

European hardwood lumber market still in a slump

Consumption in the European hardwood market continues to slump on the back of poor economic news and uncertainty, lack of bank credit and the restrictive policies of credit insurers.

Despite very low levels of production in Africa, such is the weakness of international demand that European buyers report that new orders can still be placed with African mills at short notice, with delivery times no more than 2 to 3 months. Prices seem now to have hit the floor, the mills having no margin for further downward movement and little incentive for reductions now that stocks are at a low level. However, European importers are generally vague about forward price levels since so few have made any significant purchases over recent months.

Stock levels of most African hardwoods remain high in Europe. Some larger importers are continuing to offload this stock at below replacement cost so there is little incentive to enter the forward market. Orders for onward sale into the European market are generally small, and importers holding heavy stocks are still willing to offer sizeable discounts for those willing to take larger volumes.

European forward demand for sapele, both logs and lumber, has been particularly weak. However consumption of other species is little more active. Such is the lack of confidence in Europe's joinery and furniture manufacturing sectors, that even Gabon's ban on the harvesting of douka, ozigo, moabi, and afo from 1 January 2009 has done little to stimulate demand for the remaining stocks of these species.

The demand for Asian species is no better. Although there are some reports of increased enquiries since the start of the year, these have not been translated into significant new orders. As with Africa products, European importers seem to have no difficulty obtaining the limited stocks they require at relatively short notice despite evidence of a sharp decrease in production levels in South East Asia. US dollar forward prices for meranti lumber and window scantlings have weakened again slightly in recent weeks, although prices for selangan batu/ bangkirai decking profiles seem now to have stabilised after losing a lot of ground at the end of last year.

European plywood demand "terrible"

The opening words of the TTJ's report on the demand for plywood in the UK, the largest importer of this commodity from outside the EU, say it all: "*The state of demand in the plywood industry is terrible and is getting worse*". TTJ reckons that for the UK plywood industry, 2009 may be "*the toughest year in its history*".

The dire state of the UK construction sector has meant that importers and agents find themselves with no orders, despite efforts to generate demand through cheap offers. Those carrying stock are desperate to offload in order to maintain cash flow. But many distributors, faced with an almost total lack of end user consumption, have cut back on purchases to such an extent over the last 6 months that they hold near zero levels of stock. TTJ quotes one importer who suggests that he has gone from bringing in 40 containers a month to just 2.

It's entirely a buyers market, with clients being very particular about what they want and the specific (always small) quantity required. The lack of orders seems to be affecting all parts of the trade. There's been no pick up in Brazilian plywood imports despite these being duty exempt into Europe until the end of April.

There are a few agents that are a little more positive – one suggesting that the market should bottom out in April-May, with a bit more consumption in the spring months balancing the existing low levels of supply.

A few bright spots in the European window sector

The German trade journal EUWID comments that *“German window scantling manufacturers and major importers still have a relatively optimistic view of the future. In Central Europe demand for window scantlings is said to be generally satisfactory, especially for high quality and heavier assortments. Relatively slack demand in February is attributable to adverse weather conditions. Prospects for the rest of the year are considered to be relatively positive for Central European countries: here recently announced state economic stimuli packages are expected to stimulate demand for energy-saving renovation work on windows. However no improvement is in sight in the UK, Ireland, Spain, or Eastern Europe.”*

FAO comment on the impact of the global financial crises.

The State of the World's Forests 2009 report issued by FAO in Rome earlier this month comments on the possible long term impact of the on-going economic crises on the world's forests and wood sector.

FAO note that the collapse of the housing sector in western countries has reduced the demand for a wide array of wood and wood products, leading to mill closures and unemployment. New investments are slowing as a result, affecting all wood industries. The demand for environmental services has also changed as a result of reduced ability and willingness to pay for such services. Carbon prices have remained highly volatile. Future climate change arrangements may face challenges as countries give priority to tackling the economic crisis.

FAO are concerned that this might have negative impacts on forest resources through, for example *“reduced investment in sustainable forest management and a rise in illegal logging as the decline in the formal economic sector opens opportunities for expansion of the informal sector. Land dependence, which had been easing, could increase, raising the risk of agricultural expansion into forests, deforestation and reversal of previous forest gains”*.

But there could also be positive impacts: *“reduced wood demand could lessen pressure on forests, while conversion of forest for large scale cultivation of commercial crops such as oil-palm, soybeans and rubber could slow as their prices fall. It is impossible to know when the global economy will begin to recover. However, such crises also offer opportunities to chart new paths of development. The forest sector could benefit from the pursuit of a “green path” to development – through building up of natural resource capital (e.g. through afforestation and reforestation and increased investments in sustainable forest management), generation of rural employment and active promotion of wood in green building practices and renewable energy. Certainly, this change of path will require fundamental institutional changes, but the crisis may bring about greater willingness to accept and implement long-overdue reforms”*.

The report is available at <http://www.fao.org/docrep/011/i0350e/i0350e00.htm>