

## Market report for 25 April

### Sawn lumber demand slows in all leading EU markets

European demand for tropical hardwoods remains subdued due to uncertain economic conditions in all the main markets. The strong euro has meant particularly slow buying of African species and given dollar denominated species an edge. Importers stocks of African hardwood species are generally high and it is becoming increasingly difficult for importers to pass on replacement prices.

The problems of the European hardwood market are not only impacting on tropical hardwoods. Even American hardwoods – which should be benefiting from the weakness of the dollar against the euro – are experiencing a significant downturn. According to the April issue of the US journal *Hardwood Review Global* “European demand for US hardwoods declined last month amid slowing home construction, faltering economic confidence, and increasing competition from Asian wood manufacturers. Most Italian, British Portuguese and Belgian importers reduced purchases only marginally. However orders from Spanish, German, Irish, Dutch, Swedish, French and Danish yards and end-users were sharply lower.”

In the UK, demand for sapele, the favoured joinery species, is reported to be weak. Importers stocks are in excess of demand and there is a lot of selling below replacement cost. Interest in the forward market is limited with most buyers satisfying short-term need from existing grounded stocks in the UK and on the continent. Although sapele forward prices have remained reasonably stable, there are some reports of shippers dropping prices in order to stimulate demand. Subdued levels of consumption of other African hardwoods in the UK including framire and iroko have changed little in recent weeks.

CIF dollar prices for meranti tembaga on offer to UK buyers have risen 2-3% in recent weeks as shippers have sought to compensate for the stronger ringgit against the dollar, the rising costs of production and freight, and as supplies have tightened in the rainy season. However the strong euro means that meranti still maintains a significant price advantage over sapele. Although many UK manufacturers of doors and windows remain firmly wedded to the quality and consistency of sapele, those buying for more general utility joinery applications have switched to meranti in recent months. Nevertheless uncertainty over construction sector prospects has meant that UK forward demand even for meranti remains weak.

There are some suggestions of reasonable demand for keruing in the UK despite firm prices although consumption is limited by supply constraints.

A major feature of the UK hardwood market in recent years has been the strong fashion for European oak. This trend seems to have changed little this year. European oak continues to be strongly favoured even as the strong euro has meant high prices in the UK compared to American white oak. The UK market for the latter has been suffering this year due to a distinct lack of shipping space from the Eastern US into the EU.

The Irish market – which in past years has been a major source of demand for iroko and sapele lumber – is now very subdued on the back of a major slowdown in construction activity.

The German hardwood market remains slow, an inevitable consequence of the sluggish building sector. A recent report in the German economic journal Die Welt notes that the German government has ceased giving subsidies for owner-occupation and this has contributed to a downturn in house building. Trade experts suggest that the use of timber windows may decrease by roughly 20% this year compared to last. This is already being felt in weak demand for dark red meranti sawn lumber and lamscants in Germany. Although stocks of these commodities are believed to have come down since the start of the year, consumption is so slow that few are anticipating any quick return to the forward market.

According to the German trade journal EUWID, forward purchasing of African hardwoods in Germany remains slow. When necessary importers are tending to buy little and often from existing landed stocks in Germany and Netherlands which are reported to be adequate to meet current levels of slow demand. EUWID notes that "one or two importers are even talking of a pronounced over-supply". As in the UK, the problems have been particularly pronounced for sapele, with some importers reducing prices of this species for onward sale in Germany in an effort to off-load excess stock. However EUWID also notes that German demand for African whitewood species including ayous, samba and koto used in the mouldings industry and for sauna-building has tended to be more buoyant than the market for redwood species.

Economic growth in the Netherlands has been undermined by the strong euro and as several large Dutch banks have had to write off major losses in the US. The Economist journal predicts that following growth of 3% in 2006 and 3.5% in 2007, GDP growth in the country will decelerate to 2.1% in 2008 and 2% in 2009 because of lower export growth.

Although this situation has not yet significantly dented overall business confidence in the Netherlands, the timber trade seems to be suffering from a bout of uncertainty. Forward orders of Malaysian meranti and merbau are very slow, particularly as importers are very keen to avoid the severe problems created in 2007 due to over-stocking. Although meranti stocks are much lower than they were last year, Dutch importers are cautious in their dealings with the forward market. Nor are they encouraged by the current low levels of consumption in the EU.

The Netherlands timber trade is also feeling the cold from the domestic building sector which remains a major cause for concern. Although house prices continue to trend upwards, the building activity continues to be hindered by excessive red tape. As a result many end users are trying to maintain only minimum stocks and to restock only when absolutely necessary.

Poor economic conditions in Italy and Spain are acting as a significant drag on tropical hardwood markets in both countries. The Spanish door sector, a major source of demand for tropical lumber and veneers is under intense pressure from declining home construction and increasing competition from Asian manufacturers.

Dollar CIF Northern Europe prices for good quality Bangkirai have remained largely stable in recent weeks. There are some reports of solid demand for good quality product despite the general lack of good weather at the start of the spring season. However demand for lower quality bangkirai has been weaker and stock levels are reported to be high.

## **EU plywood market remains subdued**

There has been little change in EU market for hardwood plywood in recent weeks. Demand remains quite subdued and CIF prices are reasonably stable. A UK contact suggests that although Southeast Asian mills are looking to increase prices to the EU due to higher costs of logs, glue, utilities, freight and labour, slow demand has meant the market has not been receptive. In mid-April, the German trade journal EUWID reports that prices for Indonesian raw plywood in 4x8 foot format are averaging Indo 96 +25 to +27.

In the UK, a barrage of bad news relating to the housing market and global financial crises has hit business confidence this year. Furthermore, overbuying at the end of 2007 in response to supply concerns has meant that existing on-ground supply has generally been sufficient to meet subdued demand. Stocks of Chinese plywood are regarded as particularly high compared to the level of demand. One contact also suggests that Malaysian plywood stocks in the UK are high leading to intense competition for sales between the major UK importers. There is now a lot of cross-trading between importing companies - rather than enter to forward market, smaller companies are finding it cheaper to buy from existing landed stocks of the larger distributors.

There is a sense that current plywood prices on the ground in the UK do not adequately reflect replacement cost while lack of forward buying might eventually lead to shortages if order levels improve. However there is little expectation of a significant improvement in market sentiment in the short-term.

### **EU policy developments on illegal wood trade reach a critical stage**

EU policy developments relating to illegal logging and timber procurement are reaching a critical stage. Two EC Communications are due to be released in May 2008, one covering Additional Legislative Options, the other covering Green Public Procurement (GPP). The first is expected to recommend a law that would impose a requirement for due diligence on European operators in the wood sector, including importers, manufacturers, and distributors. These operators would be required by law to conform to industry Codes of Conduct or equivalent company based programs involving comprehensive risk assessment of suppliers. The second Communication on GPP forms part of an EC initiative designed to provide Member States with the necessary tools to raise the quantity and quality of GPP in the EU. Expectations are high that the Communication will improve the current incomplete and inconsistent EC guidance on public sector timber procurement which has contributed to the development of a confusing array of policies at national level.

Rupert Oliver  
25 April 2008