

European hardwood market report

Forward demand for meranti lumber and scantlings in the Netherlands and Germany is subdued at present due to relatively high stocks, with most business now focused on higher density more durable products. Due to low levels of demand, importers report no problems in securing adequate stock despite a major reduction in production levels in the Far East. Forward prices for South East Asian wood products offered to EU importers have stabilised in recent weeks, the current relatively low level of demand balanced by the tight supply situation.

Prices for meranti tembaga, a popular joinery species in the UK, which weakened significantly during the second half of 2007, now seem to have stabilised. Large stocks of this species built up in Port Klang in Malaysia in the third quarter of last year, but these stocks are now reported to be much reduced. Although sapele remains the favoured tropical hardwood joinery species in the UK, prices for meranti tembaga are currently very competitive against sapele encouraging some movement back to the Malaysian species.

In recent weeks, EU imports of bangkirai decking have remained slow with high stocks continuing to be reported at the North Sea ports of Rotterdam, Hamburg and Antwerp. There is some expectation of a slight pick up in orders in advance of the Chinese New Year in February as importers aim to ensure delivery in time for the 2008 spring season, but volumes of new orders are expected to be down on previous years.

Expectations amongst European importers are that lumber prices from South East Asia may rise after the Chinese New Year due to tighter log supply in the rainy season and rising costs. There should also be a pick up in demand for garden products in the spring months. Already some meranti lumber shippers have made minor upward adjustments.

Prices for African logs and lumber have generally remained firm and stable on European markets in recent weeks, with slow demand balanced by tight supply. Supplies of high quality redwood logs, which are favoured in Europe, are now limited as increasing emphasis is placed on value-added processing in the main supply countries.

Existing landed stocks of kiln dried sapele sawn lumber in the Benelux countries are reported to be relatively good so that at present European distributors are having little difficulty obtaining material. However reports of tight sapele lumber supply in the leading supply countries suggest that replacement costs may well rise, feeding through into price increases on the EU market in coming months.

Forward prices for iroko sawn lumber on offer to European buyers have been a little weak in recent months, with demand relatively subdued and mills in the Ivory Coast concentrating heavily on processing of this species. But as Ivory Coast mills have concentrated on iroko, supplies of Ivory Coast framire – which has become a popular joinery species in the UK – have become more restricted. As a result prices for framire have remained firm.

European importers report that very little white wawa is now coming out of Ghana, with much of the available wood now comprising darker material with stain. Buyers seeking the whiter material are tending to shift to samba from Ivory Coast. However EU demand is now less than in the past as European manufacturing capacity in

relevant sectors (for example window frames) has declined under the influence of Chinese imports.

Ocean freight rates from key hardwood supplying regions into the European market have risen in recent weeks. The Far East Freight Conference raised rates by \$600 per 40' container on 1 January 2008 adding around \$25/m³ to the cost of shipping from South East Asia into the EU. Ocean freight rates increased significantly from Africa at the start of the fourth quarter of 2007. Also freight rates from North America into Europe increased by US\$500 per 40' container in early January, adding about \$18/m³ to shipping costs.

Following a decision taken at the European foreign ministers meeting in Luxembourg on 15 October 2007 to introduce economic sanctions against Myanmar, a full import ban on teak is expected to come fully into force in February.

Uncertain prospects in the UK during 2008

Economic activity has been slowing in the UK in recent months, undermining confidence in the timber importing and manufacturing sectors. The Economist Intelligence Unit forecasts that real GDP growth will slow from 3.1% in 2007 to 1.9% in 2008. New house starts are falling, while concerns are also mounting over the international "credit crunch", jitters in the stockmarket and rising costs, particularly for energy. The government's weak fiscal position suggests that there is now less scope for public sector spending on further improvements in public services.

The UK joinery sector reports adequate workloads at present, but there are significant concerns about the prospects for the rest of year as economic indicators have taken a turn for the worse. Joinery companies recently interviewed by the TTJ suggest that their labour, energy and material costs had risen by between 7% and 10% last year. This has had an impact on profitability in the sector with the British Woodworking Federation reporting that it lost 2% of its core membership last year as several companies fell victim to bad debts.

But it is not all doom and gloom. Joinery companies operating at the higher end of the UK market report a reasonable flow of orders, particularly from the top end commercial and retail sectors. One mass producer also reported a pick-up in demand for timber windows and stairs at the end of last year, although the demand for doors remained flat. This company is now pushing up prices for its windows and doors by around 5% to absorb rising costs.

UK agents report mixed views on the current level of hardwood purchasing in the UK. While some note that the current economic situation has dampened purchasing by importers and distributors at the beginning of the year, others report a good level of demand in the opening weeks of 2007. One leading hardwood agent said they had been very busy in the last 3 weeks with strong sales in all the leading species, including white oak, sapele, framire, meranti, ash and walnut. This agent speculated that his good order book may be short-term due to importers' restocking after curtailing purchases at the end of last year and may not be indicative of how the market will progress in the coming weeks. Certainly, the UK softwood market is quiet at present, indicative of slow construction activity, a factor which is likely to filter through into weaker hardwood demand in coming months.

Sterling prices for many hardwood species imported into the UK have firmed up since December as both the US\$ and Euro have strengthened against the UK currency.

Environmental issues continue to be a major focus for the UK trade as a whole. The UK government's Central Point of Expertise on Timber (CPET) has been preparing the ground for the April 2009 deadline whereby all wood used in UK government procurement must either be verified sustainable or covered under the terms of a FLEGT VPA license. New guidance for procurement officers is due to be published in February. The UK government has also just launched a public consultation on possible new laws at national level to prevent illegal wood imports into the country.

Concerns mount in the Spanish door sector

Spain's construction sector is stuttering, raising fears for the hardwood importing and manufacturing sector. Spanish housing prices rose 17% in 2004 and 9.1% in 2006. Final figures for 2007 are not yet out, but are predicted by the Spanish government to be only around 5%. Spanish interest rates have jumped three points in as many years, there is a glut of housing on the market and Spanish banks worried by the sub-prime crisis in the United States are now much tighter when it comes to lending.

Spain's construction sector has been a major driver of demand for hardwoods, including for doors, flooring and other joinery applications. Already there are signs that the slowdown is impacting on key manufacturing sectors, with reports of redundancies and slower sales amongst Spain's major door manufacturers. The problem is compounded in the door sector which is very dependent on the domestic market and which has not succeeded in developing a large export market. There is also mounting pressure from Chinese and other overseas competitors.

Spanish door manufacturers are seeking to respond to these problems by moving up-market, focusing on design and product quality to sell a higher margin product. This might bode well for hardwood consumption longer-term. There is also some optimism that the slowing demand from new-build projects may be partially off-set by rising interest in hardwood interiors and flooring for renovation projects.

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