Europe takes tentative steps out of COVID-19 lockdown

Timber trading activity across the EU continues at an extremely low level as countries emerge slowly and uncertainly from the coronavirus lockdown. Many companies have temporarily closed or curtailed operations, pushed back orders and have been asking for longer payment terms.

A clearer picture of the real impact on European tropical timber product imports will only emerge with publication of EU trade data for the first quarter of 2020, expected in the next few days.

In the meantime, insights on the status of market can be gathered from reports of remote meetings of European trade associations and their member companies and of various other agencies. The following observations draw particularly on a report of the Members of the Sustainable Tropical Timber Coalition (STTC) Technical Committee, issued at the end of April, supplemented where possible by more recent information from trade association bulletins and other sources.

Some continuing timber demand from UK construction sector

In the UK, according to the Timber Trade Federation (TTF), some importers, distributors and merchants have suspended business while others are operating at much reduced levels. Some demand continues from the UK building sector, which has been one of the first sectors allowed to reopen subject to new health and safety rules.

However, the latest Construction Purchasing Managers Index (PMI) for the UK, published by IHS Markit, revealed the sharpest decline since the survey began 23 years ago, falling from 39.3 in March to only 8.2 in April as activity drew to a halt due to the virus outbreak March (a score below 50 indicates contraction).

A big question in the UK timber industry currently is how requirements for social distancing will impact future construction output. A briefing circulated by Barbour ABI suggests that, even as the lockdown is eased, the number of workers on UK construction sites could be as low as 15% of normal figures in some cases, leading to increased costs and build times over the next year.

Meanwhile, according to the TTF, DIY sales in the UK are holding up, which is attributed to consumers undertaking repair and refurbishment projects while off work. Garden centres in the UK will be allowed to reopen from 13th May in one of a range of measures to gradually ease the lockdown rules as COVID-19 death rates have declined.

However, with the numbers of new COVID-19 cases and death rates still high, the process of easing the lockdown is expected to be very slow in the UK. The government has emphasised that lockdown measures may be reintroduced if any signs emerge of a second wave of the virus.

UK timber importers say they have asked overseas suppliers to push back orders by 30 to 60 days but there is still concern about the build-up of landed stocks at ports, with companies unable to accept cargoes as their own storage is full.

A TTF members survey published on 1st May, while emphasising that the UK timber supply chain is well stocked overall, also showed that garden products and plywood are product categories where there may be shortages. This survey indicated that, compared to last year, respondents' sales fell 33% in March and by 66% in April, while 69% reported their cash flow had decreased significantly.

Some slightly more positive news emerged from the UK Confederation of Timber Industries (CTI) latest survey of the state of the industry published on 12 May. This highlighted that almost all UK timber businesses expect to reopen in some capacity before the end of the month. The third of businesses which never closed will be rejoined by the rest of the respondents, with most (99%) having either reopened or planning to during May.

The CTI survey also showed that while only 12% of the industry are currently operating at maximum capacity, there is confidence that businesses can quickly ramp up productivity. Respondents said that, if quarantine measures were lifted, and in light of recent Government advice on returning to work, 54% of businesses said they could return to full capacity immediately, and a further 34% in less than a month.

The CTI survey indicated that manufacturing was the most affected sector in the timber supply chain, with these respondents far more likely to have closed for a period than sawmillers, merchants or other traders. Wood product manufacturers were also concerned that lack of access to personal protective equipment could hamper the return to work.

Germany watched closely as lockdown measures are withdrawn

Germany is being watched worldwide as the most successful large European country in halting the spread of the virus, thanks to a massive testing programme. Three weeks after the decision of the federal and state governments to gradually withdraw the coronavirus restrictions imposed in March, the end of the lockdown in Germany was largely completed in the first week of May.

On 6th May, Chancellor Merkel, commenting that "we have passed the first phase of the pandemic", together with the representatives of the different states of Germany, announced that shops, factories and many other businesses could open again largely without restriction. However, a week later alarm bells are being sounded with the announcement that infections have accelerated again.

Speaking to the STTC in April, the German trade federation GD Holz said wholesalers had not at the time been significantly affected by the pandemic. Whether this situation would continue depended on the extent of contraction in the construction sector. But irrespective of that, for small to medium sized timber enterprises the situation was described by GD Holz as 'catastrophic'.

Although DIY outlets had been allowed to remain open in some parts of the country and hardware stores continued to serve B2B customers, many other German retail and other consumer-facing businesses came to a complete standstill in the second half of March and in April. Around 85% of furniture companies in Germany were operating only on a part time basis during that period.

Key issues now are the speed at which companies can gear up operations now they are coming out of lockdown, given massive disruption to supply chains and order books, and the possibility of lockdown measures being reintroduced in the event of a second wave of the virus.

A lot of damage has already been done. According to IHS Markit survey results published on 7th May, Germany's construction activity contracted at the steepest pace in more than ten years in April due to the disruptions caused by the pandemic.

The headline construction PMI fell to 31.9 in April from 42.0. Although a less dramatic decline than in many other European countries (see next story), this was the lowest reading in Germany since the series-record low of 28.9 in February 2010, when severe bad weather had exacerbated an ongoing slump in activity caused by the global financial crisis.

PMI data showed sharp falls in activity across each of the three broad construction categories – commercial, civil engineering, and homebuilding - monitored by the survey. It also showed that new orders at German constructors fell at the sharpest rate in more than two decades.

Despite falling demand for inputs, supplier delivery times to the German construction sector continued to lengthen in April. Confidence towards future activity remained firmly in negative territory during the month.

Business activity continues in the Netherlands but timber supplies disrupted

The Netherlands had a less strict lockdown than some of its neighbours and began its five-phase plan to ease restrictions further on 11 May. However, the effects even of this more limited lockdown on the timber sector and wider economy have been profound.

A report on the ATIBT Fair&Precious (F&P) website in April stated that Netherlands importers had sufficient stocks for the short term and ports and road transport had been designated key sectors and continued to operate.

However, the Netherlands Timber Trade Association (NTTA), speaking to STTC, said the pandemic was disrupting timber supplies to the Netherlands from the rest of Europe and Malaysia and, while imports from Africa were 'reasonably normal', they were also expected to decrease. Plywood and other panel products were in also increasingly in short supply.

NTTA reported the DIY sector continuing to trade well. Overall timber trade sales, however, are expected to be well down through the summer.

The virus outbreak has not impacted ongoing construction projects in the Netherlands as activity has continued subject to health and safety restrictions. However, the worsening economic outlook is expected to weigh down on construction industry output growth. The number of construction projects is decreasing, with the NTTA mentioning forecasts of a 50% fall in new home building. At the same time, activity in the renovation sector has reduced by 80%.

According to a business confidence index published by Statistics Netherlands in early May, the confidence of entrepreneurs in the Dutch wood and building materials industry has declined sharply: the balance fell from +1.5 in March to -25.2 in April 2020, by far the largest decrease ever recorded.

Belgian timber industry calls for measures to avoid economic collapse

In an open letter issued 24 April, Belgian importers, traders and processors of wood, via their trade association Fedustria, called for political leadership to prevent the collapse of the economy and prosperity. Fedustria represents the Belgian wood, furniture and textile industry. According to Fedustria, the sector generates a turnover of approximately €10 billion and employs 38,000 people in more than 1,700 companies.

In their open letter, the companies indicate that they are concerned about the health of their employees and their organizations. They have been struggling with large turnover losses for some time now due to the loss of demand and the closure of, for example, home and interior shops. In addition, there are problems in the supply of raw materials and logistics.

This results in high temporary unemployment: in the furniture industry it is 72% and in the wood processing industry at least 48%. Fedustria points to liquidity problems that are becoming increasingly difficult to bridge.

The companies requested political moves to quickly restart the economy, while complying with the necessary safety regulations. They believed that government measures taken so far are insufficient, suggesting that many SMEs urgently need bridging loans, with sufficiently long repayment terms.

Fedustria also complained that while do-it-yourself shops and garden centers had been allowed to reopen, home, furniture and kitchen shops had been required to remain closed. "There is no objective reason for this unequal treatment that also leads to unfair competition", they said

Soon after the letter was published, the Belgian government announced that B2B companies and construction sites would be allowed to reopen from 4th May, followed by all stores, without distinction, from 11th May.

France unwinds strict lockdown

Speaking to the STTC in April, French timber trade body Le Commerce du Bois said the market impacts of the pandemic have been mixed in France. Merchants were impacted first as construction and manufacturing customers shut down in March, importers followed soon after. Subsequently, however, most merchants reopened, although with much reduced personnel. Timber end user industries and importers largely remained closed throughout April.

France began unwinding its strict lockdown on 11th May, allowing non-essential shops, factories and other businesses to reopen for the first time in eight weeks. The pace at which the lockdown is eased will vary across the country which has been divided into red and green zones depending on the level of infections in different regions. The French health minister has warned full lockdown measures could return if there is a surge in virus cases.

The Banque de France reported on 12th May the national economy was operating 27% below normal levels in April. According to Banque Governor Francois Villeroy de Galhau, “the ambition we have for the end of May is to recover another 10 points.” The Banque further stated that manufacturing activity was down 37% last month, with the lockdown costing the economy 6% in lost activity this year so far.

The government has rolled out a €110 billion ($118.9 billion) package of crisis measures to see companies through the lockdown and heavily subsidise furloughs for more than one out of two private sector workers to avoid a wave of permanent layoffs.

Italian economy under severe pressure

Of all eurozone economies, Italy is likely to be the most affected by the pandemic. According to Italian statistics agency ISTAT, industrial output plummeted 28.4% in March from the previous month, more than expected and the steepest drop on record. The restrictions to contain one of Europe’s worst outbreaks of the coronavirus were in place through most of March and closed all factories except those considered essential to the supply chain.

Total industrial output for the first quarter of 2020 in Italy was down 8.4% compared with the previous three months, ISTAT said, following a 1.1% drop in the fourth quarter of last year. The euro zone’s third-largest economy shrank 4.7% in the first quarter from the previous three months.

According to figures issued by the EC in early May, Italy’s public debt is expected to hit almost 160% of GDP this year and the economy shrink by close to 10%, highlighting the longer-term impact of coronavirus lockdown measures in the country. The EC currently predicts a 6.5% rebound in Italy’s GDP in 2021.

In line with other European countries, Italy’s government began lifting tight lockdown restrictions from 4th May. Since then, factories and building sites have been allowed to reopen. More shops will be allowed to reopen from 18th May.

The government is planning new measures to support companies struggling due to the crisis, in a €55 billion euro package dubbed “Relaunch-Italy” due to be unveiled later in May. This comes on top of a €25 billion package already approved in March.

The new initiative will provide firms with grants, tax breaks and greater access to loans, and is also expected to offer direct handouts to families to pay for childcare and holidays and funds for unemployment benefits.

The government has also stated that along with this financial support, steps will be taken to simplify administrative procedures and cut down bureaucracy.

Spain aims to complete shift out of lockdown by end of June

The situation in Spain was described by trade association AEIM as disastrous in their April report to STTC. Members had postponed contracts and shipments, with construction and other customer sectors in shutdown. Some suppliers to parts of the joinery sector, however, were still active.

According to the ATIBT Fair&Precious Covid-19 report in April, wood was still coming into ports as normal, although there were ‘difficulties for companies withdrawing goods’.

The first estimate of Spanish GDP in the first quarter showed that growth contracted by -5.2%, but the second quarter is likely to be worse since the lockdown measures were only introduced on 14th March.

The economic growth figure in the first quarter was the worst since the series began in 1970. Consumption and investment contracted by 7.5% and 5.8%, respectively. Both export and import growth contracted by 8.4%. Spain’s construction sector contracted by 8.1% during the quarter.

The PMI for the manufacturing sector for April dropped to 30.8 compared to 45.7 in March.

As the spread of Covid-19 is coming under control, the lockdown is slowly being phased out. Since 4th April, for example, non-essential shops have been allowed to open by appointment and restaurants can offer takeaway food.

Pedro Sánchez, Spain’s prime minister, announced that shifting to a more normal situation would have four stages and in the best case would be completed by the end of June. It would, however, vary province by province. Some of Spain’s largest cities, including Madrid and Barcelona, have not yet met the requirements for moving to Phase 1 and are still subject to the same restrictions as in April.

Construction activity in the eurozone falls to an all-time low

The IHS Markit Eurozone Construction Purchasing Managers’ Index (PMI) fell to 15.1 in April, a new record low which followed a substantial drop in March, when the figure had fallen to 33.5. Survey data showed Italy and France recorded extreme contractions in construction output, while Germany registered a far slower decline but one that was still marked overall.

Bernard Aw, principal economist at IHS Markit, said: "Stricter measures to halt the spread of the Covid-19 pandemic placed restrictions on business operations, dealing a substantial blow to eurozone construction firms in April. Construction output across the euro area slumped in April, following a severe drop in March, with Italy and France especially hard hit amid reports of widespread work suspensions among construction firms.

According to Bernard Aw, "demand was also severely affected by the lockdown measures, with new orders falling at the sharpest rate seen in over 20 years of data collection. In response, firms made deep cuts to their workforce numbers and purchasing activity.”

Supply chains remained under pressure despite the substantially reduced purchasing demand. Delivery times lengthened to the greatest extent in the series history and at a rate that was severe overall. Firms highlighted transport issues, customs restrictions and supply shortages at distributors as key factors for delivery delays. Each of the bloc's three biggest economies reported much slower deliveries, with France recording the most severe delays.

Eurozone building companies remained pessimistic about future activity, with the Future Activity Index coming in well below the neutral 50 level. Of the currency area's three largest economies, Germany had the most negative outlook over the next 12 months, followed by France.