

## Caution prevails after the summer vacation

As usual during Europe's lengthy summer vacation period, there has been a slowdown in tropical hardwood trading. Importers in many parts of Europe suggest that overall trade during the first half of 2011, while unspectacular, was an improvement on the same period the previous year. However, the volumes involved were well down on levels prevailing before the recession and there is little expectation of any significant upturn when buyers return at the end of August. On-going concerns about the debt crises in the euro-zone and government austerity measures has contributed to a general feeling of uncertainty about the future direction of demand and raised the spectre of volatile exchange rates. Nor has the long-term problem of limited access to credit amongst importers been resolved.

As a result importers remain very cautious about building stocks. Their margins are also extremely tight and competition for sales is intense. FOB prices for both tropical and temperate hardwoods are relatively high across the board as producers have cut production and face high raw materials costs. Meanwhile customers remain very unwilling to hold stock and there is little willingness to buy forward.

CIF prices for African hardwood products (quoted in euros) are generally stable. However agents supplying the European market are hoping to push prices higher in September and October when forward buying is expected to pick up after the holiday lull.

Of all tropical hardwood species, sapele has become increasingly dominant in the European joinery sector, as supplies of alternatives have become more restricted. There is now some prospect of improving supplies of framire/idigbo, ayous and iroko with the improved political situation in the Ivory Coast which has allowed a resumption of harvesting operations and exports. On the other hand, European manufacturers continue to struggle to obtain supplies of more specialist products – such as afzelia/doussie, izombe, kevazingo/bubinga, and movingui - formerly cut in Europe from Gabonese logs

Relatively low availability and high prices are also acting as a drag on European demand for South East Asian hardwoods. European importers are currently buying only smaller lots from the Far East. South East Asian suppliers do at least benefit from shorter lead times compared to African species (which currently have lead times of at least three months).

The various forms of thermally and chemically treated softwoods and temperate hardwoods are continuing to make inroads into markets for tropical hardwoods. Despite relatively high prices, these products are achieving results through investment in high profile marketing campaigns backed by comprehensive technical and environmental performance data.

On the temperate hardwood side, European hardwoods are performing comparatively well in the European interiors market at present, boosted by ready availability, widespread certification, and growing interest amongst architects in "locally-produced" materials due to their perceived low-carbon benefits. Oak maintains its long-term domination of the market but there are some signs of renewed interest in beech.

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### **Stronger demand from UK joinery sector**

According to TTJ, UK demand in the joinery sector has been at least stable in recent months with some reports of stronger demand in the second quarter of 2011, with window and door demand boosted by renovation work. Some of the large retailers have also finally got around to revamping their stores after a long hiatus during the recession, generating more demand from the shopfitting sector. However activity in the new build sector remains very slow. Construction work for the 2012 Olympics has also generated much less demand than anticipated as the original hardwood interiors specified have been down-graded to softwood and panel products to cut construction costs.

There is however some better news from the decking sector. TTJ quote data from the Timber Decking Association (TDA) which indicates that in 2010 the UK decking market recovered losses incurred during the recession hitting an annual value of around £135 million – equivalent to its market peak in 2007. TDA also claim that “2011 is turning out to be an excellent year for the timber deck demonstrating that demand for outdoor wood has held up well in the recent uncertain economic times”. TDA says this is the result of continuing low interest rates in the UK, good spring weather, a larger number of public holidays this year, and the “improve, not move” trend which prevails during a period of slow house sales.

Particularly encouraging is that, according to a leading UK decking supplier quoted by TTJ, consumers expect gardens to be ‘natural’ and therefore continue to give preference to wood over alternative materials and that “the inclusion of steel or aluminium isn’t widely liked”. Traditional wooden designs are said to be “the bestsellers by far”. Clearly there continue to be good opportunities for tropical hardwoods in this sector although, according to TDA statistics, modified timber is making more inroads into tropical wood’s market share. In 2010, 80% of the market comprised softwood, while 17% was hardwood and only 3% wood plastic composite.

### **Falling freight rates to Europe offset plywood prices rises**

While strong domestic and Japanese demand has led to rising FOB prices for Chinese hardwood plywood grades, this trend is being offset for European buyers by declining freight rates. CIF Europe prices for Chinese plywood are actually lower at end August than they were in May/June. On the other hand availability is more limited and there are reports of delayed shipments and attempts by Chinese manufacturers to renegotiate prices agreed in existing contracts.

European importers continue to report limited availability and firm prices of South East Asian plywood, although there has been some easing from the intense shortages earlier this year following the Japanese tsunami. Lower freight rates are also feeding through into marginally lower CIF Europe prices. However lead times remain extended and there is a widespread expectation that a surge in Japanese reconstruction activity from September onwards will once again reduce availability for the European market.

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European trade in okoume plywood remains subdued. Over the long term, okoume plywood has been losing market share in Europe's large commodity markets for raw plywood to much cheaper plywood products from China, and to alternative wood and non-wood panel products. Meanwhile demand for more specialist marine grades has shown little growth since the downturn in 2009. Although margins are extremely tight in the sector, particularly with the decline in availability following Gabon's log export ban last year, producers have so far had little success in forcing through price rises.

The competitive pressure from substitutes to tropical hardwood plywood is expected to continue to mount in the European market. For example, the latest issue of the UK trade journal TTJ reports that Medite Tricoya MDF – based on acetylated wood fibre – will be on sale within months, two years earlier than expected. The product has been developed jointly by Accys Technologies with the Ireland-based Medite producer Coillte Panel Products. BRE tests of the product indicate an expected service life of 60 years in external use. Accys is also responsible for development of Accoya acetylated softwood.