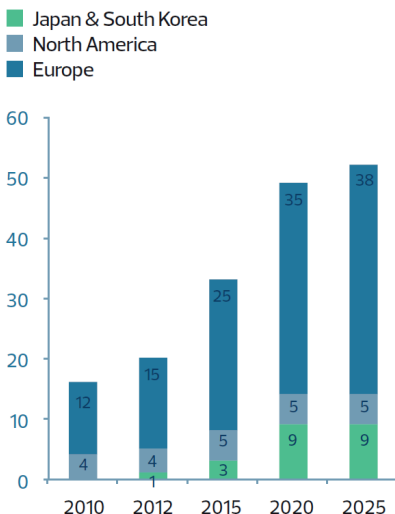
### + STRENGTHS

- Favourable economic environment in Europe for the construction sector, in favouring wood used for housing
- Positive outlook in demand for wood associated with increasing interest in biomass energy
- Tax benefits in Europe (France, Germany, etc.) on investments in the sector

### - WEAKNESSES

- Dependant on state of housing and construction markets
- Constraints linked to compliance with environmental standards  
Sector highly exposed to weather conditions (storms, forest fires, etc.)

## GLOBAL DEMAND FOR PELLETS (In millions of metric tonnes)



Sources: Pöyry

## RISK ASSESSMENT

Production of wood products in UNECE countries (countries in Europe, North America and the CIS), will be 1.7% higher in 2017, then 0.8% in 2018, a reflection of the slowdown in consumption in 2018. Demand varies depending on the construction and housing sector. Round wood will continue to dominate the market in 2018, for industrial applications, as well as increasingly as an energy source.

Unprocessed wood prices have been on a downwards trend since 2014. Prices of lumber however, most notably that from conifers, have been rising since 2016, thanks to the strength of demand, in particular for furniture.

The appreciation of the dollar and the changing market are challenging for US producers as their competitiveness declines. In this regard the United States and Canada have been, as of the end of 2017, engaged in a trade dispute concerning unprocessed wood which has led to the imposition of import taxes by the former, challenged by the latter. In the countries of the CIS, a weakened rouble has helped drive exports to record levels for all the main product categories.

Change is taking place throughout the market because of the emergence of new producers (emerging economies are winning markets that have historically been the reserve of UNECE countries) and developments in terms of outlets and demand.

## DEMAND

Consumption in UNECE countries was up +1.4% in 2017, according to the Committee on Forests and the Forestry Industry (COFFI). This growth will continue in 2018, driven by the strength of demand for wood pellets for biomass and for construction. The decline in demand for fibreboard in the CIS countries (-0.6% in 2017), will be offset in a positive economic context stimulating the housing market in a number of Western European countries. In addition, increasing concern in Europe and North America for environmental factors, is leading to changes in the legal framework and buying habits which are encouraging the use of wood products for construction and as an energy source. In 2017 wood accounted for one third of all renewable energy. This is split between two sub-markets, with the European Union being the main driving force for demand: industrial scale production of bioenergy and, at a household or commercial level, the production of electricity and/or heating.

In Europe, COFFI forecast a 1.6% growth in consumption for 2017, underpinned by the demand for pellets for insulation (+4.8% in 2016), for fibreboard for construction (+3.9% in 2016), and policies for implementing the energy transition. Demand in terms of housing construction will be 1.4% higher in 2017. This is mainly being driven by the sector in Eastern Europe where the potential per head growth in consumption is substantial, as it is still considerably below that in the mature markets (North America and Northern Europe). At the same time, whilst Spain and Italy continue to produce at levels below those before the crisis, this is not the case in France, Germany and the United Kingdom.

In North America, despite the uncertainties surrounding the reform agenda, Coface forecasts a rate of growth that will sustain demand in the wood sector, stimulated by construction (7% increase in starts during 2017) and the strength of demand for wood furniture.

Japan, China and India are key markets for European and North American wood exporters. In India, new prudential regulations and the downward revision in growth forecasts for 2017 have resulted in stricter conditions for access to credit and an overall dip in demand in the extremely dynamic housing sector.

## SUPPLY

Worldwide production in 2017 will exceed its pre-crisis levels. Thanks to the construction sector, output of fibreboards will be 0.9% higher in 2017 and 1.3% in 2018 in UNECE countries. The United States has a large trade deficit for this product with half its imports coming from China. Russia, which has a quarter of all forestry resources, is continuing its investment plans to increase its added value supply in this sector. It is worth noting that Russian production of fibreboard is 3 to 4 times below that of North America and Europe; UNECE predicts a rate of growth in production in Russia of 20% in 2016, and 14% in 2017.

The production of wood pellets, in UNECE countries, will be 9.8% higher in 2017 and 4.7% in 2018. Whilst the Europeans are the leading producers (more than 60% of world output in 2017) and will remain so in 2018, supply will not meet demand for biomass use in this zone. Europe will import 15 million cubic meters of pellets in 2017, covering 63% of its consumption, according to COFFI. In North America on the other hand, supply will largely exceed supply, despite being 62% lower.