

European economies diverge

Economic conditions across Europe have been diverging widely. On the fringes of the euro-zone, Greece, Ireland and Portugal have become ensnared in a sovereign-debt crisis. In Northern Europe, driven by the German powerhouse, economies are reviving and public finances are solid. Meanwhile in the UK, there are discouraging signs that the recovery is already running out of steam.

These conflicting trends are manifest in recently published GDP figures for the first three months of this year. The core of the euro-area is basking in sunny economic revival. German output grew by 1.5% in the first three months of 2011 (6.1% on an annualised basis). The French economy, which had dawdled last year, got going too, expanding by 1% over the previous quarter. The Swedish and Polish economies are bubbling along nicely with annualised growth of 4.3% and 4.2% respectively. In contrast, the big Italian and Spanish economies managed to grow during the first quarter, but barely. Portugal actually slipped back into recession in the first quarter of 2011.

The healthy performance of the German and French economies, which together account for over 50% of euro-zone GDP, have contributed to the continuing strength of the euro. Renewed jitters about Greece brought the euro down from a near- $\$1.50$ peak in early May but it is still trading above $\$1.40$ at the end of May which is higher than at the start of 2011. Another factor is that the ECB is the first big central bank among rich economies to start tightening, when it bumped up its main interest rate from 1% to 1.25% in April, with a further quarter-point increase likely this summer.

For the rest of the year, Germany is expected to lead robust growth in northern and central parts of Europe, although the pace of growth is expected to slow. Economic growth in Southern Europe and Ireland is expected to remain weak. The strong euro combined with high unit labour costs is making it hard for these countries to boost exports to offset weak domestic consumption. On top of all this, the higher interest rates that may now be needed in Germany will inflict another blow on the most vulnerable economies.

Economic conditions in the UK are also less rosy, the Economist Intelligence Unit forecasts that GDP will grow by only 1.6% this year, rising to 2% in 2012. The headline of the TTJ's latest review of wood end-user markets in the UK carried the gloomy headline "manufacturers' output falls, costs rise". The Construction Products Association is now forecasting an overall decline in UK construction output of 0.8% and 2% in 2011 and 2012 respectively.

Demand robust in central Europe but weak on the periphery

Interviews with hardwood traders at the Interzum show held at the end of May in Cologne (see below) suggest that hardwood market conditions across Europe mirror overall economic performance. Spanish agents and importers report no end in sight to the extremely poor trading conditions. Italian agents also report poor trading conditions, with the important furniture sector under intense pressure both from weak domestic consumption and loss of competitiveness in export markets. In contrast, German importers seem optimistic about market prospects and more concerned about lack of available supply than underlying level of consumption. UK importers report a reasonable start to the year, but are grim-faced about market prospects going forward.

There is little change in the overall balance between supply and demand of tropical hardwood lumber supplying the European general joinery and furniture market segments. Low levels of consumption are matched by low levels of stock. Sapele stands out as one of the few tropical species which is readily available at short notice, at least in standard sizes. Sapele prices quoted to European buyers have remained stable in recent months and new orders may be shipped in two to three months. The continuing availability of sapele is

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one reason why meranti lumber has less of a presence in the European market at present. However equally important is the fact that meranti lumber prices have been rising and more is now being diverted to Asian markets. Meanwhile, European importers report gaps in stocks of more specialist species such as iroko, afzelia and bubinga. At Interzum, it was noted that shortages of lighter tropical species for furniture fittings is leading to their substitution by temperate hardwoods, notably American tulipwood.

The situation in the European garden decking market is dynamic at present. Consumption levels have picked up considerably with improving weather during the spring months. Coinciding with very tight supply conditions for tropical decking woods in both the Far East and Brazil, the inevitable result has been a steep rise in prices. Shipping dates for new orders of bangkirai decking from Indonesia now extend until September, well towards the end of the current European season. This situation has led to a lively internal trade in tropical decking material within Europe as importers seek to cover gaps in stocks.

Suppliers of substitute decking materials – such as thermally-treated temperate hardwoods – are also working hard to exploit the tight tropical supply situation. Numerous suppliers of these thermo products were present at the Interzum show. However these products face obstacles of their own in the battle for market share. One German market analyst at Interzum noted that end-users have been disappointed by the durability of some thermo products. While many companies have “jumped on the bandwagon”, not all have the expertise to deliver thermally-treated products with appropriate technical performance. There are signs that the presence of a few bad products on the market is already undermining the overall reputation of these products.

Interzum 2011 a huge success

The Interzum 2011 show held in Cologne from 25 to 28 May 2011 was a huge success this year, boosted by the strong economic recovery and general optimism that pervades the business community in Central Europe. The biannual show for material and components suppliers to the international furniture sector was attended by 52,400 trade visitors, 13% up on the previous event in 2009. The growing international significance of the show was apparent in a 24% increase in visitor numbers from outside Germany. This year 17,900 visitors were from Germany and 34,500 from 147 countries around the globe. Exhibitor numbers also increased by 6% compared to the previous show. Of 1,434 companies exhibiting, 1,056 came from outside Germany. Italy was the most strongly represented country, with 276 firms in Cologne, followed by Turkey with 88 companies.

As in the past, it was mostly decision-makers that attended at Interzum, an important aspect repeatedly applauded by exhibitors. In addition to furniture manufacturers, the show was well attended by architects, interior architects, tradespeople, designers and developers in search of information and inspiration.

Furniture industry trends identified at the show contain both good and bad news for the international wood sector. Two themes are playing an increasingly important role in furniture design: individualism – everyone wants a “unique” product; and environmentalism – a theme playing out in various ways including through increased use of renewable and recycled materials, or through designs which require less materials, that are more easily dismantled, reused or recycled, or which have a longer life.

All this should be to the benefit of real wood which creates products both natural and unique. However, other material sectors are becoming increasingly adept at exploiting these trends to their own ends. At the same time there also appears to be growing perception that rapidly renewable materials and products based on recycled materials are a superior environmental option to wood.

This is perhaps best illustrated by considering the Interzum awards issued at the show for product innovation and quality. Of 43 awards, not a single one this year went to an authentic wood product (unlike in 2009 when real wood products took 4 of the awards). Instead awards went to: veneers manufactured from palm wood

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and banana tree stems; parquet flooring manufactured from “natural resources like corn so that no valuable timber has to be processed”; and to manufacturers of modern laminates designed to copy not only wood’s individuality and 3-D look but also wood’s “haptics” (feel). New embossing techniques now enable the production of so-called “rough sawn” designs in non-wood materials.

In part, the failure to fully appreciate wood’s environmental credentials reflects a widespread belief that raw material is scarce. The American Hardwood Export Council (AHEC) went some way to countering this perception, emphasising in a lead article for the Interzum magazine and at a press conference on the opening day that the volume of wood standing in US hardwood forests has actually doubled over the last fifty years. AHEC also suggested that, in theory at least, current levels of US hardwood export of around 2.5 million m³ per year could quadruple to over 10 million m³ without impacting on the sustainability of the resource. AHEC placed great emphasis on the full environmental Life Cycle benefits of sourcing hardwoods from natural forests, a process which can enhance carbon storage in long-life products and which is relatively low intensity in terms of energy use, both messages which are equally relevant to tropical hardwoods.

The need to counter the threat from non-wood materials was also a key theme of the European Veneer Forum (EVF) hosted at Interzum by the German Timber Trade Federation (GD-Holz) and the "Initiative Furnier und Natur", a marketing campaign for real wood veneer. Speakers emphasised that consumers are „tired of artificial materials“ and that only real wood veneer can satisfy emerging demands for „authenticity“ – the idea that materials should be honest and genuine. Manufacturers were encouraged to exploit this quality of veneers through use of finishing techniques that ensure products retain their natural look and feel. Speakers also emphasised the efficiency of veneer use, noting that 1 m³ of wood can supply 800 m² of veneer.

Market analysis presented at the EVF suggested that the rise of cheap artificial surfaces has meant that use of real wood veneer in Europe is now largely restricted to the premium end of the furniture market. However new opportunities may be emerging in the mainstream segment. It was noted that IKEA, Europe’s largest furniture retailer which plays a central role in influencing mainstream furniture fashion in Europe, has indicated that in order to reduce material use and save on transport costs it intends to make a concerted move away from use of solid wood in favour of alternative lighter materials. This factor, combined with IKEA’s strategy of appealing to the „cheap chic“ market segment - where cheap products are given the appearance of better quality - might benefit real wood veneers.