Plywood facing multiple pressures

As the year has progressed, the European plywood sector has become increasingly depressed. That's the consensus among a number of leading importers and distributors.

In the words of one company, the market faced a 'perfect storm of negative factors'. There's been a steady draining away of end-user and consumer confidence, buying as a result has become increasingly piecemeal, with forward ordering evaporating and prices have fallen across the board, in the case of certain products up to 40%.

Many European buyers are heavily stocked and bad debt is reported on the rise. Reflecting dwindling demand, supply is plentiful and orders available on relatively short lead times.

However, with manufacturers now trimming output in the face of deteriorating market conditions and plant closures and production line mothballing anticipated, importer nervousness about prepaying for orders has increased.

"We expected some market adjustment after having a robust three years of business from 2016 to 2018, with global plywood output hitting a record 161 million m3 in 2017 and Chinese reaching 117 million m3," said one continental European importer. "But we didn't think it would be as difficult as this."

A new analysis of the total supply of plywood to the EU market in 2018 by the FLEGT Independent Market Monitor (IMM), an ITTO project, highlights one reason for the scale of the current difficulties. This reveals that, when EU domestic production of around 5 million m^3 is taken into account, the total volume of plywood supplied to the EU market in 2018 increased 4.6% to 9.50 million m^3, that is a level which exceeds the previous high-water mark in 2007 before the global financial crises.

This begs the question of exactly where the large new plywood supplies arriving in the EU market in the last few years (mainly from Russia, China, Belarus, and Ukraine) are able to find an outlet - given that construction and furniture sector activity in the EU are still down, respectively, around 6% and 14% on the 2007 level. There's also been much well-publicized substitution of plywood by other products, such as OSB, since then. Part of the answer to that question appears to be that a significant proportion of the most recent surge in supply has gone into stock which can't now find a buyer.

Plywood companies themselves attribute market difficulties to several factors, the most significant being declining confidence in the global economy generally. This is the result itself of several developments, including slowing of Chinese economic output, US-China trade tensions and uncertainty surrounding Brexit and its potential impact on European economic stability.

"We are seeing the effects of international market caution in European manufacturing and exports, notably in Germany, which is, of course, a bellwether for the wider European market," said an importer. "Latest figures show German industrial output falling 1.5% in

June, taking the downturn to 1.8% for the second quarter, with predictions of a further 1.5% decline in July. According to some reports this leaves the country on the brink of recession."

These comments are in line with reports from market analysts Bloomberg, which reports an 8% fall in German exports in the year to June, the worst performance for four years. It describes Germany as being caught in the middle of the trade dispute between the US and China, its two main trade partners, with the former hiking trade tariffs and the latter 'responding by allowing its currency to tumble to its lowest value in more than a decade'. Leading German manufacturers, including Daimler and BASF, have consequently cut their outlooks and Bloomberg predicts German overall growth this year of just 0.5%.

The manufacturing contagion is also reported to be spreading. French industrial production in June fell 2.3%, the most since early 2018, and Netherlands manufacturing has registered its fourth consecutive annual decline.

With the added burden of Brexit nerves and the related fall in the value of the pound pushing up its import costs, UK manufacturing in May reported its worst downturn for 2.5 years, with car and textile production suffering particularly badly.

The one bright spot, say plywood importers, has been European construction, which, to date, has been relatively resilient.

"Historically, there's a delayed reaction in construction to wider economic stagnation and slowdown," said one continental-based company. "It is among the last sectors both to enter and emerge from a downturn."

This is borne out by latest analysis from Euroconstruct. In June it stated that in its coverage area, comprising 19 European countries, construction output in 2018 grew by 3.1%, slightly better than expected, to reach €1,600 billion. This took seven countries above pre-economic crisis levels of building activity, while six are now at 2007 levels, and the remaining six, including three of the big five construction markets, still performing less well than 12 years ago.

"We are still experiencing good demand from the German construction sector and particularly the Netherlands," said another plywood importer. "And companies still report solid order books."

Looking ahead, however, Euroconstruct says that 2018 construction performance will be viewed as a peak for a number of years, with European output predicted to grow by just 2% in 2019 and less than 1.5% for the next two years. Infrastructure sector activity will be strongest, with 3% growth forecast this year, but general building, including housing is expected to increase just 1%.

The best performing individual construction markets from 2019 to 2021 are expected to be in Eastern Europe, with growth rates up to 6%, followed by the Netherlands, Portugal and Spain, up 4%. But construction in France and Germany is forecast to stagnate, while Italy and UK are expected to grow at under 2%.

Latest figures from the UK Construction Products Association suggest that UK growth may actually have to be downgraded further, once more due to the general market unpredictability and caution caused by uncertainty surrounding Brexit. It had forecast UK construction to grow 2% in 2019, but has now cut that to just 0.3%. Its latest analysis in August stated that, with the added problem of unseasonably bad weather in June, UK building actually contracted 1.3% in the second quarter.

That said, a leading UK importer maintained in early August that demand, while lower, was not 'disastrous'. "Business has been pretty steady, albeit not very profitable," they said.

While construction has to date offered some relief to the plywood sector, the same can't be said of packaging.

"Packaging manufacturers are definitely being hit by the downturn in industrial manufacturing in lead European economies," said an importer. "Particularly hard hit are those producers supplying the wider engineering, machine tools and automotive sectors, which have seen export demand tightening."

One plywood business said that the Brexit issue was also affecting packaging sector confidence.

"The prospect of all solid wood packaging for goods exported from the rest of the EU to the UK having to have ISPM 15 (phytosanitary) certification post-Brexit is an issue for manufacturers," said one company. "Plywood, as a processed wood packaging material, may not be directly affected, but it is causing uncertainty in the market generally."

Some European importers say the deterioration in market conditions started from the beginning of the year. Others said that their first three to four months sales were satisfactory, but subsequently turned down. All agreed that by the end of July business was flat. One described it as 'dead as a dodo'.

"The orders are still coming in, but it's much more piecemeal," said one company. "Customers aren't committing to large volumes, it's hand to mouth and just in time. Everyone is very wary of building stocks in the current climate."

Contributing to market problems, the larger European stockholding importers are reported to have bought heavily towards the close of 2018, due to over confidence about market growth and in order to buy within the plywood quota. So they held very large inventories as demand started to contract. They are said now to be attempting to work through the excess and in the meantime have curtailed purchasing further.

In response to declining demand, combined with particular circumstances in key supplier countries and manufacturers attempting to gain competitive advantage, prices have been trending down, depending on source, for the past 10-12 months.

"Brazilian elliottis is down around 40% since last August/September, and Russian down 25-30% since around October, while Chinese has come down 10-15%," said an importer.

The Brazilian price squeeze has also been attributed to tightening demand in producers key US export markets, plus deteriorating economic conditions in Brazil itself impacting producers' domestic sales.

"At recent price levels, given the cost of elliottis logs, manufacturers cannot be making a margin, and, with at least one producer already closing, and others mothballing plant and taking out shifts, conditions are clearly tough and further casualties can't be ruled out, " said another company. "It's more difficult to work out whether Russian mills are still in profit as their raw material costs are not so easy to ascertain, but they can't want to continue at recent price levels."

Chinese price deflation is put down to manufacturers following international market trends to remain competitive, plus US tariff hikes. The Americans were also reported in April by www.woodworkingnetwork.com to be stepping up policing against attempts to evade antidumping and countervailing tariffs on Chinese imports.

Indonesian and Malaysian plywood prices were also reported to have weakened in line with the wider market, although one importer said that, other than in the UK, these suppliers had become 'niche' in the EU.

"They've faced increasingly fierce competition from other sources," they said. "For instance, Indonesian film-faced has been undercut by Russian, which has also become an increasingly high quality product."

On a brighter note, there are signs that prices may finally be bottoming out, with some Brazilian and Russian suppliers reported to be attempting to edge the market upwards slowly.

However, many stockholding importers are said to be still taking a hit on over-valued stocks.

"In some cases we're talking about $100 m3 difference between what companies paid for product, and current import prices. That's around $5,000 per container and it's not unusual for some of the bigger businesses to be placing orders of 100 to 200 containers, so we're talking about stock write-offs of between $500,000 to $1 million. It's pretty serious. Quite a few companies must be under some pressure. Consequently we're being very careful in our purchasing. Given the precarious state of some Brazilian producers, we're keeping a close eye on payment times and in we're also not prepaying for orders as we used to. Once a shipment is on the water, then we'll pay."

Chinese prices were also reported by a UK importer as now 'steady', with Indonesian and Malaysian following suit, 'although volumes of the latter have been down and shortages are anticipated in Q4, which is also the rainy season', they said.

Latest figures from Eurostat are for January to May 2019, so prior, according to most importers, to the sharpest slowdown in demand. They show total EU imports of plywood by EU countries (including internal EU trade) down 4.3% compared to the same period in 2018 at 2.01 million tonnes. Total EU imports from outside the EU were 1.27 million tonnes, 2% more than the same period in 2018.

Of larger EU importers, Spanish imports (including intra-EU and extra-EU imports) were up 11.4% to 52,600 tonnes from January to May. This, say plywood businesses, reflects the country's improving economy, with the Bank of Spain in June revising its forecast for GDP growth for the year from 2.2% in March to 2.4% and Spanish 'value-added' construction, led by the residential and commercial building, sector expected to grow 3%.

Total intra-EU and extra-EU imports were also up in Belgium (+4% to 165,300 tonnes), France (+6.3% to 157,400 tonnes) and Denmark (+9.3% to 69,500 tonnes). However, imports fell in Poland (-5.2% to 94,900 tonnes), Italy (-13.4% to 124,700 tonnes), Netherlands (-0.8% to 184,700 tonnes), Germany (-15.7% to 372,100 tonnes) and UK (-2.6% to 373,400 tonnes).

EU tropical hardwood plywood imports were actually up from January to May compared to the same period in 2018, rising 11.8% in volume to 149,200 tonnes and 20% in value to €133.3 million. This, say importers, reflected continuing confidence in demand in late 2018 and that price deflation experienced in the market was more focused in temperate hardwood and softwood sectors, and became steeper as the year went on.

In the January to May 2019 period, tropical plywood imports fell in Belgium (-3.1% to 16,300 tonnes), France (-2.4% to 8,700 tonnes), and Italy (-0.3% to 7,100 tonnes).

However, German imports of tropical plywood rose 3.1% to 11,200 tonnes, and imports in the Netherlands were up 5.6% to 14,700 tonnes, but the biggest increase came in the UK, up 22.2% at 83,200 tonnes, a trend attributed in part to stockpiling pre-Brexit. "Quite a number of companies built their [tropical plywood] stocks very high, despite weakening demand and they're now trying to offload surpluses, which means competitive market conditions," said one UK importer.

EU tropical hardwood plywood imports were up from China (+48.5% to 66,000 tonnes), Brazil (+23.4% to 5,400 tonnes) and Vietnam (+16.4% to 5,400 tonnes). However, imports fell further from Malaysia (-31.8% to 16,100 tonnes) and were also down 1% from Indonesia, to 39,700 tonnes.

Asked whether FLEGT licensing was having any more market impact for Indonesian suppliers, EU importers echoed comments from the last IMM Trade Consultation in Antwerp earlier this year. They said there was still little awareness or understanding of what a FLEGT licence means further down the supply chain and that, where any form of legality or sustainability verification or certification was specified, it was FSC or PEFC. So FLEGT remained a 'nice to have' rather than a 'must have'.

Previously reported mismatches on FLEGT licensed shipment product codes between the EU and Indonesia were not flagged up by importers as a major issue and one thought the problem had been 'largely resolved'.

An issue reported in Germany of customs putting 'patched' plywood, which was touch or contact sanded to achieve a specified nominal thickness post import, into a higher duty band has also been settled according to German timber trade federation GD Holz. The authorities ultimately decided this did not constitute a product refinement.

In the EU temperate hardwood plywood sector, imports from outside the EU were up 2.9% overall to 630,300 tonnes in the January to May period. Biggest increases came in imports from Russia (+10.8% to 337,800 tonnes) and Ukraine (+17.2% to 37,100 tonnes). The largest decreases were in imports from China (-7.9% to 199,300 tonnes) and Belarus (-8.5% to 45,200 tonnes).

In softwood plywood, EU imports from outside the bloc between January and May 2019 contracted 1.7% to 487,000 tonnes, with biggest declines from Chile (-13.3% to 43,500 tonnes) and Russia (-10.5% to 40,600 tonnes). However, imports increased from China (+2.5% to 28,500 tonnes) and Brazil (+4.3% to 358,900 tonnes). Growth in the latter was again attributed in part to UK stockpiling in the first quarter.

"There was crazy elliottis buying in the first three months – way too much," said a UK importer. "Then it was dumped as forward prices kept falling. Utter madness by UK importers."

Looking forward, EU importers said they could see no immediate reason for much change in market conditions through the rest of 2019. One anticipated improvement setting in in 2020, although another said it was impossible to predict 'when we can't even forecast what's going to happen in the coming three months. The overall economic outlook is just too uncertain".

Prices were expected to be more stable, with Russian and Brazilian suppliers continuing to nudge levels upward. "But in the current climate, with Brexit, international trade tensions between the US and China and to some extent the US and Europe, we don't anticipate jumps of 10%," said an importer.

"We're gearing for the market to remain competitive," said another company. "In fact, forecasters are saying we're going to have to get used to lower overall economic growth than recently for the next two to three years. It's a case of being cautious in buying, ensuring stocks are not too high and being as lean and mean as possible."