## OECD forecast a very weak rebound from recession

OECD released their latest report on economic outlook across the OECD group of rich industrialised countries at a press conference in Paris on 18th November. OECD conclude that a double-dip recession is unlikely and that the economic recovery will continue. However the strength of the bounce back is now moderating and it could be several years before growth across the OECD region returns to its trend rate of about 2.5%.

OECD note that output and trade growth have softened since the early part of the year as temporary drivers including the boost from fiscal support measures and short-term restocking have faded and not yet been replaced by self sustaining growth. The report highlights that the 33 industrialised countries that make up the OECD membership are contributing significantly less to the global recovery than emerging economies such as China, India and Brazil.

OECD forecast that in the euro-zone, following on from the 4.1% decline in GDP in 2009, GDP should increase by 1.7% in both 2010 and 2011 and by 2.0% in 2012. Outside the euro-zone, OECD forecast that the pace of recovery in the UK will slow next year as the government's VAT rise and £81bn of public sector spending cuts drive up unemployment and hit consumer spending. OECD predict GDP in the UK to rise by 1.8% this year but growth to slip to 1.7% in 2011 before rising to 2% in 2012. While OECD expect the UK government’s on-going austerity programme to slow growth in the short term, the programme should significantly reduce fiscal risks and could, in combination with efficiency improvements in health spending and structural reforms, support stronger growth in the longer term.

OECD emphasise that risks to the forecast are substantial and deeper on the downside than on the upside. The major downside risks in Europe include tensions over the level of national debt, particularly in Greece, Portugal, Ireland and Spain, and on-going adjustments in the housing sector. There are large inventories of unsold houses in Spain, Ireland and the UK. Any further decline in house prices in these countries would have a negative effect on household balance sheets thereby slowing consumption.

But there are also positive factors. Business confidence is strong and corporate profits are rising, suggesting a pick up in investment. Shares are also at historically low levels and a stronger than expected recovery in equity markets would generate more consumption. Furthermore monetary policy across Europe, characterised by very low interest rates, should help boost consumption. The rate of increase in unemployment across the euro-zone has been slowing and seems to have stabilised at around 10%. OECD forecast a gradual fall in unemployment over the next 2 year.

## European construction output turns downward

The European Confederation of Iron and Steel Industries (EUROFER) has revised its European construction industry output forecast from a 2.8% fall to a decline of 3% in its fourth quarter report of the ‘Economic and Steel Market Outlook 2010-2011'. The forecast for growth in European construction output in 2011 is revised downwards from 2.6% to only 2.1%.

According to EUROFER, at the country level, Spain remains in a construction crisis of unprecedented proportions with output continuing to fall sharply. In contrast, activity in Germany, Sweden and Poland is stronger than a year ago. Despite the relative improvement in activity compared to the first quarter of this year, construction confidence has deteriorated during the course of the year.

In most EU countries order intakes remain on a downward trend, said EUROFER, particularly orders from the private sector for non-residential buildings for industrial or commercial purposes. However, it is becoming more and more evident that the public sector has also started to reduce investment. These trends will set the stage for the construction sector in the remainder of this year and into 2011. Work in progress will be gradually drying up, whereas the impulse from new projects is lacking. Civil engineering has been the least affected construction sector to date, but government austerity programs will most definitely depress output this year and next year. However, in Central Europe, EU funds should be supportive in securing infrastructure activity.

**Early Xmas holiday for UK plywood market**

The TTJ, the UK's foremost timber trade journal, reports that UK plywood demand "seems to have entered holiday mode several weeks prior to Christmas". It also notes that "few if any industry experts are anticipating a bumper 2011". TTJ reports that the UK is carrying significant stocks of Chinese hardwood plywood which now maintains an estimated 30% price advantage over rival Malaysian product. Importers are blaming the excess stock situation on the increasing reliance on break bulk shipments from China which is leading to large quantities of product arriving regardless of whether the market needs it.

Nevertheless, TTJ reports mounting expectations in the UK that FOB prices for Chinese hardwood plywood will be forced to rise in coming months due to rising raw material and labour costs and strengthening in the yuan exchange rate. UK imports of Malaysian products are also being sustained by larger builders' merchants that are committed to buying certified material despite what amounts to a significant price premium. Brazilian and Indonesian hardwood plywood are not currently playing a significant role in the UK market.

EUWID, the European timber trade journal, is equally downbeat about the European market for okoume plywood suggesting that demand is showing no signs of recovering any time soon. Sales volumes are estimated to be roughly in line with last year's low levels and around 30% down on levels prevailing before the recession. After a significant increase in okoume veneer prices as a result of the Gabon log export ban from May 2010 onwards, veneer prices have now stabilised at a higher level. However, manufacturers' efforts to push up prices for finished okoume plywood are meeting stiff resistance from European buyers.

**Rougier reports good demand for certified products**

Rougier, the Paris-based tropical wood corporation, has reported that revenues for the first 9 months of 2010 were up 7.8% compared to the same period of 2010. In the

Group's latest financial statement, Rougier note that despite the recurrent slowdown seen during the summer period, business remained strong for the third quarter of 2010. However, for Cameroon and Congo, the good level of business was slowed down temporarily in the third quarter by the irregular level of departures from Central African ports, resulting in some deliveries being postponed to the beginning of the fourth quarter.

Rougier's revenues have risen this year despite cessation of log exports from Gabon in May 2010 which have been only partially offset by a rise in log export sales from Cameroon and Congo. Revenues from log sales declined 27% to represent 25.7% of consolidated revenues during the first nine months of 2010. In contrast, revenues increased dramatically from sawn lumber (up 30.2% to represent 46.9% of consolidated revenues) and plywood (up 27.5% to represent 27.4% of consolidated revenues).

Rougier report that, following investment in certification and legality assurance, the Group has seen good sales development in countries sensitive to these issues. The commercial business has also improved in certain emerging countries in the Mediterranean Basin. A contraction in sales in Asia (-30%) primarily reflects the ban on log exports from Gabon, combined with the temporarily high level of log stocks built up at the end of 2009 and early 2010 in China.

Rougier is confident of achieving a positive net profit over the full year in 2010. The Group aims to further strengthen its position as a major player in the tropical woods industry, backed by a quality offering with a wide range of products and a priority on certified products.

**Recovery in Italian furniture sector loses momentum**

The Italian furniture industry research organisation CSIL reports that the Italian furniture sector has continued to be affected by the weakness of domestic consumption and global demand during 2010. Although exports are expected to return to positive growth for the year as a whole, the pace of growth is believed to have fallen away in the second half of the year as the global economic recovery has lost momentum. The domestic market for Italian furniture has improved little during 2010 due to continuing high levels of unemployment, lack of credit and other constraints on household disposable income, and low levels of investment in construction. Signs of a real recovery are not now expected until 2011.

**IKEA profits by its focus on emerging markets**

Boasting 301 large stores in 37 countries, IKEA is one of the world's largest furniture manufacturers and retailers and has huge influence on the European market for panel products and veneers. Swedwood - IKEA's industrial arm – has a widespread presence in Europe including 11 production units in Poland and others in Slovakia, Russia, the Baltic States, Sweden and Portugal.

In a weak economic environment where almost all the biggest furniture retailers continued to disclose negative results, IKEA's financial performance has been above average this year. According to the latest accounts covering IKEA's Financial Year ending in August 2010, global turnover of the Swedish furniture retailer registered 7.7% growth on the previous year to reach 23.1 billion Euro. Profits increased by 11% and stood at 2.5 billion Euro.

The company adopted a successful expansion strategy giving preference to new openings in emerging economies while postponing expansion in mature markets. Some of IKEA's biggest expansion projects are targeted on India. Although it is excluded from opening its own stores in India under local retail laws, the company plans to double sourcing of Indian products (mainly textiles) from current levels of around 500 million Euro every year in three-four years.