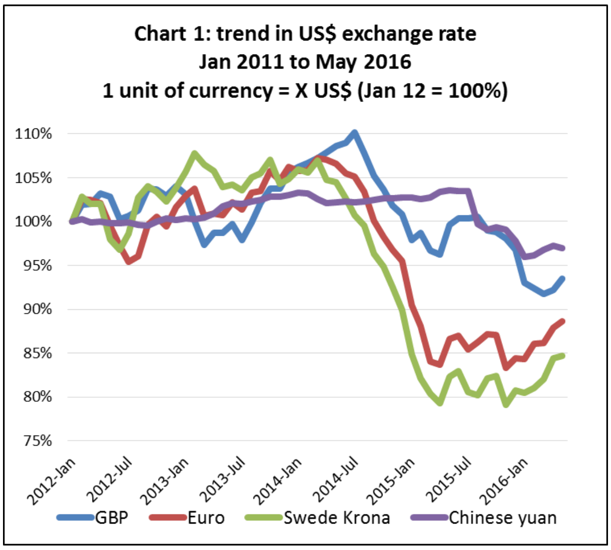
**Pace of EU tropical import growth slows in 2016**

Latest trade data shows that the sharp rising trend in EU import value of tropical wood products that began in the second half of 2014 levelled off in the opening months of this year. This was mainly due to slowing imports of tropical sawn wood and decking, notably from Brazil and into the UK and France.

Recent trends in EU import trade should be analysed against the background of the sharp fall in the value of the euro against the dollar and other international currencies between mid-2014 and early 2015. The euro has remained relatively weak since then (Chart 1). The higher value of EU imports in 2015 is due not only to better consumption in the EU but also to rising euro prices of imported products.  Most exporters of wood products into the EU will only have noted a relatively minor uptick in the dollar value of sales to the region.




Charts 2 to 4 below show the monthly trend in imports of tropical wood products into the EU to February 2016 using 12 month rolling totals. This is calculated for each month as the total import of the previous 12 months. The data removes short-term fluctuations due to seasonal changes in supply and shipping schedules and provides a clear indication of the underlying trade trend.

Chart 2 shows total EU € import value of all wood products listed in Chapter 44 of the HS codes sourced from tropical countries. Total imports in the 12 months to February 2016 were €2.27 billion, which compares to only €1.87 billion in the same month of 2014 when the 12 monthly total hit bottom in the wake of the euro-zone crises.  The pace of the rebound in imports from that low accelerated throughout 2014 and most of 2015, particularly for sawn wood, decking/mouldings and joinery products, but has levelled off this year.

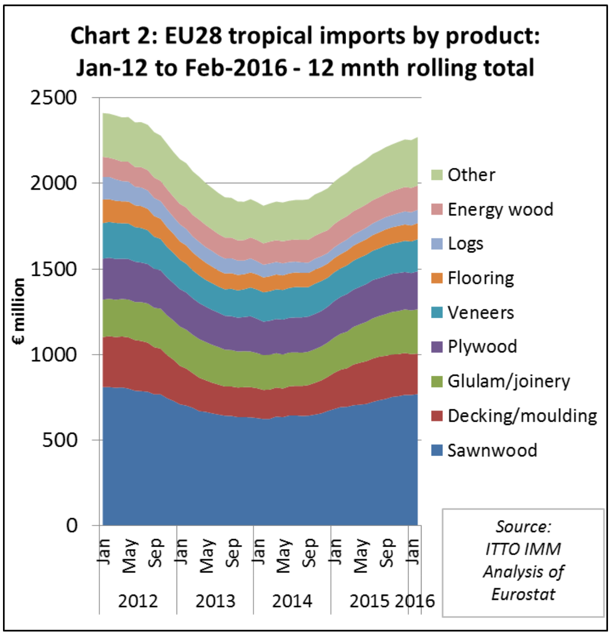
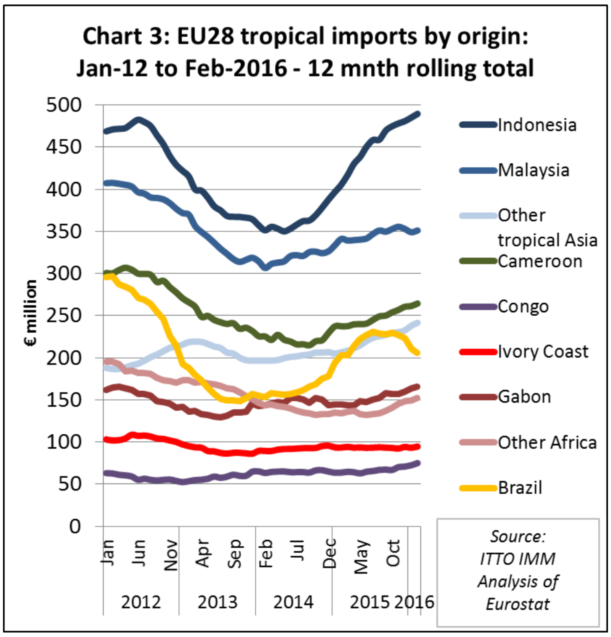



Chart 3 shows how imports from the major supply countries have developed during this period. The increase in imports from Indonesia, now the EU's largest supplier of tropical wood products by a significant margin, has been particularly notable. Indonesia has significantly outperformed other suppliers and growth has continued into 2016.




Indonesia may be benefitting from efforts to develop and expand SVLK, recently rewarded by the announcement that the certification system is ready to become the first to deliver FLEGT licenses into the EU market. When those licenses are issued, expected later in 2016, all Indonesian wood products sold into the EU will get a green light under the EUTR and will no longer be subject to legality due diligence requirements. The trade data suggests that even before that announcement, Indonesia has been benefitting from the added confidence associated with SVLK and the commitment to long-term market development in the EU that it implies.

The fortunes of other tropical suppliers in the EU market have been mixed. Imports from Malaysia were rising slowly throughout most of 2015, particularly benefitting from better demand in the Netherlands, but have dipped again in the opening months of 2016. Imports from Brazil have been particularly volatile, rising sharply in the first half of 2015 on the back of improved French demand for sawn wood and decking, but falling away again equally sharply in the second half of last year. The downward trend in EU imports from Brazil has continued into 2016.

The value of EU imports from Cameroon has risen quite steeply and consistently since the low in summer 2014, but still remains well below the level of 2012 and is now little more than half that of Indonesia. Imports from Gabon and Congo Republic have continued to rise slowly while imports from Ivory Coast have been flat at a low level.

Chart 4 shows how tropical wood imports into the main EU consuming countries have developed throughout the last 4 years. The UK has been the largest EU market for tropical wood since the start of 2013 when demand fell sharply in the euro-zone countries. Imports into the UK fell less sharply and began to rise earlier than into other European countries hitting a peak in the third quarter of 2015. However UK imports have dipped again since then.

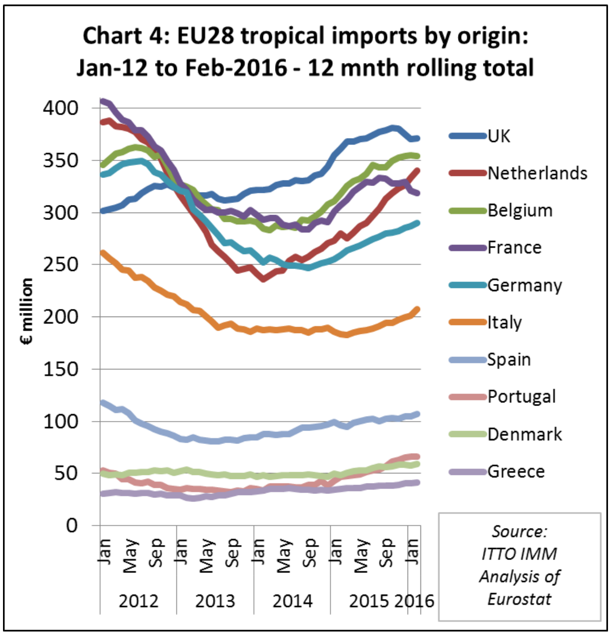



Chart 1 indicates that exchange rates may have been an important factor driving this trend. The dollar exchange rate of the British pound remained stronger than that of the euro throughout 2014 and 2015 but the rate has been sliding since the third quarter of 2015.

Belgium and the Netherlands are currently the second and third largest destinations for tropical wood imported into the EU respectively. The euro value of imports into both countries increased sharply in 2015. The pace of growth slowed into Belgium in the first two months of 2016 but remained high into the Netherlands.

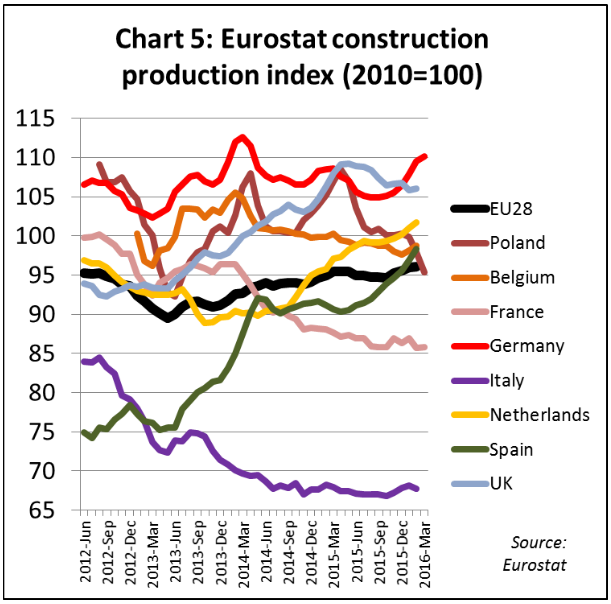
Recent growth in imports is partly owing to the role of large Belgian and Dutch distributors in supply to other parts of the continent. The long term trends towards greater just-in-time trading of smaller mixed consignments, together with EUTR which has discouraged smaller operators to buy direct, has tended to increase the role of larger distributors in Belgium and the Netherlands. Domestic consumption is also rising, particularly in the Netherlands where construction sector activity continues to recover strongly.

Recent trends in the French tropical wood import trade have been heavily influenced by trade with Brazil. After importing very little from Brazil in 2013 and 2014, French imports of joinery and decking timbers from the South American country increased sharply in early 2015 before falling to a low level in September last year where they have remained ever since. French imports from African countries, led by Gabon and Cameroon, were rising slowly in the twelve months to February 2016.

Tropical wood imports into all other leading EU markets - including Germany, Italy, Spain, Portugal, Denmark and Greece - were also rising consistently in the 12 months to February 2016. In Italy, the upward trend began later than elsewhere in Europe but picked up pace in the opening months of 2016, an encouraging trend in a traditionally large tropical timber consuming country which has suffered a particularly deep and protracted downturn.

**Upturn in EU construction sector activity**

The Eurostat Construction Production Index shows that EU construction sector activity turned upward in the last quarter of 2015 and the rising trend continued into the first quarter of 2016. Strong growth in activity in Germany, Netherlands, and Spain offset weakening activity in the UK and Poland. Activity in France and Belgium remained flat during this period. Activity in Italy remains at a very low level but there were some minor gains in the last quarter of 2016 (Chart 5).




Further insight into the EU construction market is provided by the 2015 European Architectural Barometer report published by independent research agency Arch-vision in March 2016 based on a survey of 1,600 architects in eight European countries. The order books, turnover and perceptions of European architects provide a leading indicator for construction activity. The survey indicates slow but consistent growth in European construction activity in 2015 with faster recovery expected in 2016 and 2017. Key conclusions for each of the eight countries are as follows:

- Construction activity in **Belgium** has been improving slowly and consistently since the end of 2014. Architects order books and turnover were higher in 2015 than in 2014. Building permits for both residential and non-residential construction increased in 2015 after falling in 2014. The construction confidence indicator improved in the last quarter of 2015. Achi-Vision forecasts solid growth in Belgian construction activity of 2% in 2016, a rate expected to continue into 2017.

- In **France** the construction sector is still in recession but slowly improving. In the last quarter of 2015 architects order books grew for the first time since the first quarter of 2011. Architects turnover is also stabilizing. The Eurostat construction confidence and building permits indicators have improved slightly. Arch-Vision predict that construction activity in France will decline 2% in 2016 before stabilising in 2017 and recovery from 2018 onwards.

- In **Germany**, confidence amongst architects has been rising steadily over the last 4 years against a background of gradually improving order books. The level of building permits for both residential and non-residential construction was very stable throughout the years 2014 and 2015 suggesting continuing improvement. There is good demand for housing and macroeconomic forecasts are quite positive. But while construction confidence is increasing, confidence in other industry sectors and amongst consumers is lagging in Germany. Arch-Vision expects 2% growth in German construction in 2016.

- The construction market in **Italy** remains the worst performing in Europe, although it is beginning to stabilise and should start to recover in 2017. Architects order books and turnover continue to decline but the rate of fall slowed in the second half of 2015. Building permits and construction confidence indicators are declining but at a slower rate. Arch-Vision predicts a further 2% decline Italian construction activity in 2016 with the possibility of stabilisation in 2017.

- The **Netherlands** construction sector grew more rapidly than elsewhere in Europe in 2015 and growth is expected to remain at a high pace in 2016 and 2017. Dutch architects' order books and turnover are at their highest level since 2011. The Eurostat construction confidence indicator increased rapidly and continuously between the end of 2012 and end of 2015. However it stumbled a little at the end of last year on news of a decrease for in building permits for both residential and non-residential construction. Nevertheless Arch-Vision predicts that construction activity will increase 4% in 2016 and that this rate will continue or even strengthen in 2017.

- Construction activity in **Poland**, the largest Eastern European economy, remains relatively high. The Eurostat construction production index suggests some decline in construction activity in the last three quarters of 2015, a trend which continued into the first quarter of 2016. However according to Arch-Vision, architects order books and turnover have continued to rise slowly throughout this period. Arch-Vision expects Polish construction activity to expand 2% in 2016 and this rate to be maintained in 2017.

- Although still well below pre-crises levels, construction activity in **Spain** continues to recover. Architects order books and turnover were rising in the last quarter of 2015. Despite some fluctuation, residential building permits seem to be slowly recovering while permits for non-residential construction increased rapidly in 2015. The Eurostat construction confidence indicator is still in negative territory and fell at the beginning of 2016, but after big gains in 2015 is still significantly higher than two years ago. Arch-Vision predict 4% growth in Spanish construction activity in 2016, possibly rising to 5% in 2017.

- The **UK** construction market continues to improve but the increase has become less consistent. Building permits for new residential construction were rising in 2014 and the first quarter of 2015 but weakened in the second half of the year. Confidence indicators have also been more variable in the UK. Nevertheless confidence within architectural firms was still good in the last quarter of 2015 and order books and turnover development was quite positive. The latest British Woodworking Federation quarterly report showed that while the first quarter of 2016 was a testing time for many joinery manufacturers, most were confident of rising sales in the second quarter. Arch-Vision predicts growth of the overall UK construction market of 3% in 2016.