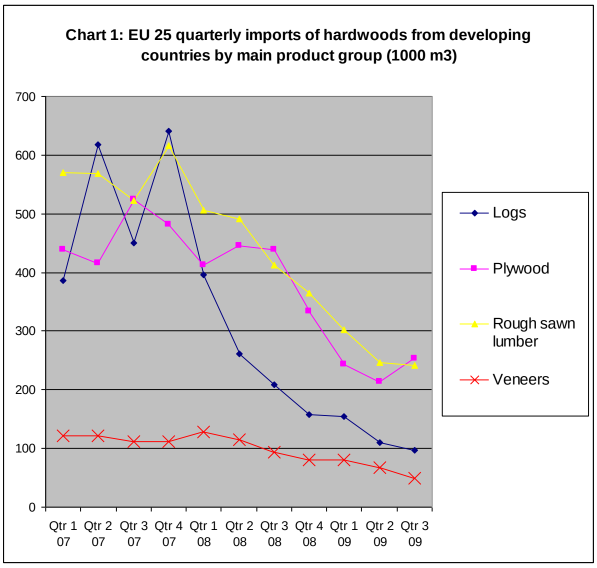
## Slight rebound in EU hardwood plywood imports

Analysis of the most recent Eurostat trade data indicates that European imports of hardwood-faced plywood from developing countries rebounded in the third quarter of 2009, after suffering four consecutive quarters of decline between April 2008 and June 2009.

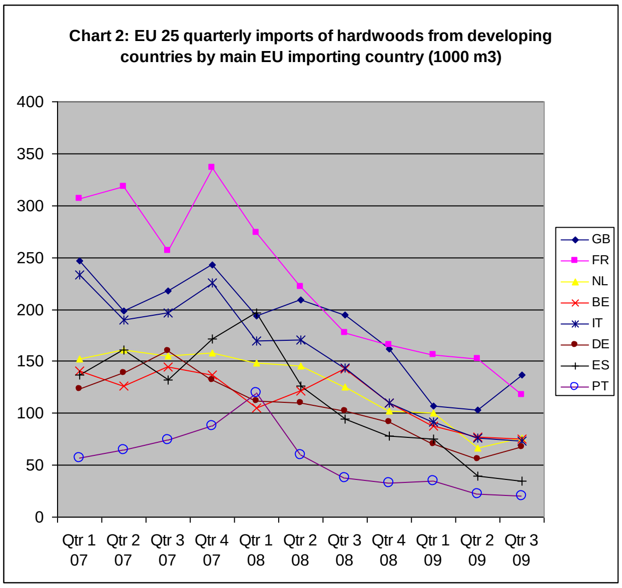
In the three months to end September, the EU imported 252,000 m3 of hardwood plywood from developing countries compared to only 211,000 m3 in the previous 3 month period. This aligns with anecdotal reports of European plywood importers taking tentative steps to rebuild depleted stocks beginning in the second half of the year. Nevertheless, levels of European hardwood plywood imports during the third quarter of 2009 were only around 50% of levels recorded during the same period in 2008 and 2007 (Chart 1).

EU imports of other hardwood commodities from developing countries continued to decline during the third quarter of 2009. European imports of hardwood logs and sawn lumber from these countries suffered seven straight quarters of decline between October 2007 and September 2009. Hardwood log imports fell from over 600,000 m3 in the fourth quarter of 2007, to less than 100,000 in the three months to end September 2009. During the same period, EU imports of sawn lumber from developing countries declined from over 600,000 m3 to around 250,000 m3. EU imports of hardwood veneer from developing countries fell for six consecutive quarters between January 2008 and September 2009, from 128,000 m3 to 50,000 m3 (Chart 2).



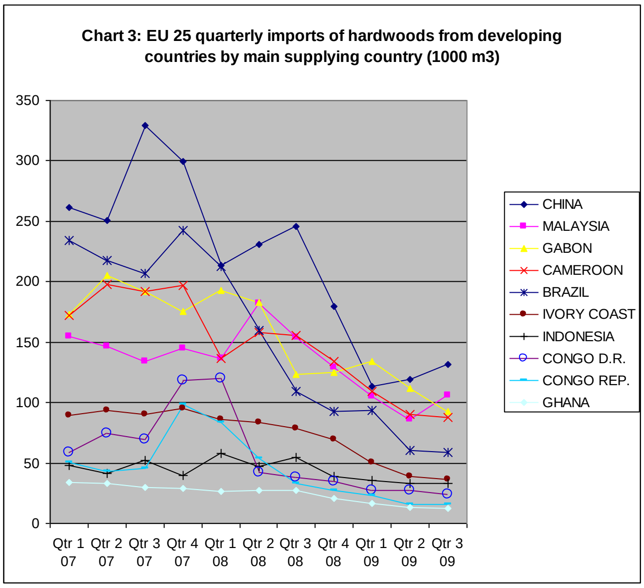

***Source: Forest Industries Intelligence Ltd analysis of Eurostat data***

Compared to the previous quarter, the three month period to end September 2009 saw a slight increase in total imports by the UK, Netherlands, and Germany of hardwood commodities (logs, lumber, veneers and plywood) from developing countries. However, total imports of these commodities into all other major EU markets continued to fall during the third quarter of 2009 (Chart 2).




*Source: Forest Industries Intelligence Ltd analysis of Eurostat data*

All the main developing-world suppliers of hardwood to the EU with the exception of China and Malaysia experienced a decline in European sales during the third quarter of 2009. EU imports of hardwood commodities from China and Malaysia (mainly plywood) showed marginal gains during the third quarter compared to the second quarter, although the volumes involved remained well below those of the previous year. During the third quarter of 2009, EU imports of hardwood commodities from most major developing-world supply countries were running at less than 50% of volumes achieved during the same period in 2007 (Chart 3).




*Source: Forest Industries Intelligence Ltd analysis of Eurostat data*

**Only weak return to growth in prospect during 2010**

The unprecedented fall in EU hardwood imports in 2008 and 2009 reflects the dramatic economic downturn across Europe. The sheer scale of the downturn took many economists by surprise. EU GDP is expected to fall by around 4% in 2009 according to the most recent European Commission forecasts (in November 2009). This compares to a fall of only 1.8% predicted at the start of the year.

Signs that the European economy may have reached bottom began to emerge in the third quarter of 2009, according to The Economist. The euro-area economy crawled out of recession in the three months to the end of September. GDP across the euro-zone rose by 0.4%, the first quarterly increase for more than a year.

While the European economy is expected to return to growth in 2010, the indications are that the rebound will be very weak across the continent. Prospects are dampened by a wide range of factors including: high and rising levels of unemployment; over-capacity in the construction sector following the bursting of property bubbles in several countries (notably Spain, Ireland and the UK); the strength of the euro which is undermining European competitiveness in export markets; and the continuing unwillingness of European banks to provide credit, particularly to smaller businesses and households.

To make matters worse, many European governments are having to deal with very high fiscal deficits, greatly reducing their ability to stimulate economic activity. Governments now face a very difficult policy dilemma. Public debt may spiral out of control unless taxes are raised or spending cut. But if fiscal support is withdrawn too quickly, the economy could tip back into recession. To address this, European Union countries have agreed in principle to an “ambitious” tightening of fiscal policy, but only from 2011. By then, it is hoped, the economy will be strong enough to withstand it.

There are a couple of bright spots amidst the gloom for the hardwood industry. Activity in the European joinery sector, particularly windows, is receiving a boost from government stimulus measures focused on improving the energy efficiency of buildings in some countries, notably Germany and France. Furthermore, in those countries like the UK where the property bubble has burst and new residential building is in the doldrums, maintenance and renovation work is more stable as property owners are choosing to “improve rather than move”.

While the economic downturn has been universally felt across Europe, its depth and the likely strength of the rebound varies between countries.

GDP in **Germany** shrank by 5% in 2009 and is expected to rebound only weakly in 2010, according to The Economist. Unemployment is expected to jump this year from 3.1 million to 4.5 million, a painful rise that will dampen consumer confidence and spending. A wide range of government measures have been implemented in order to stimulate growth. One beneficiary of particular relevance to the tropical hardwood sector is the windows sector which is currently benefitting from government subsidies to boost energy efficiency. Tax cuts, including a reduction in VAT scheduled for 2010, may help boost consumption this year. However stronger economic growth will be impaired as government support in other areas, including in the labour and car markets, comes to an end.

Due to high dependency on the financial sector, GDP fell particularly dramatically in the **UK** during 2009, by around 5.9% from peak to trough. The UK remained in recession in the three month period to September 2009, the most recent quarter for which data is available. The expectation is that the UK economy dragged itself out of recession in the last quarter of 2009, and GDP is forecast to grow weakly in 2010, by around 0.4% according to The Economist. Unemployment is continuing to rise and is expected to peak at around 9% of the workforce in 2010. UK housing market statistics have improved somewhat at the beginning of 2010, for example there was a 45% rise in new house registrations in the 3 months to November 2009.

On the other hand, prospects in the UK for 2010 are dampened by wide expectations of rising interest rates together with higher taxes after a general election expected sometime between March and May 2010 as the new government tries to rein in the country’s burgeoning fiscal deficit. Recent reports from the TTJ suggest many timber traders expect the UK market to continue to “bump along the bottom” in 2010.

GDP in **France** is expected to grow by 0.9% in 2010. The French government has been spending freely in an effort to counteract the effects of the recession, supporting employment and bringing forward planned public investment projects. However this is at the cost of a burgeoning budget deficit. While the economy has stabilised there is unlikely to be any dynamism.

Tight fiscal policies in **Italy** leave little room for economic stimulus. There also appears to be little appetite for structural reform, suggesting Italy will not be well placed to benefit from the global upturn and its economic position in Europe will continue to weaken. Economic growth of only 0.4% is expected in 2010. The strong euro will be a brake on Italian competiitveness in key export sectors, including furniture. Manufacturing in the Italian wood processing sectors is well down. During late 2009, industries focused on exports, such as furniture, were reporting that sales had fallen by nearly 50% compared to the previous year. Traditionally Italian wood importers carried relatively high stocks, but during the current downturn companies have followed the trend to greatly run down stocks and minimise forward orders.

A home-grown property bubble meant **Spain** was hit early and very hard by the credit crunch. The construction sector has collapsed, feeding through into a dramatic decline in key wood processing and manufacturing sectors. Spain’s large door manufacturing sector has suffered from widespread bankruptcies and production is believed to be down by more than 50%. Prospects for any improvement in Spain’s economy in the short to medium term seem poor. GDP is expected to decline by 0.8% in 2010, with no return to growth until at least the last quarter of the year. Unemployment and the budget deficit is expected to soar.

The economy in **Portugal** has been dragged down alongside it’s neighbour. Although the country technically emerged from recession in the second quarter of 2009 (according to the OECD), the economy is expected to barely grow in 2010.

Tropical hardwood imports into the **Netherlands** and **Belgium** are boosted to some extent by the increased reliance north-west European traders on just-in-time orders during the recession, which is tending to benefit large stockholders close to the ports at Amsterdam and Antwerp. However, domestic demand in both countries is seriously dampened by slow economic activity. The economy in the Netherlands is expected to make little headway in 2010. The Economist is forecasting growth of only 0.4%, too low to prevent increases in the unemployment rate (which nevertheless remains one of the lowest in the world at only around 5%). Slow growth is forecast despite increased public spending which is swelling the budget gap. GDP in Belgium is expected to grow by around 0.8% in 2010, which is likely to feel only marginally less painful than the contraction in 2009 as unemployment is continuing to rise and living standards have stagnated.

**Denmark** has been experiencing one the longest recessions of any European country and GDP is only expected to grow by 0.5% in 2010.

**Greece** is struggling under the weight of a huge fiscal deficit. Without remedial action, public debt is expected to reach an alarming 135% of GDP in 2011. The newly elected socialist government has indicated that it has no intention of implementing the tough austerity measures - such as a public pay and and hiring freeze – required to tackle a problem which has now become critical. This may be at the cost of long-term investor confidence. GDP growth of 0.5% is expected in 2010.

**Ireland** has been hit harder than most by the crises and the economy is expected to remain in recession through 2010. GDP is expected to decline by over 2% this year. Unemployment is rising and is expected to peak at 16% this year, while the fiscal deficit is firmly in double figures. The construction sector has been very badly hit and is expected to remain stagnant in 2010.