European market report

Economic data deteriorates

Overall economic conditions in the EU have continued to deteriorate. According to figures published on 14 November which showed that the euro-area economy shrank in the third quarter following a similar decline in the three months to June, the region is now technically in recession. This is the first time that GDP growth across the area has fallen in successive quarters since the euro was launched in 1999. Overall GDP in the euro-area has grown by 0.7% this year, with all the growth concentrated in the third quarter. Germany and Spain have performed slightly better than the euro-area average, France has done a little worse. Italy stands out as the worst performer – its GDP is down 0.9% on a year ago. Meanwhile unemployment has jumped in Spain and Ireland, the two countries hardest hit by the property bust and scarcity of mortgage credit. On this measure Germany has performed reasonably well, unemployment in the country having actually fallen slightly this year.

In fact, of all the large European economies, Germany now seems best placed to weather the storm. Compared to companies in European countries, those in Germany are relatively cash rich, less dependent on the banks and under less pressure to prune budgets. And Germany's public finances are in reasonable shape, the national budget was close to balance last year, so the government has more scope to boost growth through increased public spending or tax reductions.

Meanwhile the UK economy is in a slump. A decline of 0.5% in the UK's GDP in the third quarter compared with the second was a lot sharper than expected. And business surveys are indicating that the final quarter of 2008 has got off to a poor start. Manufacturing conditions in October stayed close to the previous month's record low, and activity in construction and services plumbed new depths, according to this week's purchasing managers' reports. Together, these findings suggest that the decline in GDP in the fourth quarter will be at least as steep as in the third. In an effort to boost demand, on 6th November the UK's central bank slashed the base interest rate by one-and-a-half percentage points, bringing it down from 4.5% to 3%, the lowest since early 1955.

Little forward buying in the Benelux countries

The gloomy economic picture has had a profound impact on the hardwood market. Agents supplying the large importers in the Benelux countries report that there is very little forward buying. Some importers are still carrying excess landed stocks of key joinery species including sapele and meranti. Only a few forward orders mainly for higher quality items are trickling in from those buyers concerned about the very long lead times. In the face of slow demand, shippers have been winding down their stocks now for some time, so availability of many items for prompt shipment is now negligible. A representative of one trading company dealing in a wide range of tropical hardwoods noted that "*the supply pipeline is empty, we are not overstocked at all. If you place forward orders for African products today the lead time is 6 months*".

UK market closes early for Christmas

In the UK, the weakness of sterling combined with particularly gloomy economic data has meant that forward buying has been particularly weak. One UK based agent involved in the trade for 40 years comments "*I have seen four recessions during this period, in the early 70s, 80s, 90s and now this one. But I've never known a change as rapid as this. We were having a good year until the end of September, but everything stopped in the first week of October when the banking crises came to a head. The following week, sales briefly recovered to around 50% of their earlier levels, but we've seen a progressive decline since then. Now the UK hardwood trade, at least with respect to forward sales, has essentially shut down for Christmas, the earliest shutdown I have ever known".*

It will be little consolation to tropical suppliers that this agent, when asked if any "hardwood" products were selling well in the UK at present, replied "yes, Siberian larch!" While not technically a hardwood, Siberian Larch grows so slowly in northern Russia that it produces an extremely durable and hard timber. Siberian larch has become very popular in the UK public sector, initially for cladding where it competes directly with Western Red Cedar from North America. But as architects have become more familiar with the species, they have begun using it for a wider range of joinery applications, such as flooring, where it competes more directly with tropical hardwood. A key advantage of the species for UK public sector buyers is that it is readily available FSC certified. This anecdote highlights both the increasing importance in the UK of public sector buyers at a time when private sector construction activity has shrunk and the rising significance of forest certification to buyers in this sector.

In the UK, importers are still carrying heavy stocks in standard commercial items. One large importer is reported to be off-loading sapele and white oak – the two most popular hardwood species in the UK - at well below replacement cost in order to generate cash flow. Other importers have generally not joined in the fire sale, but under such circumstances, there is very little interest in forward buying.

UK market conditions for manufactured tropical hardwood products seem little better. One contact that formerly sold large volumes of tropical hardwood garden furniture from the Far East to large UK high street retailers reports that he has gone into receivership this month. "*Many retailers are still sitting on large stocks of garden furniture from last summer, sales having been hit hard by the appalling summer. So absolutely nobody is buying for next season. The market has collapsed. Problems have mounted for shippers who until only 3 months ago were trying to push through significant price rises in order to accommodate rapid increases in costs, including rising labour rates in China, high raw material and energy costs. I was in China in the summer and large numbers of garden furniture factories were on their knees back then. With few sales coming through in the last 3 months and no willingness on the part of buyers to accept price increases, problems must have intensified since then*".

The UK joinery manufacturing sector, traditionally a significant user of tropical hardwood products, seems to be fairing no better. Richard Lambert, the Chief Executive of the British Woodworking Federation (BWF) suggests in a recent TTJ article that there may be more joinery sector redundancies and company closures in coming months following the closure of the main site of the STP Group, one of the largest UK door manufacturers. Lambert went on to say: "*we've had a steady flow of* *requests for advice on redundancies, lay-offs and short time working over the past couple of months*" and noted that times were particularly tough for those companies linked to the residential construction sector.

Cautionary note regarding indicative prices

Due to very low levels of trade over the last few weeks, it has become increasingly difficult to collect indicative prices for hardwood products traded in the EU. The most that can be said is that shippers are generally reducing forward prices across the board for standard items, but since the vast majority of European customers are currently very unwilling to buy forward at any price, there is little or no price formation.