European hardwood markets: Current developments and outlook for 2010

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International Hardwood Conference,
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Outline of presentation

• Introduction
• Sawn hardwood markets in Europe, 2008-2009
  • Production
  • Consumption
  • Exports
  • Imports
• Current market trends
• Future trends
• Forecasts
  • UNECE/FAO Timber Committee, October 2009
• Conclusions

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Introduction

- UN Economic Commission for Europe / FAO Timber Section
- Statistics, market analysis, forest resource data, long-term sector outlook studies, indicators of sawn hardwood markets
- UNECE/FAO database
- Country forecasts and statements, notably at annual session
- Joint analytical effort by many experts
- More information at http:/www.unece.org/timber
UNECE/FAO

- Sawn hardwood analysis by Mr. Rod Wiles, Broadleaf Consulting
- Presentation assistance by Mr. Eero-Matti Salminen, Marketing Assistant, University of Helsinki
Economic background and forecasts
The Great Recession 2007-2009

- Most severe financial shock since the 1930s
- Worse economic downturn since WWII
- Unprecedented, concerted policy response avoided second Great Depression
- But, significant long-term implications
  - living standards
  - design of institutions
World GDP through 2014

Real GDP Growth, PPP

-4 -2 0 2 4 6 8 10


Emerging market/developing countries
World
Advanced economies

6 percentage point drop 2009, then modest recovery

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Much of the world negative in 2009
Growth returns to most of the world at end of 2009 or beginning of 2010
Recovery slow

- US and western Europe
  - Unemployment may not reach pre-crisis levels until 2013 or 2014
  - Businesses facing credit and financing difficulties
  - Inflation remains low
  - Government deficits too high
- Eastern Europe especially hard hit
- Central Asia doing remarkably well
  - Fast recovery
  - Few long-term consequences
US housing starts

Source: APA – The Engineered Wood Association, 2009

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Global rise in house prices

Rise in housing prices much higher in western Europe than in N. America, and even higher rise in eastern Europe.

Percentage growth 1997-2007

- Ireland
- Britain
- Spain
- U.S. 10 City
- France
- Sweden
- Denmark
- U.S.
- Italy
- Canada
- Switzerland

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Housing in UNECE subregions

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Europe
North America
CIS

Thousand starts

2004 2005 2006 2007 2008

2004 2005 2006 2007 2008

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Sawn hardwood markets
Sawn hardwood consumption – Europe (41 countries)

- 2008 total of 15.4 million m³, a -14% from 2007
- Of which 12.0 million m³ in EU-27, -18%

Million m³

2004 2005 2006 2007 2008
Sawn hardwood production – Europe

- In line with consumption, in 2008 fell by 6.8% to 14.3 million m³
- Of which 10.5 million m³ in EU-27, -8.6% from 2007
Major European hardwood producers

- Turkey
- France
- Romania
- Germany
- Spain
- Slovakia

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Major European sawn hardwood producers, 2008

Turkey
France
Romania
Spain
Germany
Slovakia
Others
Sawn hardwood trade in Europe

exports

imports

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Main market trends

- Europe sawn hardwood sector affected by the economic crises to a lesser extend than North America and CIS
- Sawn hardwood becoming more important to the European building sector
Main market trends

- “Cash is king” – Lack of credit insurance making things even more difficult for the producers
- Turkey remains Europe’s largest producer of sawn hardwood
- China’s influence over the UNECE region sawn hardwood markets increases but is also affected by the crises
  - As both consumer and producer
  - Log exports to China reducing available raw materials & raising costs
Main market trends

Steep decline in prices on both sides of the Atlantic

White Oak

Index (2005=100)

2005 2006 2007 2008 2009

US
France

Beech

Index (2005=100)

2005 2006 2007 2008 2009 Q1

Germany
France

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Market trends – European flooring production

Hardwood flooring sector especially affected
First downturn since 1991


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Main European flooring species

![Bar chart showing percentage of different floor types over time.](chart.png)

- Oak: 2007 - 60%, 2008 - 50%
- Tropical: 2007 - 10%, 2008 - 15%
- Ash: 2007 - 8%, 2008 - 6%
- Beech: 2007 - 4%, 2008 - 3%
- Pine: 2007 - 2%, 2008 - 1%
- Maple: 2007 - 1%, 2008 - 0.5%
- Red oak: 2007 - 1%, 2008 - 0.5%
- Other: 2007 - 2%, 2008 - 1%

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Hardwood certification
Main market trends – certification

- Increased concern about illegal trade
- Public and private green procurement policies
- Corporate social responsibility
Main market trends – certification

- Low price premiums for certified temperate hardwood
- Low end-user interest for certified wood – indifference
- Business-to-business currently the key driver
Main market trends – Lacey Act

- Prohibits all trade in plant and plant products such as sawnwood, furniture and paper that are illegally sourced from any country
- Requires importers to declare the country of origin of harvest and species name of all plants and plant derived materials contained in their products
- Establishing penalties, including forfeiture of goods and vessels, fines, and imprisonment for those who knowingly violate the declaration requirements.
- Places burden of proof on prosecutor
Main market trends – EU FLEGT

- Action Plan for Forest Law Enforcement Governance and Trade
- Due diligence system
- Companies must ensure legality of the source
- Wood has to be harvested according to country’s laws
  - Properly documented
  - Audited
  - Within and outside of Europe
- Not yet approved by the EU Agricultural Council
  - Thus not yet law

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UNECE Timber Committee forecasts
UNECE Timber Committee forecasts (from October 2009)

- North America the production of sawn hardwood continued falling in 2008 and 2009, by 9.1% and 6.4% respectively – no change is expected in 2010.
- Although US domestic demand is weak, sawnwood exports are forecast to improve, rising by 7.2% in 2010.
- The European hardwood consumption and production to rise by 4.2% and 3.2% respectively.
UNECE Timber Committee forecasts (from October 2009)

- Trade restrictions on tropical timber, both from producer countries policies to manufacture greater value-added products, and importers’ controls for sustainability and legality, are constraining the tropical timber trade.
Sawn hardwood forecasts – Consumption

Source: UNECE Timber Committee, October 2009

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Sawn hardwood forecasts – Production

US production
- 2009, -5%, 22 million m³
- 2010, -1%, 22 million m³

Europe production
- 2009, -7, 13 million m³
- 2010, +3%, 14 million m³

Source: UNECE Timber Committee, October 2009

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Sawn hardwood forecasts – Imports

European imports
2009, -13, 6 million m³
2010, +6%, 6 million m³

Source: UNECE Timber Committee, October 2009

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Sawn hardwood forecasts -- Exports

US exports
- 2009, -6%, 2 million m³
- Severe downturn in first 6 months 2009
- 2010, +5%, 2 million m³

Europe exports
- 2009, -14%, 5 million m³
- 2010, +3%, 5 million m³

Source: UNECE Timber Committee, October 2009

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UNECE Timber Committee forecasts for US sawn hardwood

- **Consumption**
  - 2009, -5%, 21 million m³
  - 2010, -1%, 21 million m³

- **Production**
  - 2009, -5, 22 million m³
  - 2010, -1, 22 million m³

- **Exports**
  - 2009, -6%, 2.1 million m³
  - 2010, +4.5%, 2.2 million m³
Timber Committee forecasts for European sawn hardwood

- **Consumption**
  - 2009, -7%, 13 million m³
  - 2010, +4%, 14 million m³

- **Production**
  - 2009, -7, 13 million m³
  - 2010, +3, 13 million m³

- **Exports (including within Europe)**
  - 2009, -14%, 4.8 million m³
  - 2010, +3%, 4.9 million m³

- **Imports (including within Europe)**
  - 2009, -13%, 5.6 million m³
  - 2010, +6%, 5.9 million m³
European tropical forecasts

Source: UNECE Timber Committee, October 2009
Hardwood logs – Consumption

Source: UNECE Timber Committee, October 2009

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Hardwood logs – Trade

Source: UNECE Timber Committee, October 2009

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European hardwood harvests

Fuelwood is over twice logs,
Harvests pushed by
renewable energy policies

Source: UNECE Timber Committee, October 2009

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US hardwood harvests

US harvests -1.1% 2010

Source: UNECE Timber Committee, October 2009
Future trends

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Future trends

• Environmental issues becoming increasingly important
  – New timber procurement policies and the impact on the raw material supply

• Greenbuilding and issues of climate change, energy security and energy cost
  – LEED
  – BREEAM
Future trends

• Decline in demand could continue well into 2010
• European furniture and joinery manufacturers may switch away from real wood in favour of alternatives
  – Long lead times
  – Difficulties in assessing future demand
  – Incentive to switch to materials more easily supplied on little-and-often basis
• European furniture manufacturers countering competition by focusing on high-end, high quality and high value products
Future trends

- China’s increasing influence
  - World’s largest exporter of wooden furniture

![Charts showing Chinese forest products output and Chinese furniture exports](chart.png)

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Conclusions

• European hardwood markets forecast to improve in 2010
• US exports increasing at expense of domestic consumption
• Green building important driver – could get boost if carbon sequestration counted in “harvested wood products”
• Economic recovery precarious
• China and other southeast Asian countries impacting traditional hardwood markets
Thank you!

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