

## **European market report – 12 December 2008**

### **Demand slows across the board**

The US trade journal Hardwood Review Global provides a flavour of current depressed market conditions for hardwoods within the EU. In their November issue they note: *“one major exporter said that hardwood demand in every European market – from the United Kingdom to Scandinavia to Germany to the Mediterranean – has been hurt by the economic downturn. European buyers were purchasing only enough lumber to fill gaps in inventory, and most were shopping around to get the best specifications for the lowest prices”*. Hardwood Review Global go on to note that Italy’s export oriented furniture industry is suffering severely in the economic downturn, while the poor housing market has had a particularly profound impact on the Spanish and Portuguese door and window manufacturing sectors. Belgian importers are reporting that their purchases are down 40% compared to last year.

In France, commentators reckon that the hardwood trade is currently running at 15-20% of last year's level, a contraction common to just about all end use sectors. Only renovation and flooring are still performing anywhere close to their usual levels. Due to reasonably good imports in the first half of the year, French commentators suggest overall import levels for 2008 will not be far short of 2007 but expectations are for a poor year in 2009.

The UK is in the grip of a downturn led by the popping of the housing bubble. Rapid weakening in the sterling exchange rate in recent weeks has also meant apparent price rises for hardwood imports providing another disincentive, if any were needed, to enter the forward market.

### **Depressed EU market for sliced veneer**

According to the German trade journal EUWID, some central European sliced veneer suppliers are reporting falls in sales of 30% to 40% compared to the same period last year. Sales to western European markets have been weak all year. Until the summer months, veneer suppliers reported reasonably stable sales figures to Scandinavia and parts of Eastern Europe. However, the downward market trend now affects all European markets without exception. Demand is weak in all sectors linked to the building industry, particularly door manufacturing. The furniture sector has also slowed dramatically in recent months. High value sectors – including bespoke fitting, ship, aircraft and car manufacturing – were stable during the first half of the year, but have since gone into decline.

Europe’s sliced veneer producers are responding to the downturn with a reduction in output. EUWID estimates that current utilisation capacity at veneer mills in the region may be as low as 30-50%. Despite the cut in production veneer sales prices remain under pressure. Under such conditions, procurement of veneer logs has been severely curtailed, particularly of dollar denominated stock from the US which has tended to rise in price on European markets due to the strengthening dollar rate.

### **European flooring manufacturers move out of tropical wood**

The 25<sup>th</sup> issue of EUWID's Holz Special, which provides a thorough analysis of European market conditions across several product sectors, notably OSB and flooring, notes that a number of European parquet flooring producers are planning on stopping processing tropical timber in the near future. According to EUWID, MeisterWerke became the first major Central European parquet manufacturer to announce plans to remove all tropical timber products from its lines by the start of 2009. The Austrian firm Weitzer Parkett followed suit in October. Although the main reason cited for these measures is increasing concern for sustainability issues, other factors are also seen as important. These include the comparatively high costs of tropical hardwood and the high capital commitment required in order to source these species, factors which have become more critical during the current economic crises.

According to EUWID, European parquet producers are finding it very hard to generate new orders for their products and many have now built up large unsold inventories of finished goods. Producers of three-ply and multi-ply parquet that have pushed ahead with capacity development in recent times have been particularly hard hit. EUWID suggest that overall parquet production levels in the EU may fall by between 12% and 18% in 2008 compared to 2007.

The Environmental Investigation Agency has turned up the heat on European parquet flooring manufacturers' using tropical hardwoods with publication of their "Buyer Beware" report in October. The report was based on interviews undertaken by EIA researchers posing as customers during September 2008. The inquiry considered whether retailers of merbau flooring on sale in the UK could prove that it originated from legal sources and whether adequate information was available to consumers.

According to EIA, while in the first instance retailers were often quick to make strong environmental claims about their merbau flooring products, on further investigation these claims could often not be substantiated. EIA allege that *"at the retail level most of the companies offering merbau flooring were happy to give verbal assurances that the product met environmental standards, including legality of origin, but were unable to back up such claims with documented proof."* Drawing on this analysis, EIA called on the UK government *"to put in place measures to outlaw the sale of wood products and timber derived from illegal logging"*.

### **Mood of uncertainty in EU plywood market**

European CIF prices for hardwood plywood are down across the board against a background of weak consumption and uncertainty over prospects for 2009. Prices are highly volatile – as one UK plywood importer notes: *"while I can tell you a price today it will be completely different next week. All I can say is that it's entirely a buyers market. There are numerous cheap offers out there and we can just take our pick."* Generally falling CIF prices into the EU are also partly indicative of falling freight rates from most regions in response to declining fuel costs and the reduction in the overall level of global trade.

For Brazilian suppliers to the EU, although there has been some pick up in enquiries amongst importers seeking to benefit from the duty free quota, most importers are still holding back on large orders. Widespread speculation that prices might drop further in the New Year is only adding to importers reluctance to place orders now. EU buying

of plywood from Brazil is now concentrated on only a few large shippers. Many smaller Brazilian shippers formerly engaged in the trade are no longer active as they lack access to sufficient capital to finance raw material and other costs.

Meanwhile, European CIF US\$ prices for Chinese poplar/bintangor plywood are now around 10% down on prices prevailing in October. The failure of demand for Chinese plywood in the EU and US has contributed to the closure of numerous smaller Chinese plywood mills in recent months.

Indonesian plywood shippers are now offering goods to the European market at a level of around INDO96 +30 to INDO96 +32. Efforts by Indonesian shippers to increase prices to European buyers over the summer were unsuccessful in the face of weak market conditions.

While Malaysian mills are struggling to find orders, there is feeling that they are better placed to weather the storm than their competitors in China and Brazil. This reflects their recent concerted efforts to diversify their product range and to offer a wider range of services such as FSC and MTCC certification. Nevertheless, there is some expectation in the EU that prices for Malaysian plywood will fall again in the New Year.

UK importers suggest that existing landed stocks of hardwood plywood are reasonably high for the time of year and are likely to be sufficient to cover anticipated levels of demand at least until February and March 2009. Consumption is very subdued due to the weak construction sector. This problem is compounded by the UK's credit insurance industry which seems to have decided that the whole of the wood panels industry is high risk due to its perceived dependence on the construction sector. Many importers, distributors and merchants are having their credit insurance withdrawn making suppliers less reluctant to deal with them.

The usual rush in the EU to place forward orders for plywood immediately after Christmas is not expected this year. Importers are likely to hold off new purchases for as long as possible as many expect further price declines in the first quarter of 2009.