

Eurozone crises severely damages European economic sentiment

The eurozone debt crises is having an increasingly malign influence on economic growth and sentiment across Europe. The eurozone itself is almost certainly back in recession, dashing hopes that it can grow its way out of trouble. In a forecast issued in the second week of November, the European Commission warns that “sharply deteriorating confidence and intensified financial turmoil are affecting investment and consumption, while urgent fiscal consolidation is weighing on domestic demand and weakening global economic conditions are holding back exports. The best Europe can look forward to is “a gradual and feeble return to growth” in the second half of next year, according to the Commission.

The shockwaves of the euro crises are too powerful to avoid even for those European countries outside the eurozone. This week, the Bank of England is expected to revise down its UK growth forecasts for the eighth successive quarter. Having once predicted 4% growth in the UK for 2011, it will end the year with an expected 1% growth.

Against this background, it is hardly surprising that the autumn months have seen little or no improvement in European demand for tropical hardwood lumber. This sluggish trend is now expected to continue well into next year – perhaps much longer if the worst fears of the euro crises are realised.

Exchange rate volatility is another factor deterring new purchases of tropical hardwoods. Over recent weeks the euro has fallen dramatically against the dollar. This has tended to increase the price competitiveness of African hardwoods against Asian and North American species. However with no-one certain how far the euro value will fall, few importers are placing large new orders for products that might be devalued by future changes in exchange rates.

As a result, only small contracts are being negotiated for new imports of tropical wood, with little or no speculative purchasing. Importers and wholesalers are looking for very specific items that can be received and turned around as quickly as possible. The general view is that existing landed stocks of standard commercial items like sapele, sipo, iroko and meranti are sufficient to meet current sluggish market demand. Where gaps do open up in inventories, enough wood can be obtained by cross-trading with other importers. Despite reports of delayed shipments with the onset of seasonal rains in African supply regions, European importers seem much more concerned about demand-side than supply-side issues.

One notable exception to this, according to the German trade journal EUWID, is in the market for close-grained hardwoods such as bubinga, padouk and doussie. These species, formerly sourced in log form from Gabon, have been in very short supply since introduction of Gabon’s log export ban last year. EUWID reports continuing intense competition to buy and rising prices for lumber of these species in Europe.

Okoume plywood in the doldrums

The German trade journal EUWID reports that demand for okoume plywood in Europe, having weakened during the summer, has shown little sign of improvement since then. Slow demand

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reflects sluggish activity in the construction sector in France and neighbouring countries. There has also been no improvement in demand from yacht builders. Some French and Italian suppliers are now dumping stock at low prices in an effort to boost cash flow. As a result, producers have had to put on hold their plans to raise prices to accommodate rising log and veneer costs. Demand and prices for FSC certified, special dimensions and better quality products are more stable than for standard specifications.

Spanish hardwood demand very poor

Demand for hardwood in Spain remains very poor. Maintaining cash flow is a constant problem for importers with turnover so low and banks reluctant to lend to the wood sector. Activity in the new build sector is stagnant, with the private sector suffering from a large overhang of unsold property and the public sector curtailing spending. The furniture sector is suffering both from poor domestic sales and pressure from cheaper imports. The little demand that exists for hardwood lumber is for joinery and flooring in renovation projects. The veneer sector is only slightly more robust due mainly to export demand for decorative panels. Those Spanish hardwood importers that built up stocks earlier in the year in hope of stronger market conditions are now under considerable pressure to offload and are actively selling to importers in other parts of the continent.

AHEC Convention highlights hardwood market opportunities

Despite the gloomy economic picture, delegates at the American Hardwood Export Council (AHEC) European Convention in Warsaw on 27 October did not seem too despondent about future market prospects. There was general optimism that new opportunities for sustainably managed hardwoods are opening up in Europe on the back of new innovations and policy developments. On the other hand, it was hard to paper over some obvious signs of market distress in some parts of Europe. There were also strong indications of tropical wood's declining competitiveness in certain sectors.

Held bi-annually, the AHEC Convention is a staple of the international timber industry's calendar, providing networking for the timber trade and updates on market conditions, forecasts and trends which will impact on their business in the future.

Speakers at the Convention suggested that Germany has probably been the strongest European market for hardwoods this year, although there are emerging obstacles to sale of tropical hardwoods. Underlying economic conditions in the country remain relatively good despite growing unease over the future of the euro. New residential construction has been strong in Germany this year, while public support for energy-saving measures has boosted demand in the window sector. Lack of alternative investment opportunities is encouraging more consumers to increase spending on refurbishing their own homes. The German door industry has been particularly strong.

However fashions in Germany do not favour tropical woods. Although there is a strong preference for dark colours at present, the demand is for wood with lots of character and grain. Much of this demand is now satisfied by application of stain or heat treatment to oak and ash. Clear grained species, both tropical and temperate (such as hard maple), remain out of fashion.

A representative of a large European trading company selling into Poland suggested that similar trends exist in that country. This company formally concentrated on selling tropical woods in Poland – particularly meranti for window frames - because these are not easily replicated by domestic timbers. However the fashion for tropical wood has been declining in Poland while imported oak is making ground.

Several speakers from different corners of Europe noted that the increasing need for rapid turnaround times in the wholesale sector, combined with declining availability of species like ramin, ayous and wawa, is driving a shift away from tropical species in favour of American tulipwood for manufacture of mouldings and skirtings.

A hardwood importer based in Italy described the market as “stop-go” this year. In the early months of 2011, the Italian economy seemed to be strengthening and there was rising confidence that the hardwood market was ready to resume growth. However the market changed dramatically over the summer months as economic uncertainty mounted and costs of borrowing rose significantly. Meanwhile, the Italian hardwood sector continues to undergo significant structural change. Demand in the furniture sector has been declining due to the shift by larger manufacturers to lower cost locations, while the joinery sector has become relatively more important.

A Belgium-based importer noted similar trends in Belgium and France. These markets are still “open for wood” as it remains a very fashionable material. However there is little likelihood of hardwood consumption in either market ever returning to the sort of volumes typical before the economic crises. This is partly due to a major decline in furniture manufacturing across the region. The trend in Belgium and France is towards purchase of only small volumes of very high quality hardwoods.

While the structure of European hardwood demand has changed, AHEC was determined to highlight that new and exciting opportunities exist to grow the market. Mike Snow, Executive Director of AHEC, observed “Europe continues to be a vital market with international influence which punches above its weight, pushing innovation and advancements in timber technologies and treatments.” With such advancements, timber is finding markets and applications not previously considered, such as in structural uses.

This was vividly illustrated by a film and panel discussion examining the process to design and construct a 12 metre high self-standing ‘Timber Wave’ in American red oak outside the V&A Museum in central London. The work was commissioned by AHEC for the London Design Festival and created by AL_A and Arup. The Wave employs construction techniques and materials normally used in furniture making to create a majestic three - storey - high structure. The project required a construction material with an extremely high strength-to weight ratio which could only be achieved using a hardwood like American red oak.

More information available from www.americanhardwood.org