

Europe crawls out of recession

The Financial Times (FT) reports that “the worst recession to hit continental Europe since the 1930s ended formally in the three months to September, but with less than a bang than expected.” Drawing on Eurostat data, the FT notes that GDP in the 16-country eurozone grew 0.4% in the third quarter compared with the previous 3 months. That was the first positive growth reported since early 2008. Germany returned to its role as Europe’s economic powerhouse, reporting a 0.7% expansion, boosted by investment spending and exports. Italy also performed strongly with GDP rising 0.6% in the third quarter. But the overall euro-zone rebound was marred by a much weaker than expected performance by France, which reported a GDP rise of 0.3% - the same as the previous quarter. Eurozone prospects also remain blighted by Spain, hit badly by its property market collapse.

The FT warns that the pace of recovery is likely to be slow. Quoting Jorg Kramer, chief economist at Commerzbank in Frankfurt, it suggests that “the eurozone is driving ahead with the handbrake on”. So far, recovery has been dependent on temporary factors – less aggressive destocking by industry and emergency stimulus measures. It is too early to assume that growth will be sustained. After a while, the recovery could run out of steam if household demand does not pick up. Consumer spending remains weak across the eurozone and prospects for any strengthening are gloomy given the current state of the labour market. Meanwhile the strengthening euro, which is undermining exports, and weakness in the banking sector are other obstacles to a rapid rebound.

Outside the eurozone, the UK economy was still in recession at the end of the third quarter of 2009. The UK is now in its longest recession since records began in 1955. Here too, the latest economic data suggests that any recovery is likely to be sluggish. Consumer spending is currently bolstered by a reduced VAT rate, which forms part of the government’s package of stimulus measures, but may well be hit when the rate is returned to pre-recession levels in January. Continuing job losses are also damaging consumer confidence. While companies are rebuilding stocks, lack of confidence in end-user demand is feeding through into only cautious buying. Despite promising signs that property prices may have stabilised in the summer months, the UK housing market still looks very fragile. Both mortgage approvals and private housing orders continued to fall in August, the latest month for which this data is available. The outlook therefore is for only very sluggish growth in the first half of 2010.

Tentative moves to restock plywood in the UK

The emergence of gaps in stockholdings and a fear of future shortfalls in supply have encouraged some tentative moves by UK plywood importers to restock in recent weeks. Uncertainty over future demand prospects, combined with concerns over freight rate increases and the inconsistency of the pound-dollar exchange rate, mean that the mood remains extremely cautious.

The UK tropical hardwood plywood market is now very much dominated by Malaysian and Chinese material. Low price expectations, falling availability of raw material and environmental concerns have generally forced out Indonesian shippers.

Brazilian shippers have also been unable to meet current market prices, particularly as mills in Brazil have also been hit by the strength of the real against the US dollar. Generally slow consumption and uncertain market prospects have meant that efforts by Malaysian shippers to edge up their prices to better reflect rising costs and low supply have been met with resistance by UK importers. Nevertheless, expectations are that UK CIF dollar prices for Malaysian BB/CC WBP plywood for December 2009 may be 5% higher than in September 2009. Chinese plywood shippers are also generally looking to push up prices due to rising costs and log supply problems.

UK trade in tropical hardwood plywood is increasingly concentrated in the hands of a limited number of larger importers and merchants. This combined with the fact that during the recession a much higher proportion of new building work in the UK is now dependent on public-sector finance, is adding to the pressure on suppliers to demonstrate that products are FSC or PEFC certified. Many large importers are tightening their certification requirements. For example B&Q, the UK's largest DIY retailer, announced in September that it will only buy FSC-certified tropical hardwood plywood (B&Q's tropical hardwood throughout plywood is manufactured in Acre, western Brazil). Similarly, International Plywood, one of the UK's largest importers, recently reported that over the last 5 years, their sales of certified products went from zero to 20% of turnover. In 2009, this figure is expected to be as high as 35% and it won't be long before all their softwood product range is certified.

Mislabelling of Chinese plywood

Controversy surrounding quality issues and mislabelling continue to plague imports of Chinese combi-plywood into the UK. Most recently, a large volume of Chinese hardwood-faced poplar plywood was impounded in the Port of Belfast on suspicion of falsification of CE marking. According to the UK TTJ, Belfast City Council's environmental health department has impounded up to 80 containers of BB/CC plywood, ranging from 5.5-18mm thickness, and ordered the remarking of product. The department said its investigations in China and Europe led to concerns that the CE2+ stamp on pallets had been falsified. Product has now been remarked CE4+ and invoices and documentation changed accordingly so that the product can only be sold on for non-structural applications.

In an effort to overcome quality problems associated with Chinese plywood products, and to differentiate the good from the bad, the UK notified body BM TRADA Certification recently launched the Q-Mark certification system. This system, which goes beyond CE Marking, has been set up as a direct response to a loss of confidence in the quality of products from Chinese plywood manufacturers and the appearance of CE-Marks on inferior products. Q-Marking shows that products are fully compliant with European Construction Products Directive (CPD) requirements for structural applications. All boards must be individually marked and any mills found to be non-compliant with any of the requirements will be suspended immediately. The plywood importer RKL is hoping to be the first UK company to source Chinese plywood under the scheme. The first shipment of Q-Marked products is scheduled to arrive in the UK during November.

Competition mounts for tropical plywood in UK market

Meanwhile, the TTJ's latest special feature on the UK panel products sector highlights some major emerging challenges to the market position of tropical hardwood plywood in the UK. For example:

- Ireland-based Coillte Panel Products now has a joint development agreement with Accoya modified wood creator Titan Wood to commercialise modified MDF panels to extend their application into shop-fitting, exterior, facades, garden furniture and even decking.
- The 4-year old JOSB Done Campaign, supported by the Wood Panel Industries Federation, the manufacturers Norbord and Smartply, and resin supplier Huntsman, is having a significant effect on attitudes in the UK building sector. According to the JOSB campaign organisers, their research suggests that 78% of UK builders and merchants would “opt for OSB over plywood” and for those who don't choose OSB over plywood “it was a question of not knowing enough about OSB to make an informed choice”.
- Smartply is now promoting Site Protect OSB coated pre-finished panels which are replacing tropical hardwood plywood in the hoarding sector.
- Weyerhaeuser is increasing its efforts to promote “Tropical Replacement Panel” manufactured from Uruguayan plantation eucalyptus in the UK market. Over recent years, US\$100 million has been invested in the development of a plywood mill at Tacuarembó in Uruguay. The mill, of which Weyerhaeuser assumed 100% control in 2007, has capacity close to 400,000 m³ per annum and can produce a full portfolio of 12-22 mm products in 14 grades. Weyerhaeuser claims that the top-end 100% eucalyptus appearance grade plywood compares favourably with tropical BB/CC tropical hardwood plywood from Malaysia and Indonesia.
- While Chinese plywood has been beset with quality problems, large UK importers like International Plywood are now working closely with a limited number of better quality mills in China to better ensure they get a consistent product.