Statistical confirmation of EU trade slowdown in 2008

An analysis of Eurostat import data during the period January to March 2008 for the EU-25 group of countries (all EU members excluding Romania and Bulgaria) carried out by Forest Industries Intelligence Limited tends to confirm the rather negative anecdotal reports of trading conditions this year (see data in attached Excel file). While EU-25 import volumes of tropical hardwood logs and veneers held up reasonably well during the review period (down 2% and up 8% respectively), imports of tropical hardwood sawn and plywood were significantly down on the previous year (down 11% and 6% respectively).

There were also signs of shifts in the direction of trade. While EU imports of tropical wood products from Brazil, Malaysia, and Cameroon have generally declined this year, imports from Gabon, Congo Republic and Congo DR have generally improved. And after several years of significant growth in the EU's tropical hardwood plywood imports from China, there was a significant downturn in this trade during the opening months of 2008.

Trading conditions have also varied dramatically between EU countries. Some EU countries reported relatively strong imports of specific tropical commodities during the 3 month review period. For example imports of tropical logs into France and Belgium were up 23% and 31% respectively compared to the same period in 2007, while Italy's imports of tropical hardwood plywood were up 54%. Italy and Spain recorded 21% and 58% increases in the volume of tropical hardwood veneer imports.

But these gains were more than off-set by dramatic falls in trading volumes elsewhere. For example there was a respective 39% and 38% decline in Italy's and Germany's imports of tropical hardwood logs. Belgian and UK imports of tropical hardwood sawnwood were down 32% and 24% respectively. UK tropical hardwood plywood imports were down 33%.

EU economic conditions take a turn for the worst

European trading conditions for tropical hardwood products are currently very quiet. This year the usual slowdown during the summer holiday season has been reinforced by slowing economic conditions throughout the continent. A recent article in the Economist suggests that economic conditions in Europe took a significant turn for the worst during the second quarter of 2008.

According to the Economist "*Earlier this year, the prospects for the euro area's economy seemed, if not bright, then less dim than for some other parts of the rich world. High oil prices and scarcer credit were bigger worries for gas-guzzling, debt-ridden America than for the high-saving, fuel-efficient countries of continental Europe.*

"Things have turned out a little differently. America's economy has held up surprisingly well so far this year—helped, to be fair, by a big fiscal and monetary stimulus. Meanwhile the euro area, after a strong start, is sailing close to recession. GDP figures due to be published on August 14th are likely to show that the economy stagnated, or perhaps even shrank, in the second quarter. Jean-Claude Trichet, the head of the European Central Bank (ECB), whose rate-setting council meets on August 7th, has cautioned that any weakness is payback for an aberrantly strong first quarter. But the economic rot seems too deep to be fully explained by the euro area's earlier strength.

“A clutch of indicators point to rougher times ahead. Business confidence has fallen sharply across the euro zone, according to a monthly European Commission survey published on July 30th. A closely watched activity index, which combines surveys of purchasing managers in services and manufacturing, fell in July to its lowest level since 2001. The gauge for France, whose economy had seemed resilient, is pointing to a fall in output. Germany’s economy is now barely growing. Italy and Spain were already shrinking fast in June”.

The Economist suggests a number of factors may explain the downturn. There has been a significant drop in European exports to the United States. This is compounded by a slowdown in spending at home as banks have become less willing to lend, inflation has been rising, and housing markets have weakened dramatically in some countries – notably Spain, the UK and Ireland. There has also been retrenchment by companies as profit margins are under pressure from high oil prices and, latterly, from a pickup in wage growth. Furthermore, the Economist notes that “*the economy’s apparent seizure sits uncomfortably with the ECB’s decision to raise interest rates to 4.25% on July 3rd*”, a move designed to reassure markets that the Central Bank is serious about controlling inflation.

Against this background, reports from the European tropical hardwood trade are almost universal in indicating a slow pace of forward buying and onward sales. In the market for African redwood saw and veneer grade logs, there is only weak forward buying as CIF log prices have remained quite firm due to quite limited forward availability and rises in freight rates. This means narrowing margins for importers at a time when there is significant downward pressure on prices for onward sales in Europe.

In the market for the major commercial species of African sawnwood, existing high landed stock levels are only being slowly eroded while forward availability is generally perceived to be good. Importers are being very cautious indeed about entering the forward market, tending only to do so when they have confirmed onward sales. Importers are still offering stocks of sapele for onward sale at low prices in order to maintain cash flow.

In the current market, European importers have not been very receptive to efforts by some Asian shippers to increase European selling prices for meranti sawn lumber and scantlings and bangkirai decking profiles on the back of relatively tight forward supplies and rising production costs. Euro and GBP prices for Asian hardwoods are rising in any case as the dollar has strengthened against European currencies in recent weeks. With European stock levels of Asian sawn lumber generally regarded as high, forward buying is now very slow. Large importers have been making bulk sales of certain meranti lumber specifications at relatively low costs in an effort to bring down stocks to more sustainable levels.

European building sector output forecast to grow only slowly through to 2010

Building sector output in the 19 Euroconstruct countries is expected to increase 0.3% during 2008 compared to the previous year to reach €1.51 billion. This is according to forecasts issued at the latest Euroconstruct conference held in Rome on 13 June 2008.

This year and in the next two years, the European building sector is expected to grow at a slightly slower rate than the European economy as a whole. New residential construction accounting for around €351 million of total construction in the region is now expected to decline dramatically following increases in the last 2 years. The value of residential construction is forecast to drop by 8% in 2008 and 5% in 2009. Current expectations are that the decline should be halted by 2010.

In contrast, activity in the building renovation sector is expected to rise at a modest rate of around 1.3% per year between 2008 and 2010. The non residential sector is expected to grow at a rate of around 2.5% in 2008 but to slow in 2009 and 2010.

The Euroconstruct countries are: Belgium, Denmark, Germany, Finland, France, UK, Ireland, Italy, Netherlands, Norway, Austria, Portugal, Sweden, Spain, Switzerland, Czech Republic, Hungary, Poland, and Slovakia.