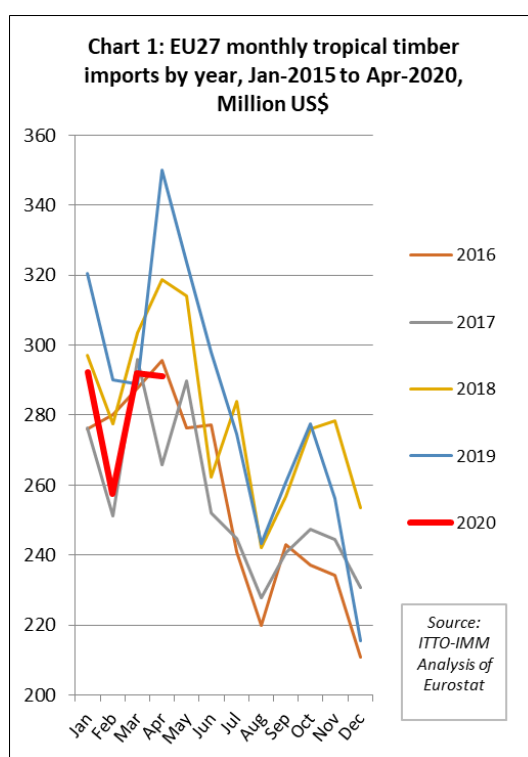


No strong COVID-19 signal yet in EU tropical timber import data

EU27 (i.e. excluding the UK) tropical timber product imports continued to defy expectations of COVID-19 driven collapse in the four months to April this year. Despite all the large western European countries implementing COVID-19 lockdown measures starting in the second two weeks of March, and mounting supply-side problems in tropical countries, total imports of tropical wood and wood furniture products into in the EU in April were little changed compared to the previous month.

Unfortunately, this is not a good news story. The signs are that the EU market for tropical wood products was weakening well before the effects of COVID-19 were even apparent. The lack of evidence so far of a further downturn in direct response to the COVID-19 outbreak is likely just a reflection of the long lead times in the tropical wood supply chain.

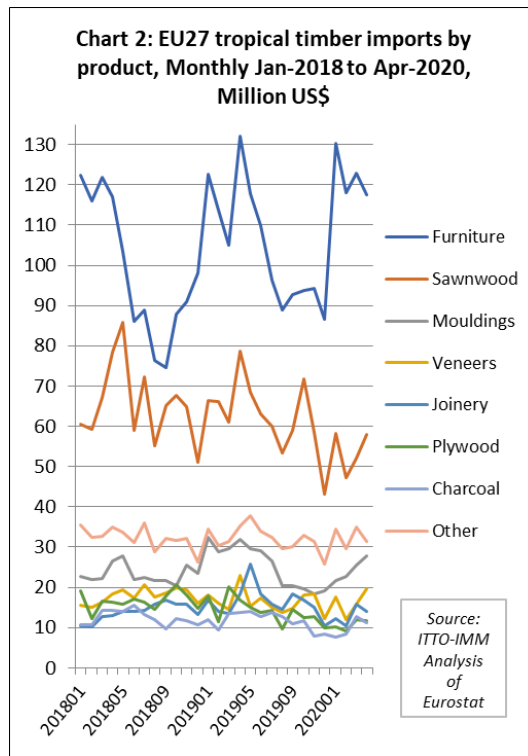
Chart 1, which shows the value of EU27 imports of tropical wood and wood furniture products reported monthly during the last five years, highlights that imports in 2020 were closely mirroring imports in 2016 and 2017 to the end of April. The tropical trade in the EU in both 2016 and 2017 was weak overall and the signs were, before the onset of COVID-19, that 2020 was lining up to be another slow year. Certainly, well down on 2018 and 2019 when there was a short-term revival in trade.



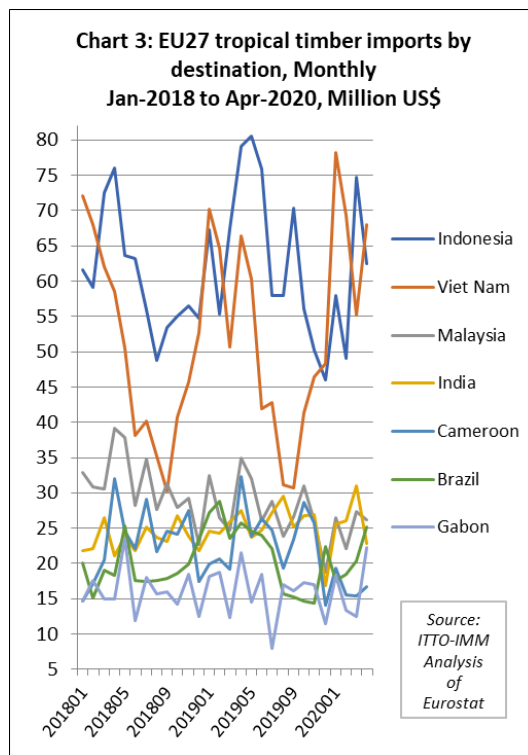
Given widespread reports during April of EU importers struggling to deal with a build-up of stock that could not be shifted as manufacturers, retailers and construction sites went into lockdown, a more significant decline in imports may well be seen in the May and June trade figures.

More positively, it should be said that the DIY sector in the EU remained quite buoyant in some countries throughout the lockdown months with many people taking the opportunity to carry out home improvement work. In other EU countries with less stringent lockdowns, such as the Netherlands and Sweden, commercial construction and some manufacturing activity also continued, at a slower pace but without interruption.

Chart 2 shows that in all tropical wood product groups, there was no significant downturn in EU27 imports in March and April this year. In fact, imports of some product groups, such as sawnwood, mouldings/decking, and veneer, increased during this period compared to the previous two months.



EU imports from tropical countries are typically highly volatile from month to month, and often show no consistent pattern (Chart 3), making it difficult at this stage to assess the likely longer-term effects of COVID-19. However, the contrasting trends in monthly imports from the two largest tropical suppliers to the EU - Indonesia and Vietnam - provide some insights.



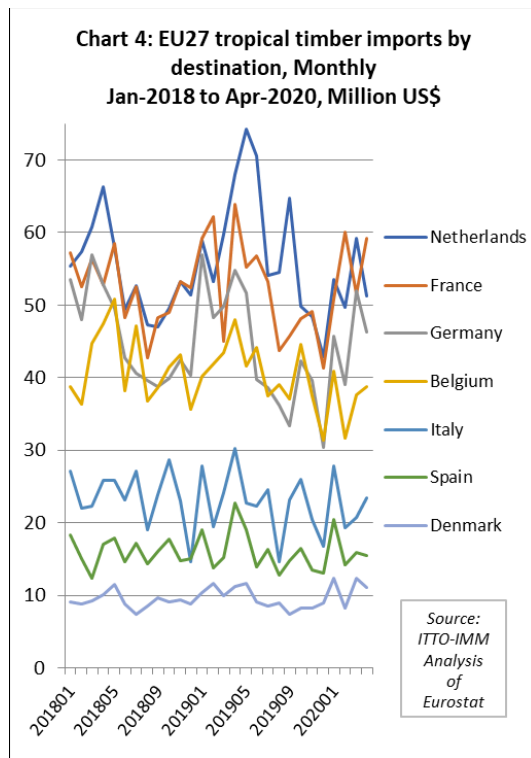
EU imports from Indonesia, which are dominated by garden furniture, decking and plywood, tend to be strongest in the spring season. The sharp decline in imports from Indonesia in April this year, at a time when trade is usually rising, does not bode well for the rest of 2020.

In contrast to Indonesia, imports from Vietnam are dominated by interior furniture and tend to be strongest at the turn of the year, in time for the January sales, and to be very slow during the summer and early autumn.

In that sense, Vietnamese suppliers have been more fortunate because the lockdown in EU countries occurred after a large proportion of shipments to the EU in a typical year had already arrived. The import data also shows that quite a lot of shipments from Vietnam continued to arrive in the EU during April.

The full effects of COVID-19 on EU imports from Vietnam will only become truly apparent later this year when the products for next season begin (or fail) to arrive.

Chart 4 shows that there was no unprecedented downturn in imports of tropical wood products into any EU27 country in the month of April this year. In fact, imports were higher in Belgium, France and Italy in April than in the previous month. There was a decline in Germany and the Netherlands, but not inconsistent with previous monthly changes.



EU economy forecast to contract 9% in 2020

It would be wrong to read too much into trade data that only captures the first few weeks of the lockdown period and does not account for the long lead times in the tropical trade. Longer term indices of market health are less reassuring.

The EU's Summer 2020 Economic Forecast, published 7th July, suggests that the EU economy will experience a deep recession this year due to the coronavirus pandemic. Because the lifting of lockdown measures is proceeding at a more gradual pace than assumed in the Spring Forecast, the impact on economic activity in 2020 is expected to be more significant than anticipated.

The Summer 2020 Economic Forecast projects that the euro area economy will contract by 8.7% in 2020 and grow by 6.1% in 2021. The EU economy is forecast to contract by 8.3% in 2020 and grow by 5.8% in 2021.

The Forecast notes that "the impact of the pandemic on economic activity was already considerable in the first quarter of 2020, even though most Member States only began introducing lockdown measures in mid-March. With a far longer period of disruption and lockdown taking place in the second quarter of 2020, economic output is expected to have contracted significantly more than in the first quarter".

The risks to the Forecast are exceptionally high and mainly to the downside. The Forecast assumes that lockdown measures will continue to ease and there will not be a 'second wave' of infections. However, a second wave is possible, particularly as the temperature cools in the Autumn months.

There are also considerable risks that the labour market could suffer more long-term scars than expected and that liquidity difficulties could turn into solvency problems for many companies. There are risks to the stability of financial markets and a danger that Member States may fail to sufficiently coordinate national policy responses.

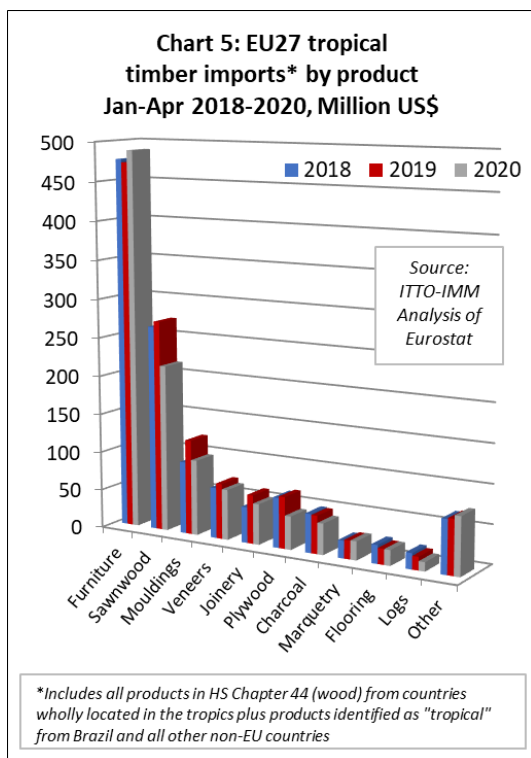
The Forecast also notes that a “failure to secure an agreement on the future trading relationship between the UK and the EU could also result in lower growth, particularly for the UK. More broadly, protectionist policies and an excessive turning away from global production chains could also negatively affect trade and the global economy”.

On the upside, the forecast notes that “early data for May and June suggest that the worst may have passed. The recovery is expected to gain traction in the second half of the year, albeit remaining incomplete and uneven across Member States”. It suggests “a swifter-than-expected rebound cannot be excluded, particularly if the early availability of a vaccine or the epidemiological situation improves generally to allow a faster lifting of remaining restrictions than assumed”.

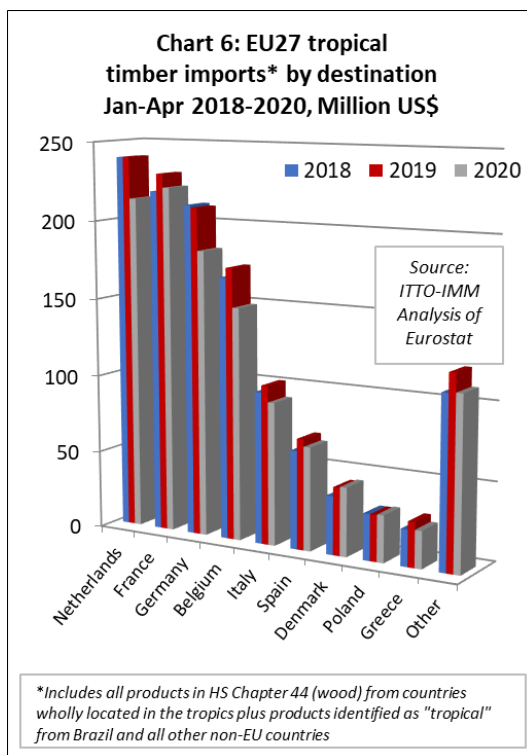
EU tropical imports already down 9% before COVID-19

Trade data is also less reassuring about future market prospects when cumulative EU imports in the first four months of 2020 are compared to the same period in 2019. Total EU import value of tropical wood and wood furniture products was US\$1.13 billion between January and April this year, 9% less than in 2019. This again highlights that, even before the effects of COVID-19 are seen in the trade data, there was significant cooling in the EU market for most tropical wood products this year.

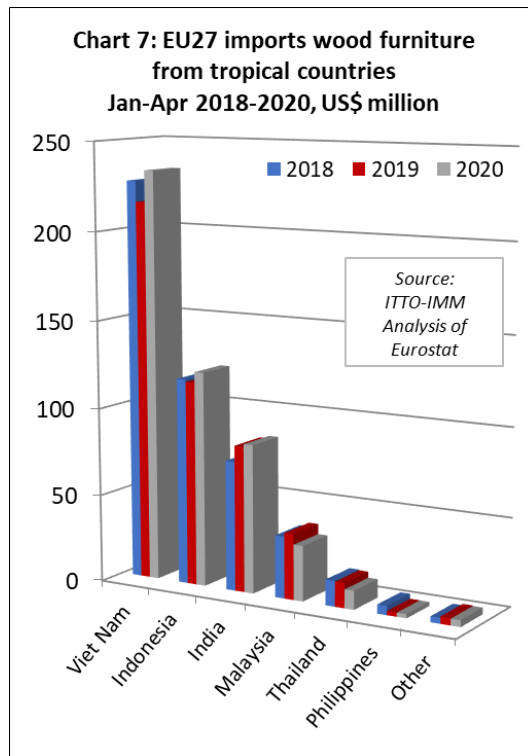
Although imports of wood furniture from tropical countries increased 3% to US\$488 million in the four month period, imports of most other tropical commodities declined sharply including sawnwood (down 21% to US\$215 million), mouldings (down 20% to US\$97 million), veneer (down 20% to US\$65 million), joinery (down 16% to US\$52 million), plywood (down 36% to US\$43 million), charcoal (down 18% to US\$24 million), and logs (down 31% to US\$12 million) (Chart 5).



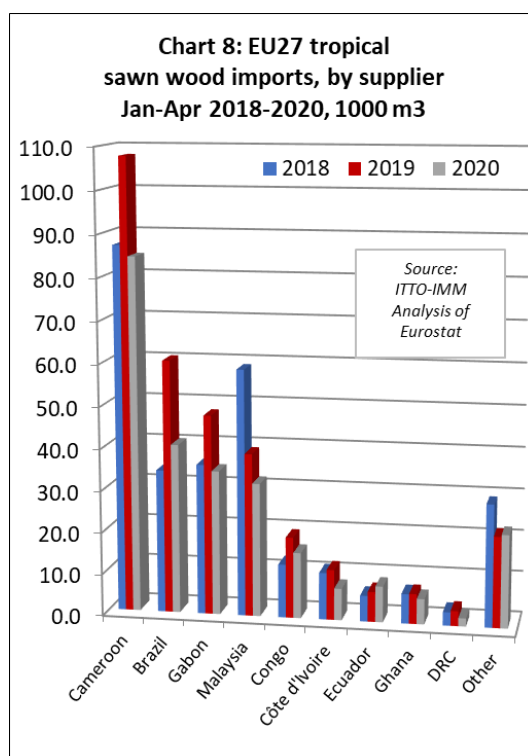
Imports fell into all six of the largest EU destinations for tropical wood and wood furniture products in the first four months of this year. Imports were down 11% to US\$214 million in the Netherlands, 4% in France to US\$222 million, 13% in Germany to US\$183 million, 14% in Belgium to US\$149 million, 10% in Italy to US\$91 million, and 6% in Spain to US\$66 million. There was a slight gain of 2% in both Denmark, to US\$44 million) and Poland, to US\$30 million (Chart 6).



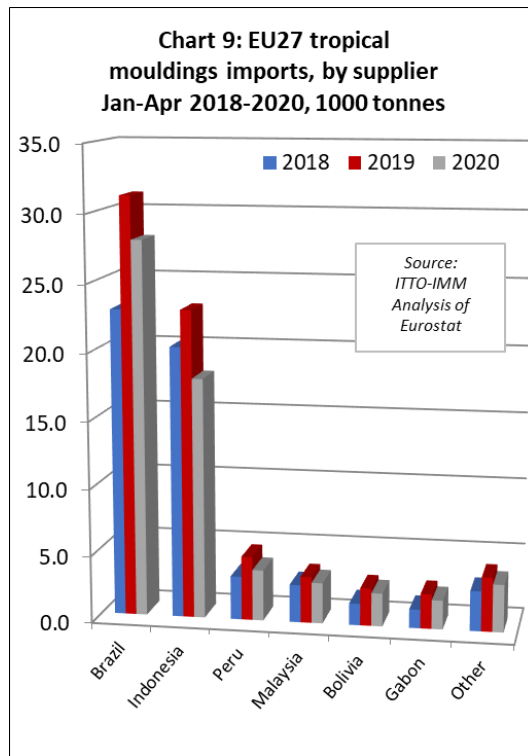
In the furniture sector, EU imports from all three of the largest tropical supply countries were ahead this year compared to last after the first four months. Imports were up 8% from Vietnam at US\$233 million, 5% from Indonesia at US\$122 million, and up 2% from India at US\$85 million. This contrasted with declining imports from smaller suppliers, including Malaysia, down 16% at US\$31 million, Thailand down 24% at US\$11 million, and the Philippines, down 3% at US\$2.3 million (Chart 7).



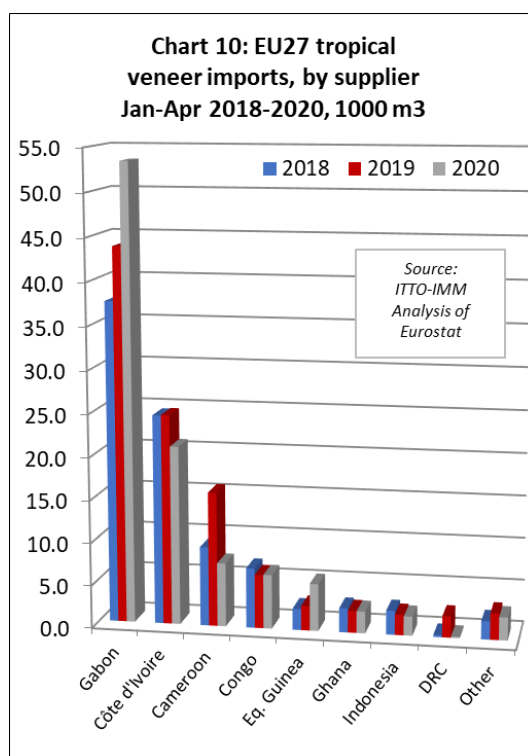
EU imports of tropical sawnwood declined sharply from all major supply countries in the first four months of 2020; down 22% from Cameroon to 84,500 m³, 33% from Brazil to 40,500 m³, 28% from Gabon to 34,500 m³, 18% from Malaysia to 32,000 m³, 19% from Congo to 15,700 m³, 37% from Côte d'Ivoire to 7,600 m³, 16% from Ghana to 6,100 m³, and 46% from DRC to 1,900 m³. Ecuador was the only country making gains this year, rising 20% to 8,600 m³, likely driven by strong demand for balsa for wind turbines (Chart 8).



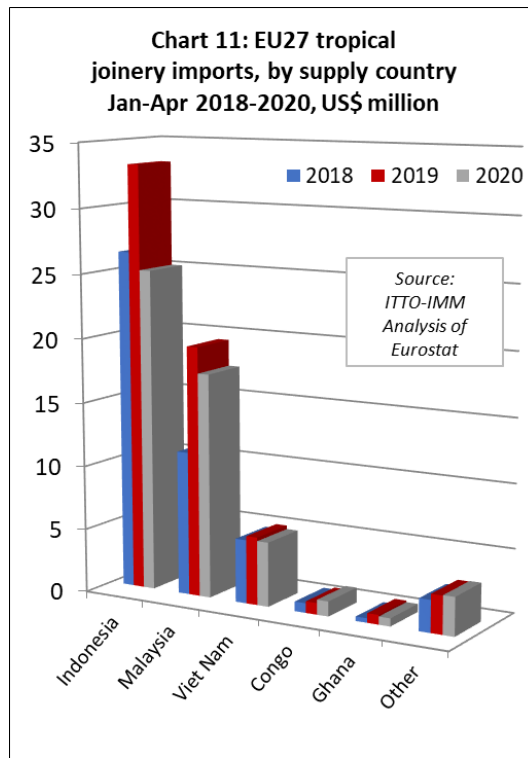
The decline in imports of tropical sawnwood in the first four months of 2020 was mirrored by a similar decline in imports of tropical mouldings/decking. Imports of this commodity were down 10% from Brazil to 28,000 tonnes, 22% from Indonesia to 17,900 tonnes, 21% from Peru to 3,800 tonnes, 12% from Malaysia to 3,000 tonnes, 12% from Bolivia to 2,500 tonnes, and 17% from Gabon to 2,200 tonnes (Chart 9).



In the veneer sector, imports from Gabon bucked the wider downward trend in EU imports in the first four months of 2020. The EU imported 53,400 m³ of veneer from Gabon between January and April this year, 22% more than the same period in 2019. Veneer imports also doubled from a small base to 5,500 m³ from Equatorial Guinea. However, imports were down 15% from Côte d'Ivoire at 21,000 m³, 53% from Cameroon at 7,500 m³, and 7% from Indonesia at 2,250 m³. Imports were stable at 6,300 m³ from Congo and 2,500 m³ from Ghana (Chart 10).



EU imports of joinery products from tropical countries, which mainly comprise laminated window scantlings, kitchen tops and wood doors, declined from all three of the main supply countries in the first four months of 2020. Imports from Indonesia were down 24% to 25,000 tonnes, 10% from Malaysia to 17,500 tonnes, and 5% from Vietnam to 5,000 tonnes. There was a 30% increase from Congo, to 1,160 tonnes (Chart 11).



EU imports of tropical hardwood faced plywood were also down from all the leading supply countries in the first four months of 2020. Imports fell 39% to 23,100 m³ from Indonesia, 40% to 16,000 m³ from China, 7% to 8,400 m³ from Gabon, 7% to 4,000 m³ from Morocco and 46% to 3,500 m³ from Vietnam. Imports of tropical hardwood faced plywood into the EU27 from the UK, now also an external supplier to the EU, declined 56% to 3,400 m³ (Chart 12).

