

Economic signals remain mixed

Economic prospects are very mixed across the European continent. On the upside, business confidence has improved and economic growth in Germany and France is picking up. On the downside, economic data in most other European countries remains disappointing and inflation is rising. The latter is reducing spending power and putting pressure on central banks in the EU to raise interest rates at a time when the economic recovery still looks fragile.

European indices of business confidence and activity have turned upwards in recent months. The latest data on industrial orders across the Eurozone showed a 2.1% jump in November 2010 compared with October. Similarly, the eurozone purchasing managers' index released at the end of January showed private sector activity expanding at its fastest rate in six months. The composite eurozone index, covering manufacturing and services and regarded as an up-to-date indicator of growth trends, rose from 55.5 in December to 56.3 in January (a figure over 50 indicates an expansion in activity). According to Markit, the agency that compiles the index, this recent increase is consistent with eurozone gross domestic product expanding at a quarterly rate of 0.7 per cent – a substantial improvement on the 0.3 per cent GDP rise reported in the third quarter of last year.

Economic conditions vary widely across Europe and individual euro-zone countries are, if anything, diverging further. While the German economy continues to rebound strongly and more positive trends are beginning to emerge in France, conditions in several countries on the periphery of the euro-zone, including Spain, Portugal, Ireland and Greece continue to look bleak. Companies' orders books in these countries are emptying and employment is falling, especially in the austerity-hit service sector.

Germany's economy, the Europe's largest, has been expanding at its fastest since June 2006. Its acceleration has been powered by service sector companies, which in the January purchasing managers' survey were more optimistic about the 12 months ahead than at any time in the past seven years. Germany's Ifo business confidence index also reached a record high in the last week of January.

The French economy appears to have closed the year strongly in the 4th quarter, fuelled partly by robust private consumption. While growth in 2011 may be constrained by austerity measures and rising inflation, there is increasing confidence that this will be offset by rising business investment and stronger exports.

The recovery in Spain this year is expected to be very sluggish, similar to last year. Continuing structural changes following collapse of the overheated real estate sector will continue to constrain growth.

Economic conditions in the important Dutch market for tropical wood remain uncertain. Consumer confidence is very weak with many people pessimistic about the general economic situation and their own financial situation. On the other hand, business confidence climbed sharply in December last year, the first clear expression of positive sentiment in the Netherlands since the start of the crisis in 2008.

Outside the euro-zone, some very disappointing economic statistics have been posted in the UK recently. Contrary to expectations and following two successive quarters of stronger-than-expected growth, GDP in the UK shrank by 0.5% in the last quarter of 2010. The government blamed the downturn on the severe winter weather

which hit the country in December. However government critics claim that public spending cuts designed to balance the budget have been pushed through too quick and too hard, putting the recovery at risk. The GB pound posted substantial losses at the end of January against other internationally traded currencies on the back of the news.

Good market prospects in Germany, but still weak elsewhere

The German trade journal EUWID reports that Central European buying of bangkirai decking products for the coming spring garden season is already well advanced. Most importers placed their advance orders with South East Asian mills in the last quarter of 2010, with particularly strong buying in November and the first two weeks of December. This buying pattern is described by EUWID as a return to “normal” trading conditions – during the previous two years most importers delayed their purchases until after the European new year – and may reflect more confidence in market demand this year. Volumes ordered this year are also likely to have exceeded last year’s level and some importers have built up significant stocks.

However EUWID suggest that remaining stocks in the Far East are now much reduced so that importers that have delayed purchasing may now have difficulty sourcing product. Although FOB prices of bangkirai decking have remained stable in recent months, supply constraints suggest that price hikes are more likely in the future.

EUWID also reports that availability of meranti lumber grades favoured by German importers is now restricted and that some importers would be willing to order larger volumes if more wood were made available. On the hand, weakening in the euro exchange rate against the dollar during the last two months has dampened the enthusiasm of some buyers.

Tropical hardwood faces mounting competition from heat treated wood

The German trade journal EUWID has reported on the development of European production capacity for thermally modified wood. In recent years, a widening range of heat-treated softwood and temperate hardwood products have been marketed as alternatives to tropical hardwood in the external joinery and furniture sectors. The recent economic downturn has had an impact on the development of this sector. Some companies that expanded too fast just before the downturn have suffered from low and declining sales and have been reducing capacity. Others have made it through the downturn largely unscathed and are pushing ahead with plans to expand capacity. There are also joinery manufacturing companies that have plans in place to develop thermal treatment plants to supply raw material for their own product lines.

Overall EUWID identifies 30 companies across Europe operating thermal treatment plants with a total capacity of around 300,000 m³. Around 40% of this capacity is in Finland, 13% in Germany, 12% in the Netherlands, and 8% in Estonia. The remainder is distributed in France, Croatia, Austria, Switzerland, Sweden and Turkey.

Current production capacity may seem relatively insignificant when considered against total EU imports of tropical sawn hardwood of 2.3 million m³ per year in 2007 before the economic downturn. However, 300,000 m³ of potential production takes on a whole new significance when considered in relation to total tropical hardwood sawn imports in the EU of only around 1.2 million m³ per year in the last two years.

Although there are still technical challenges associated with thermal treatment of some softwood and temperate hardwood species, and prices for these products can be very high, it is hard to escape the conclusion that thermally modified wood now has real potential to take a large share of the existing European market for hardwood in external applications.

For further details of accessing EUWID's market reports, see www.euwid-wood-products.com

Cologne furniture fair exceeds all expectations

The Milan furniture fair held in Italy during April every year tends to be regarded as the world's premier event for furniture design. However, in recent years the Cologne imm fair has forged a reputation as Europe's leading event when it comes to the business side of the industry. By all accounts this year's show, which ended on 23rd January, considerably reinforced this reputation.

The imm Cologne show, alongside the LivingKitchen show held at the same time, drew around 138,000 visitors to Cologne - an increase of 38% on the previous year. The show this year played host to 1,213 exhibitors from 48 countries.

These results are testament not only to the increasing prominence of the Cologne fair within the wider European and International furniture business, but also to the rising mood of optimism that now pervades the German furniture sector.

According to Dirk Uwe Klaas, Chief Executive of the Association of the German Furniture Industry (Verband der Deutschen Möbelindustrie), "it was by far the best furniture fair we've had in the last 10 years: more visitors, more contracts signed and an excellent mood. An excellent start to the 2011 furniture year for our national furniture industry".

There was particularly good news for the wood furniture sector at the show. According to show organisers' Koelnmesse, the trend towards increased emphasis on sustainable furniture design has meant that "wood is becoming more and more popular, not only for storage and kitchen furniture but for comfortable chairs and loungers and as a visible component of sofas". Koelnmesse go on to note that "wood is reclaiming its former status in the furniture sector. One striking development: the many items featuring untreated oak, sometimes even complete with bark".

These comments lend credence to anecdotal reports by market participants that the German market for solid wood furniture developed better than the rest of the German furniture industry during 2010.

Oak continues to dominate at Domotex

The Domotex flooring show held in Hanover during January was less upbeat than the Cologne furniture fair, a reflection of continuing high levels of uncertainty in the European flooring sector. There was at least a feeling amongst participants that the market stabilised during 2010 after the 20% decrease in sales during 2009, but few were willing to predict a stronger rebound during 2011. Market commentary at the show indicated that flooring demand in Germany has been picking up this year – in line with broader economic trends – while demand remains weak in many other European markets.

Reports from the show suggest that the level of visitors was quite low again this year and there were some large industry players absent from the exhibitor list. On the other hand, those visitors that did attend seemed intent on doing business. Overall there were 1,350 flooring-covering exhibitors from 70 countries and around 40,000 visitors from 87 countries including 60% outside Germany.

Oak remained very dominant within the wood flooring section, an observation well aligned with data produced by the European Parquet Flooring Association (FEP) which indicates that oak now accounts for nearly two thirds of all wood flooring production in Europe. Considerable efforts have been made in recent years to broaden the range of looks available in oak by means of various treatments including staining, scarifying, oiling, and charring. This year at Domotex there was a particularly strong focus on looks which appear “natural” and “used”.

According to FEP, tropical hardwood now accounts for only around 10% of European production. Tropical hardwoods were not widely displayed at the show and there was a feeling amongst some participants that these species are on a downward trend in the European flooring sector. This is partly due to oak continuing to consolidate its leading market position, partly to sustainability concerns, and partly to a growing preference for more readily available local sources of raw material supply.

The trend observed in previous shows towards wider and longer boards was again in evidence at this show - so too was the continuing shift away from solid products in favour of engineered wood flooring. Suppliers of laminated products with artificial non-wood surfaces were out in force, some with large high-profile stands and exhibiting products of such technical quality that it is becoming increasingly difficult to differentiate from real wood.

Russia agrees to reduce log export taxes

The Russian government made a formal commitment to reduce log export taxes at a meeting with European trade representatives on 7 December 2010. Russia made the commitment – alongside various other trade measures - in exchange for EU agreement to end its veto of Russian membership of the World Trade Organisation (WTO). The agreement removes the last significant obstacle in the way of Russia’s formal accession to the WTO.

The announcement of the decision to reduce log export taxes seems to represent a major reversal of policy by the Russian government which had previously aimed to introduce swingeing tax levels so as to eradicate the log export trade and help boost domestic processing.

Russian log export taxes currently stand at 25% of the invoice value or at least €15/m³ on softwood and birch logs with a diameter of greater than 15 cm (birch logs with diameters below 15 cm are currently free of duty). Duties of 10% of the invoice value or at least €5/m³ apply to poplar, eucalyptus and other hardwood logs.

Taxes had been due to rise to 80% of invoice value or at least €50/m³ in January 2011. This increase will no longer be imposed and taxes will remain at their current level at least until Russia has acceded to the WTO, now expected some time before the end of 2011.

The level of taxes after Russia’s accession to the WTO is still not clear. Drawing on conversations with representatives of the Finnish Forest Industries Federation,

EUWID reports that the Russia-EU agreement provides for halving of the present duty on softwood logs and a 75% reduction in the present duty on hardwood logs.

Other observers of the Russian market are more sceptical of the reality of the apparent policy change. Bob Flynn, Editor of the RISI Wood Biomass Markets newsletter (rflynn@risi.com), comments that “certainly there has been no change in Russia's policy to push greater domestic processing for its timber -- Prime Minister Putin was in the Russian Far East on December 6 [2010], where he stated that in ‘seven or eight years’ all of the timber harvested in the region would be processed within the country”. Flynn also points out that Canada and the USA, both long-term WTO members, have restrictions on log exports and there is in fact nothing to stop Russia from imposing a ban on log exports even after it joins the WTO.