

Continuing uncertainty in the European market

Overall market conditions for tropical wood products in Europe remain very subdued. There continues to be uncertainty over the sustainability of economic recovery now that government stimulus measures are being removed and austerity measures are being introduced in an effort to calm market concerns over the level of public debt. The construction sector – particularly new residential activity - also remains very weak across the continent.

These problems are compounded by the weakening of the euro and rising freight rates which are reinforcing the already strong tendency amongst importers to keep stocks low and place only small orders. Lack of availability and lengthening lead times for tropical wood products are a significant hindrance in this market environment with the result that tropical wood continues to lose market share.

In the sawn lumber sector, there are signs that manufacturers requiring a dark or red tropical look are increasingly looking to take more widely available lighter temperate species such as beech, tulipwood, and maple to which they will apply a stain. In the plywood sector, South East Asian products are being replaced by Russian birch and Chinese plywood products.

However, hardwood demand is benefiting in some parts of Europe from reasonable renovation activity. There are also hopes that weakening of the euro will help boost exports of European manufactured goods including furniture and flooring.

Germany more buoyant than other European economies

Market conditions vary to some extent from country to country. The German economy is recovering slowly in 2010, a trend which is expected to strengthen into 2011, underpinned by continued government relief measures and improving demand for German products in export markets as the euro is expected to weaken. German construction activity has held up better than other European economies – declining only 1.2% in 2009. New residential construction is suffering from the banks' caution in granting credit and the removal of government stimuli such as the own-home grant. However renovation activity has remained quite strong, boosted by government support for energy saving measures. This last factor has particularly boosted wood-related demand in the replacement window sector.

France and the Low Countries recovering only very slowly

In 2010 and 2011 the French economy as a whole is expected to recover only slowly. Much hinges on the ability of French firms to boost exports as domestic consumption is not expected to pick up any time soon. Construction sector activity in France, which declined by 7% in 2009, is forecast to shrink further this year. New residential construction has been particularly badly hit, falling dramatically since the middle of 2009 onwards. Renovation and non-residential construction activity, which declined 1.5% and 7.4% respectively in 2009, remain subdued and are not expected to improve much during 2010.

The economic recovery in Belgium is also very sluggish despite expansionary fiscal measures such as a reduction in VAT on residential construction and an increase in public investment. Unemployment remains stubbornly high and private investors lack confidence. Renovation activity has been growing but not sufficiently fast to take up much of the slack in the construction sector as the level of new residential and commercial construction has continued to slide. Overall construction activity in Belgium is forecast to shrink by 3% in 2010.

Despite the gloomy economic data, reports from the recent Carrefour International du Bois show in Nantes suggest there is growing optimism in the French and Belgian hardwood trade. Quoted in the TTJ, Genevieve Standaert of Belgian-based international trader Vandecasteele describes the market as “better and more optimistic than 2009...now the issue is not demand but supply and, as a result, rising prices – if you can buy today, it will be cheaper than tomorrow – so the benefit of holding stock for prompt delivery is coming back.”

A bleaker situation prevails in the Netherlands where consumption of all wood products is running at low levels due to stagnation both of the new-build and building renovation markets. Investment in new residential construction in the country declined 9.8% in 2009 and is expected to decrease by a further 13.9% in 2010 as job insecurity and lack of credit deter home-buying. The new non-residential construction sector is also performing very badly, declining 9.8% in 2009 and forecast to fall a further 17.5% this year. Some increased construction in the education and healthcare sectors is insufficient to counteract a very large decline in levels of commercial construction in the Netherlands. All this does not bode well for prospects in the wood window sector, traditionally the major source of demand for tropical hardwoods in the Netherlands.

UK traders more optimistic

UK hardwood importers, on the other hand, are more optimistic about the state of the trade now than they were at the beginning of the year. A new market environment prevails with little or no speculative buying and stocks generally being kept at a much lower level than before the recession. The trade is now very heavily reliant on just-in-time orders from the few large UK and continental importers willing to carry stock. Joinery companies are not as busy as they would like and they have fewer projects in the pipeline. However there continues to be a steady trickle of demand for repair and renovation work. Joinery demand in London is boosted by the 2012 Olympic developments, many of which are now reaching the joinery finishing stage.

The announcement of tough austerity measures by the new UK government in recent days seems to have reassured international currency markets and boosted prospects for the GB pound which is now strengthening, particularly against the euro. This may help encourage more buying in the UK in the short term. However the austerity measures are also likely to dent consumer confidence in the coming weeks and months and imply a big reduction in spending on large public projects.

Mixed prospects in Southern Europe

Prospects for hardwood demand in Italy now appear to be very mixed. Italy's domestic market for wood products, including both joinery and furniture, has been negatively affected by a big downturn in new construction, including both residential and commercial. New residential construction was down as much as 19.2% last year. On the other hand, renovation activity – particularly important for hardwood consumption – has remained more stable. Investment in renovation declined only 4% in 2009 and is expected to recover during 2010 in response to government energy-efficiency measures. The weakening euro and slowly reviving global economy also hold out the promise of rising exports by Italy's large furniture manufacturing sector. These factors contributed to a feeling of greater confidence amongst Italian furniture manufacturers exhibiting at the Milan furniture fair earlier this year.

Hardwood consumption in Spain has continued to fall and sales during the first half of 2010 have shown little or no improvement compared to 2009. Hardwood buying remains very low as importers have continued to reduce stocks and have become increasingly reliant on smaller orders to fill gaps in stock as they arise. The desire to reduce risks associated with stock-holding now overwhelms the increase in transport costs associated with smaller but more regular shipments. Construction activity in many parts of Spain has ground to a halt with devastating results for the Spanish joinery sector which has suffered numerous bankruptcies. Production in Spain's formerly large door sector is down at least 50% on 2007, while production in the wood flooring sector has fallen nearly 40% in the last two years. Spain's furniture sector is also suffering from very slow domestic and export demand and rising imports of cheaper products from Asia and Brazil.

Poland now more important for tropical hardwoods

When considering market prospects for tropical wood in Europe, it is increasingly important to look at market conditions in Eastern Europe, particularly in Poland which has emerged as one Europe's largest producers of furniture and joinery products in recent years. A striking statistic

released at this year's European Parquet Flooring Association (FEP) meeting was that as much as 27% of the 11.8 million m² of wood flooring produced in Poland during 2009 was faced with tropical wood. In fact the flooring sector in Poland was using far more tropical wood than the flooring sectors of any other European country. In addition to flooring, tropical wood finds its way into window frame, door and furniture applications in Poland. Most of the wood is sourced indirectly into Poland by way of large importers in Germany and Denmark.

Poland's economy has proved relatively resilient over the last two years, being the only EU economy to record positive growth last year. The construction sector also recorded growth of 5.3% in 2009. Increased state spending on healthcare and education and infrastructure development for the European Football Championships to be held in Poland in 2012 has been sufficient to offset a big decline in new residential construction. Despite strong economic fundamentals, the zloty has remained relatively weak against the euro, boosting competitiveness of Polish furniture and flooring exports.

European hardwood production down nearly 17% in 2009

Market uncertainty is impacting on domestic hardwood production in Europe as much as on imports. This was made clear in a press release issued on the occasion of the European Sawmillers Organisation (EOS) General Assembly held in Como, Italy, on 11 June. The press release notes that the European hardwood sawmilling sector, which began to experience market contraction as early as 2007, had another difficult year in 2009. Overall production is estimated to have fallen by 16.6% to a level of around 5.8 million m³, performing even worse than previously expected. EOS president Alfred Jechart remarked at the General Assembly that the sawmilling industry in Europe has greatly reduced production in response to the global economic crisis both by reducing the number of shifts and through company closures. Much sawmilling capacity has been reduced permanently.

A 21.4% fall in sawn hardwood production in France, for many years Europe's largest producer, was particularly striking. EOS data indicates that in 2009 Romania overtook France to become Europe's largest sawn hardwood producer accounting for close to 30% of total production volume. France, the second largest producer last year, contributed 21.5% of total production, while the third largest producer Germany contributed 13.7% of total production. However sawn hardwood production levels across Europe now seem to have bottomed out and are forecast to increase by 7.1% in 2010 compared to the previous year.

On the demand side, EOS estimate that sawn hardwood consumption across Europe fell by more than 20% in 2009, also to a level of 5.8 million m³. Consumption fell particularly dramatically in Germany, Italy and Latvia last year. Consumption of sawn hardwood sector has been particularly affected by the lack in demand from the parquet and furniture industries that continue to face sales difficulties.

EOS predictions for sawn hardwood consumption in 2010 are mixed. Some European countries are expected to record a slight improvement while others are forecast to decline even further. An 8.4% increase in consumption is expected for the EOS area overall. In 2009, Italy was the largest market for sawn hardwood within the EOS community accounting for more than a quarter of consumption, followed by France, Romania and Germany.

In addition to the market data, Mrs Gunilla Beyer from the Swedish Forest Industries Federation, Skogsindustierna, presented to the EOS General Assembly a tool to calculate the carbon footprint of sawn timber products which may be used to demonstrate the environmental benefits of using wood over other materials. EOS secretary general Filip De Jaeger also gave a status report of wood marketing activities under the CEI-Bois Roadmap initiative. He highlighted the results of the external evaluation of the Roadmap 2010 activities performed in November 2009 and presented plans for the future, including a proposal to build up a competence centre for wood in construction together with other actors in the wood construction sector (material producers and builders).