

# The impact of the global recession on hardwood trading and the road to recovery

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Food and Agricultural Organization  
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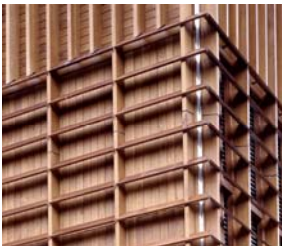
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# Topics



- Introduction
- Economic background and forecasts
- Sawn hardwood markets, 2008-2009
- Current market trends
- Future trends
- UNECE/FAO Timber Committee forecasts
- Conclusions

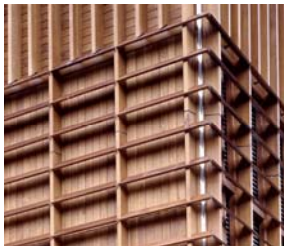


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# Introduction



- 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
- Annual Timber Committee Market Discussions
- More information at [www.unece.org/timber](http://www.unece.org/timber)



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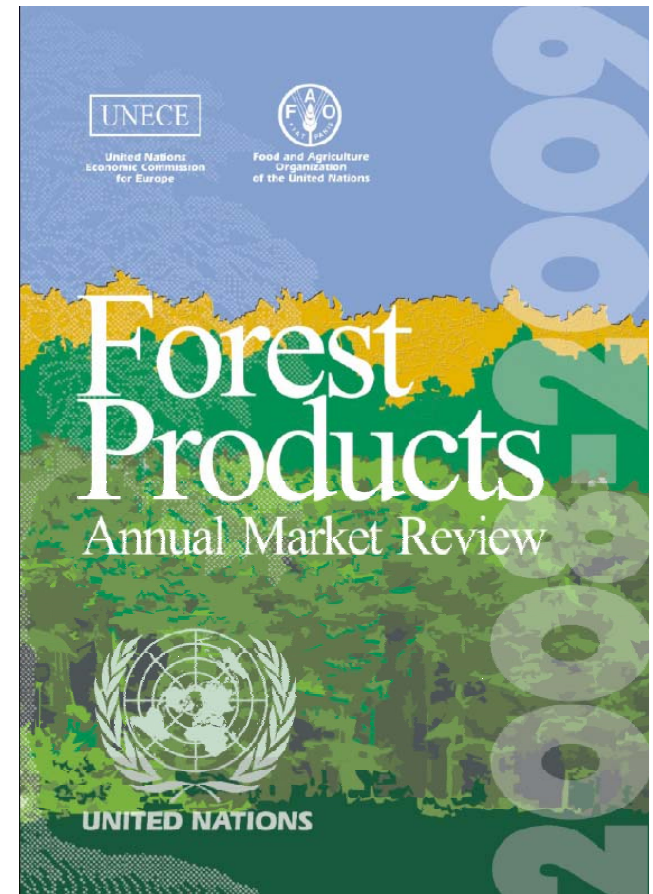
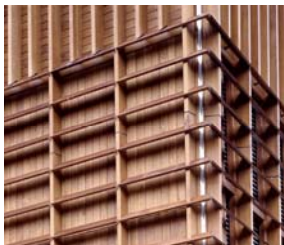
# UNECE/FAO *Forest Products Annual Market Review, 2008-2009*



- Sawn hardwood analysis by Mr. Rod Wiles, Broadleaf Consulting

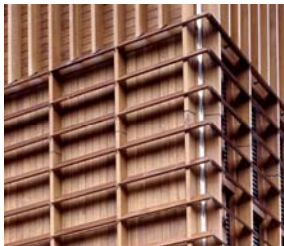


- Presentation assistance by Mr. Eero-Matti Salminen, Marketing Assistant, University of Helsinki



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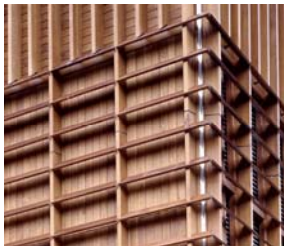


# Economic background and forecasts



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# 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



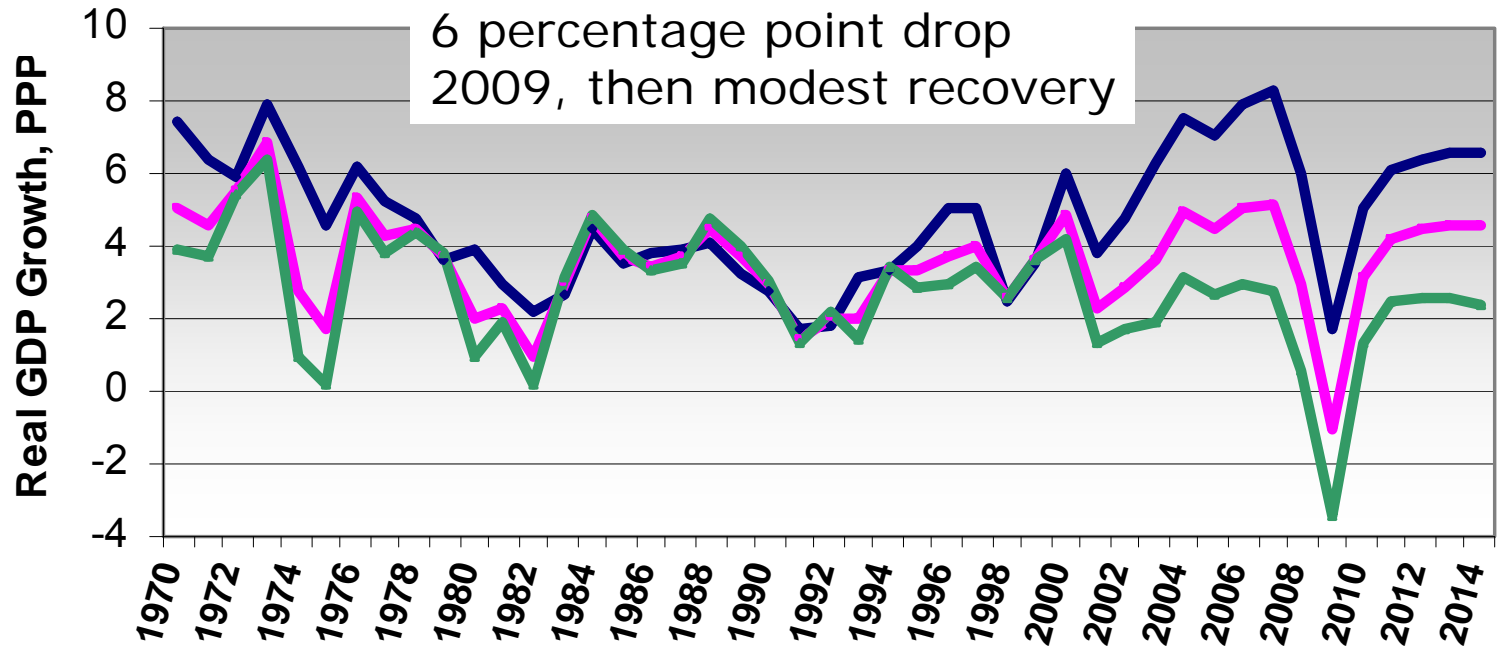
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# World GDP through 2014



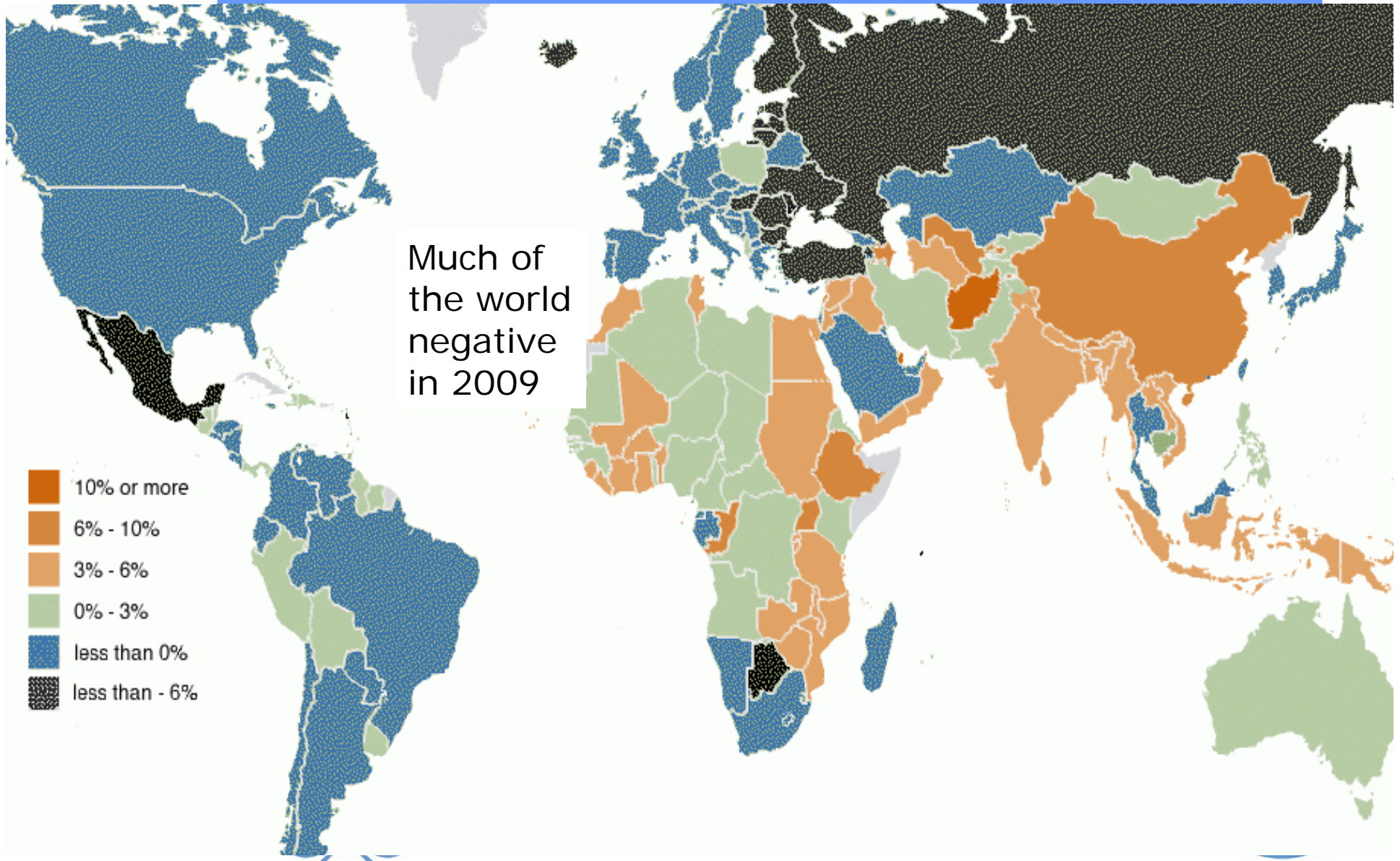
— Emerging market/developing countries  
— World  
— Advanced economies



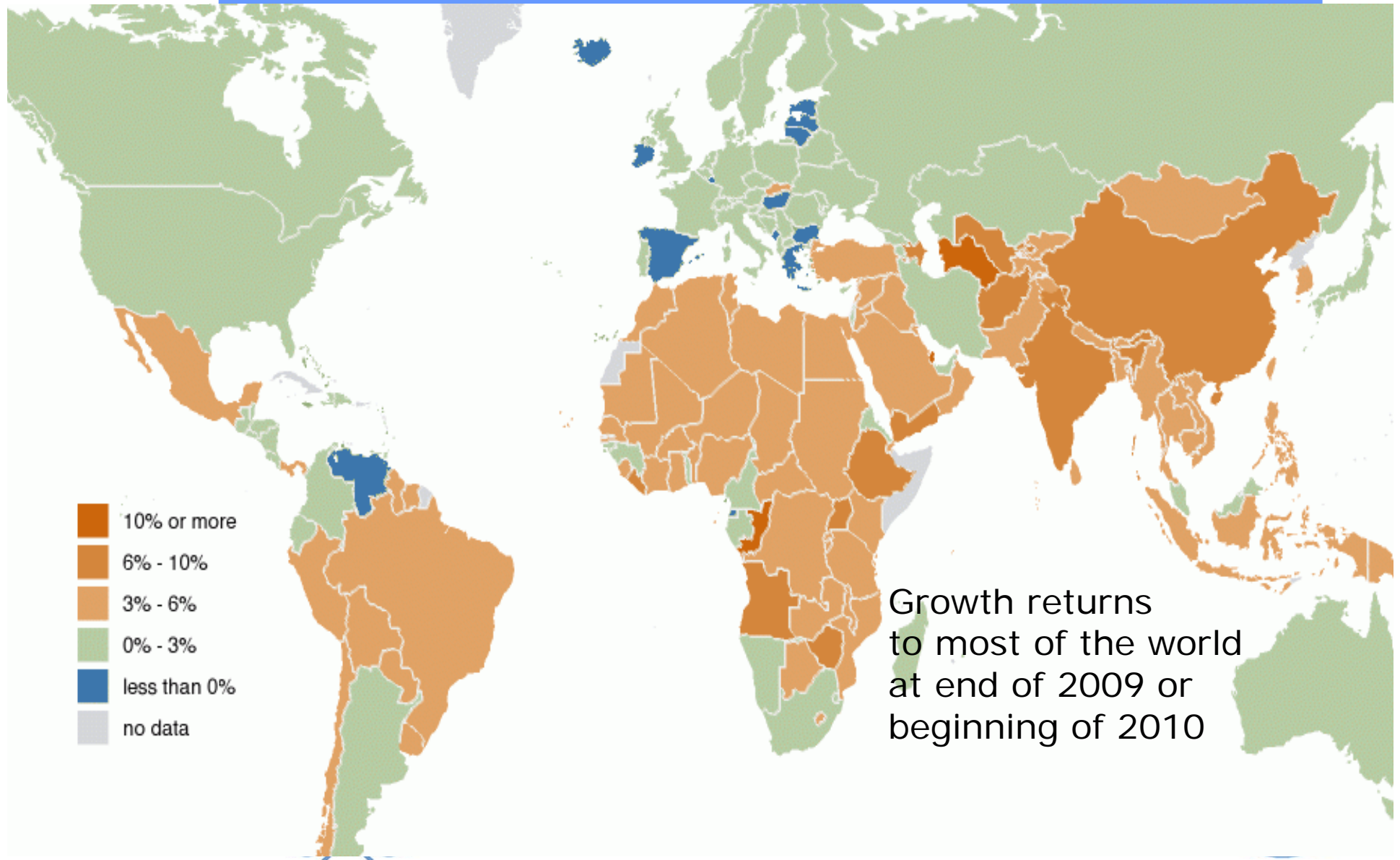
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# World GDP 2009

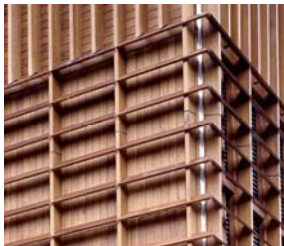


# World GDP 2010





# Regional GDP forecasts



	2009	2010	2011
North America	-2.7	1.6	2.8
EU-15	-4.2	0.4	1.5
World	-1.1	3.1	4.2

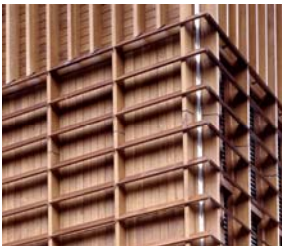


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# Recovery slow



- 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

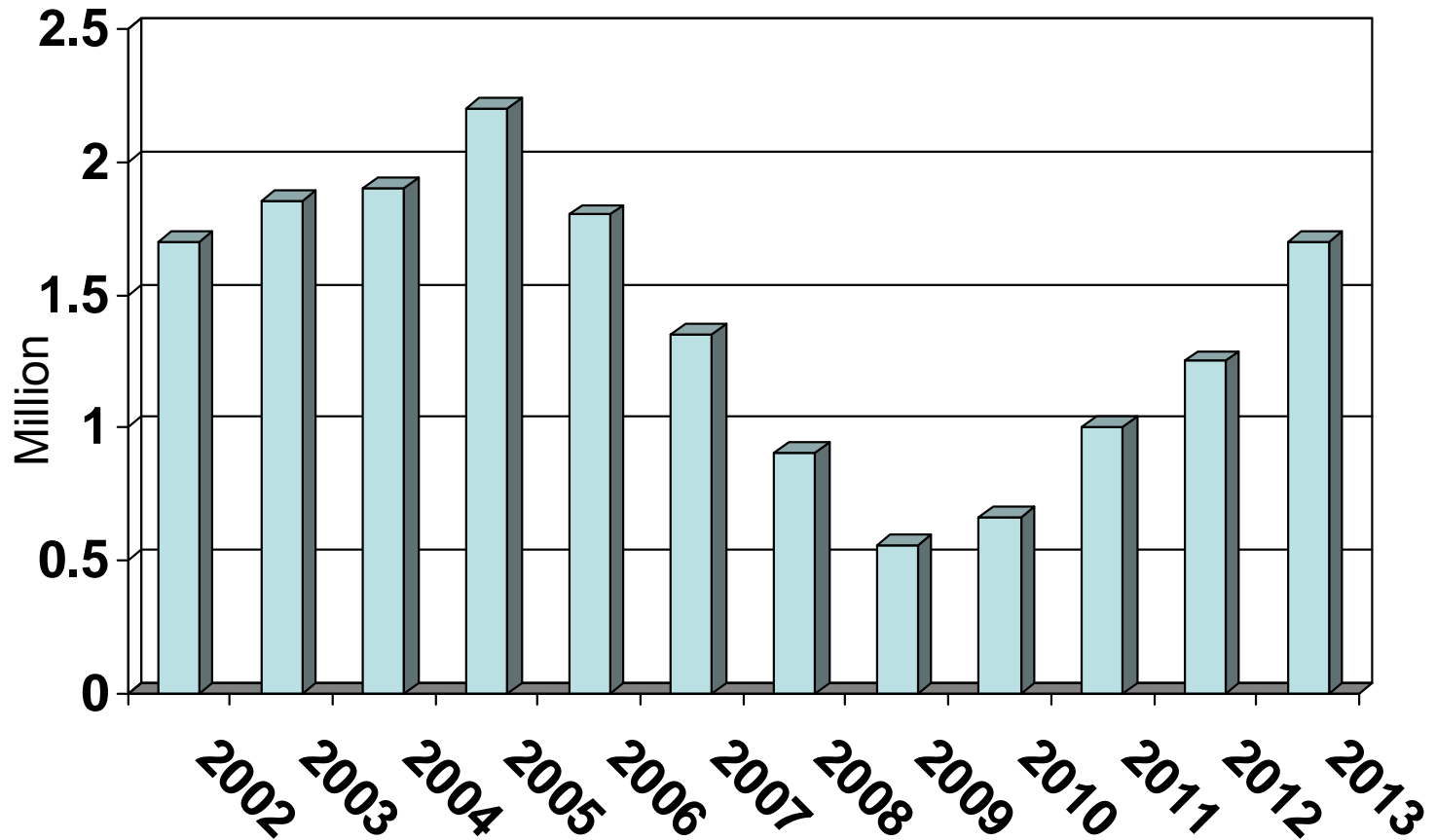
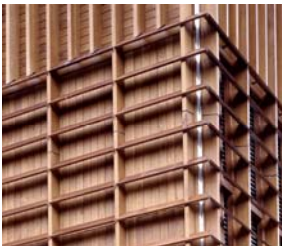


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# US housing starts



Source: APA – The Engineered Wood Association, 2009

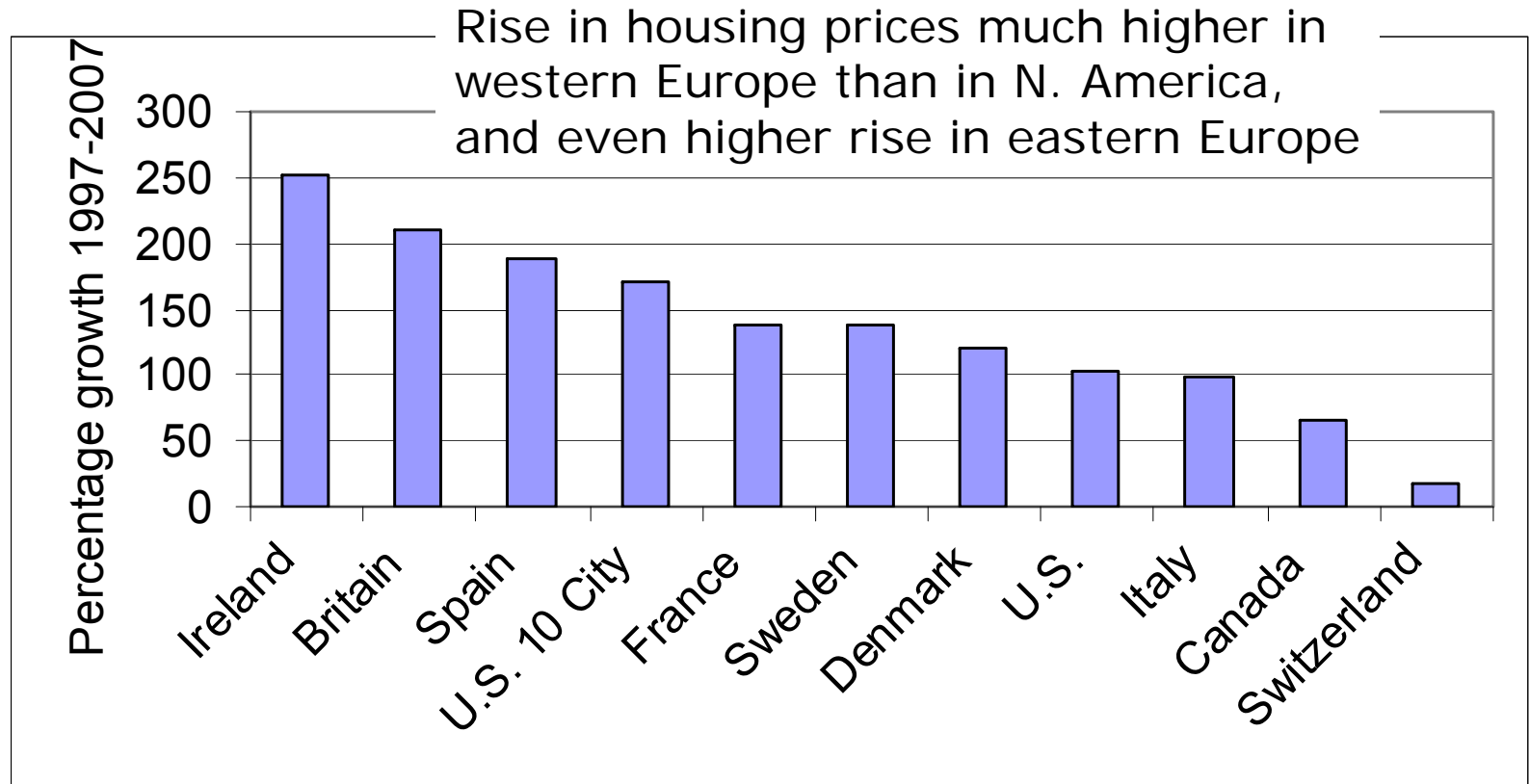
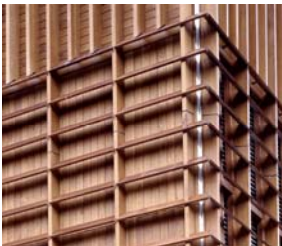


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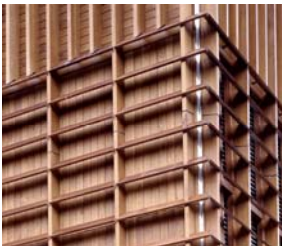


# Global rise in house prices

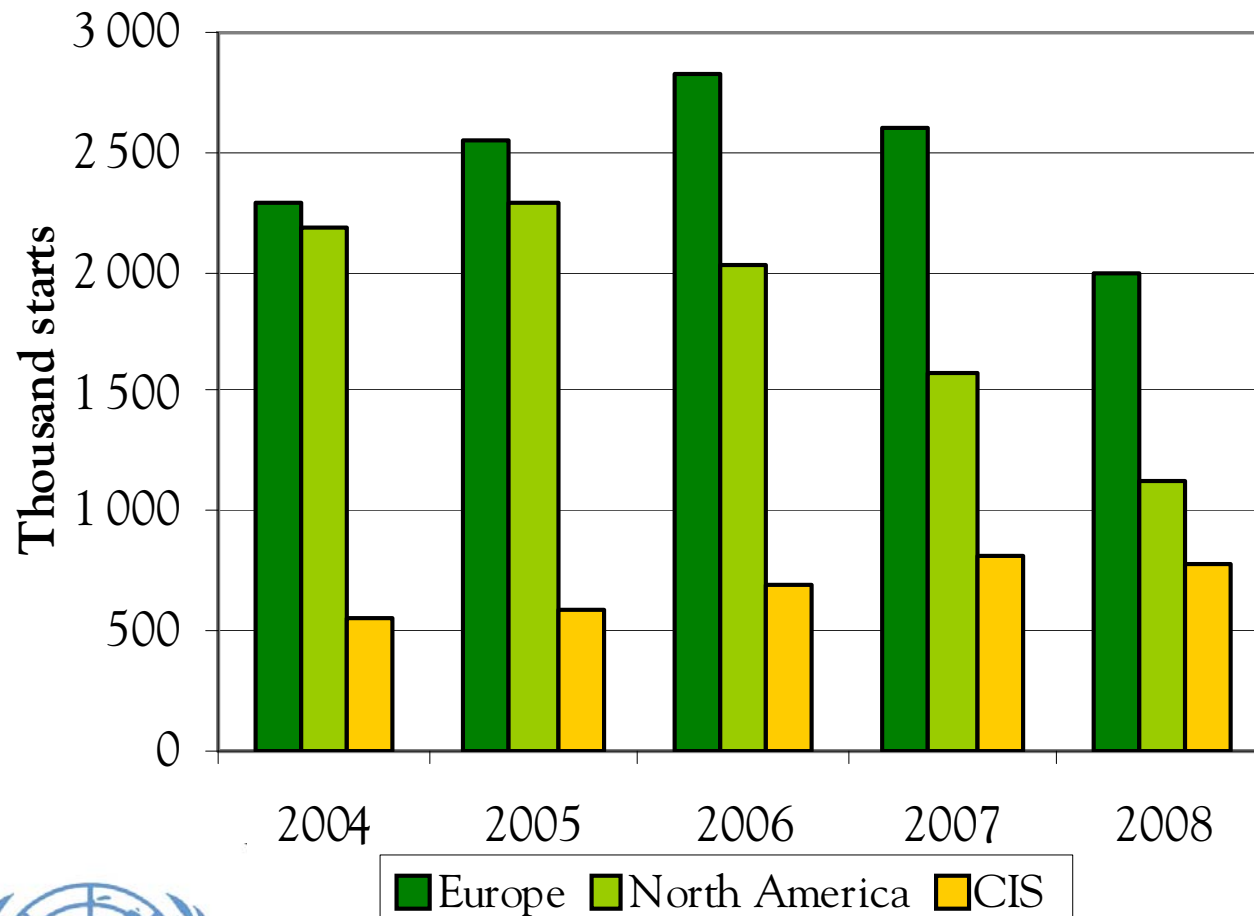


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# Housing in UNECE subregions



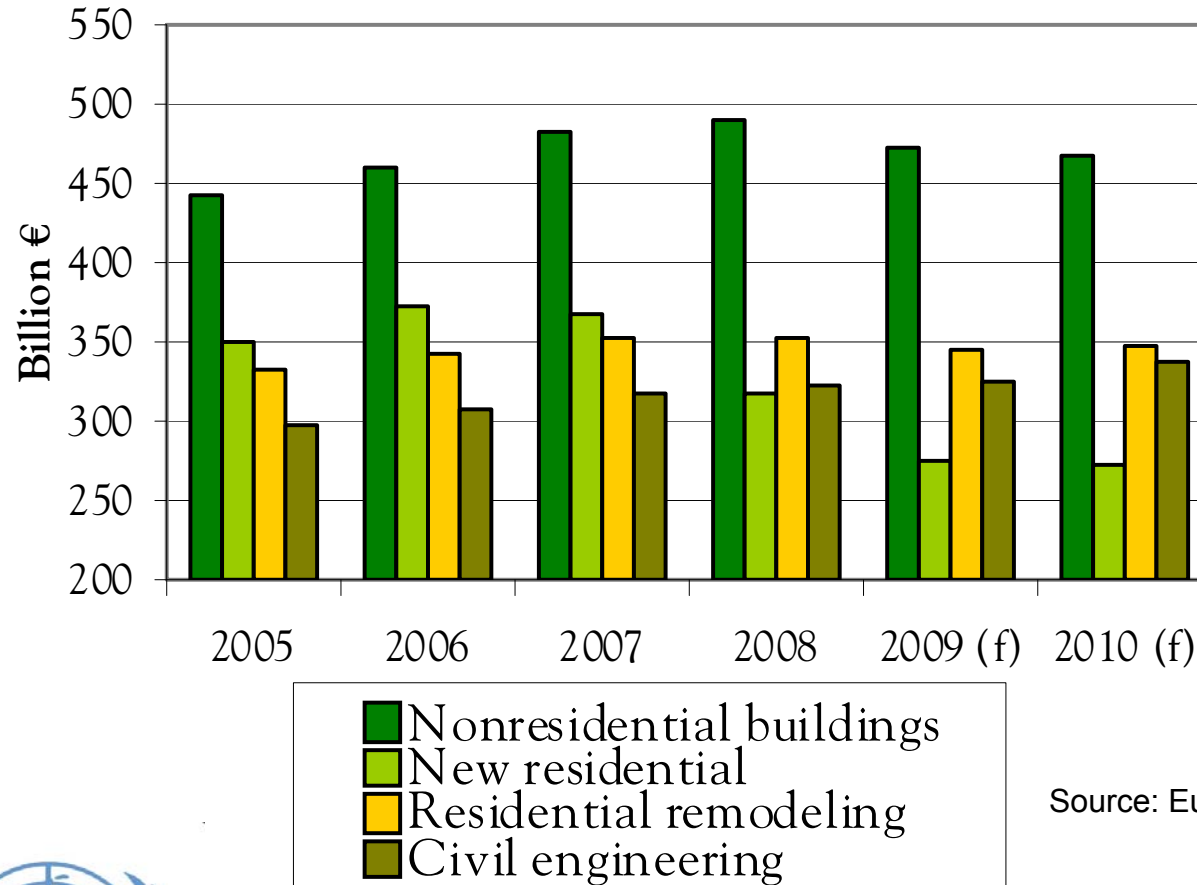
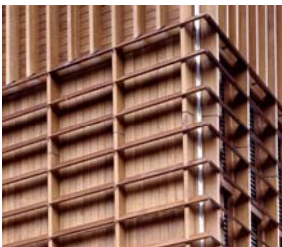
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# European construction spending

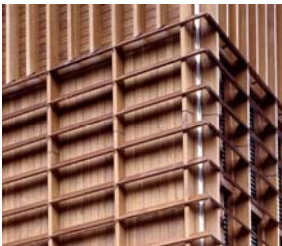


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# Have housing markets stabilized?

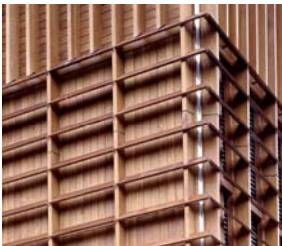


- Prices stabilized in most advanced economies
- N. American prices consistent with historical relationships
  - Large subsidies in US supporting prices
  - Large new and used inventories keeping prices down
- European markets not stable yet
  - Not back to historical trend
  - Further price declines in Spain, Nordics, UK, France, Ireland
- Eastern Europe hard to predict



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# Sawn hardwood markets



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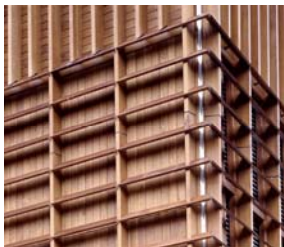
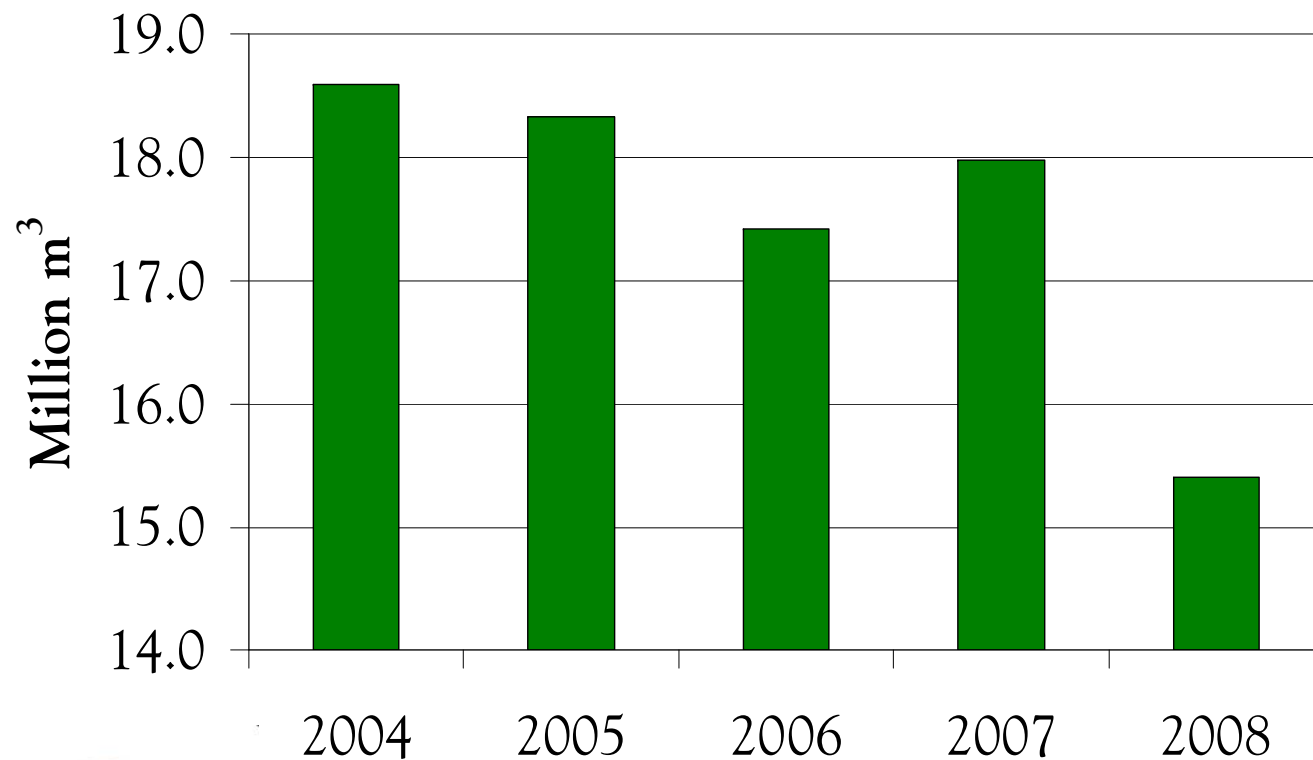




## Sawn hardwood consumption – Europe (41 countries)



- 2008 total of 15.4 million m<sup>3</sup>, a -14% from 2007
- Of which 12.0 million m<sup>3</sup> in EU-27, -18%

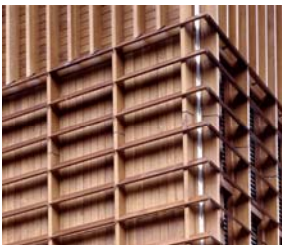


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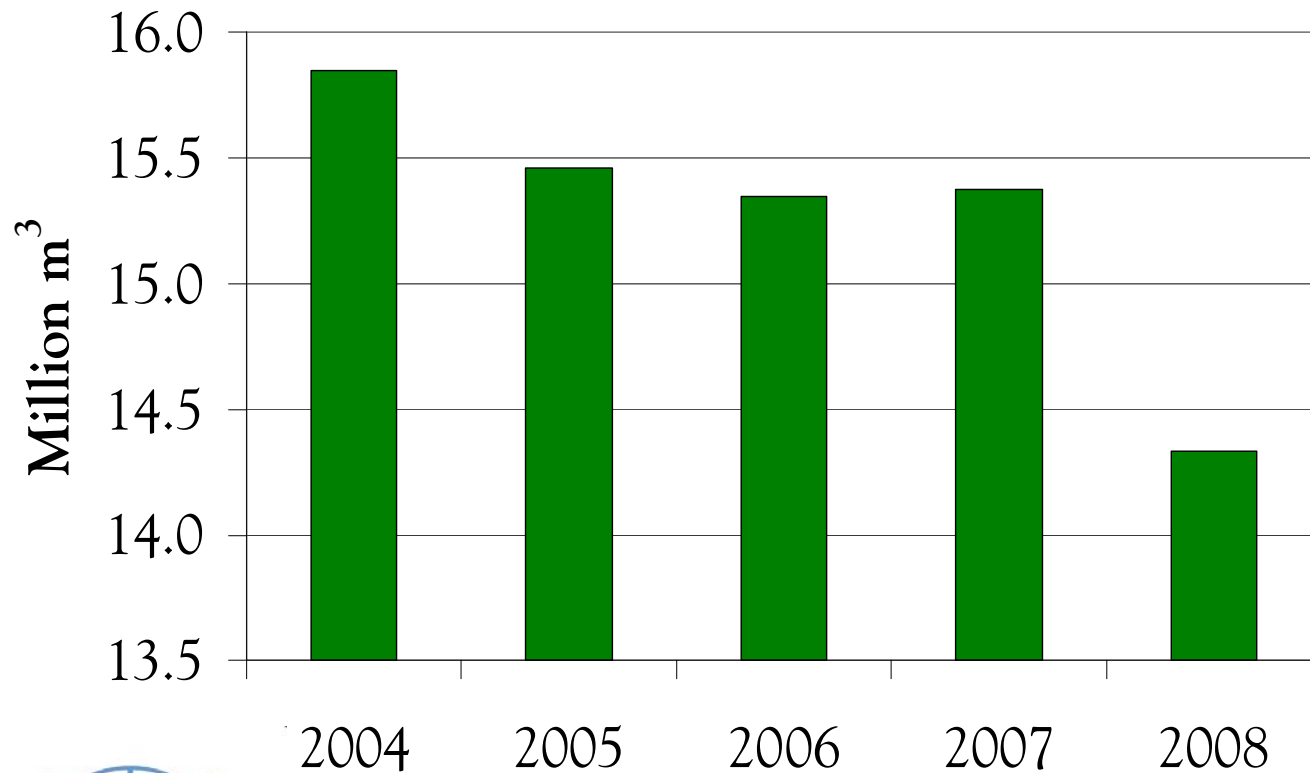




## Sawn hardwood production – Europe



- In line with consumption, in 2008 fell by 6.8% to 14.3 million m<sup>3</sup>
- Of which 10.5 million m<sup>3</sup> in EU-27, -8.6% from 2007

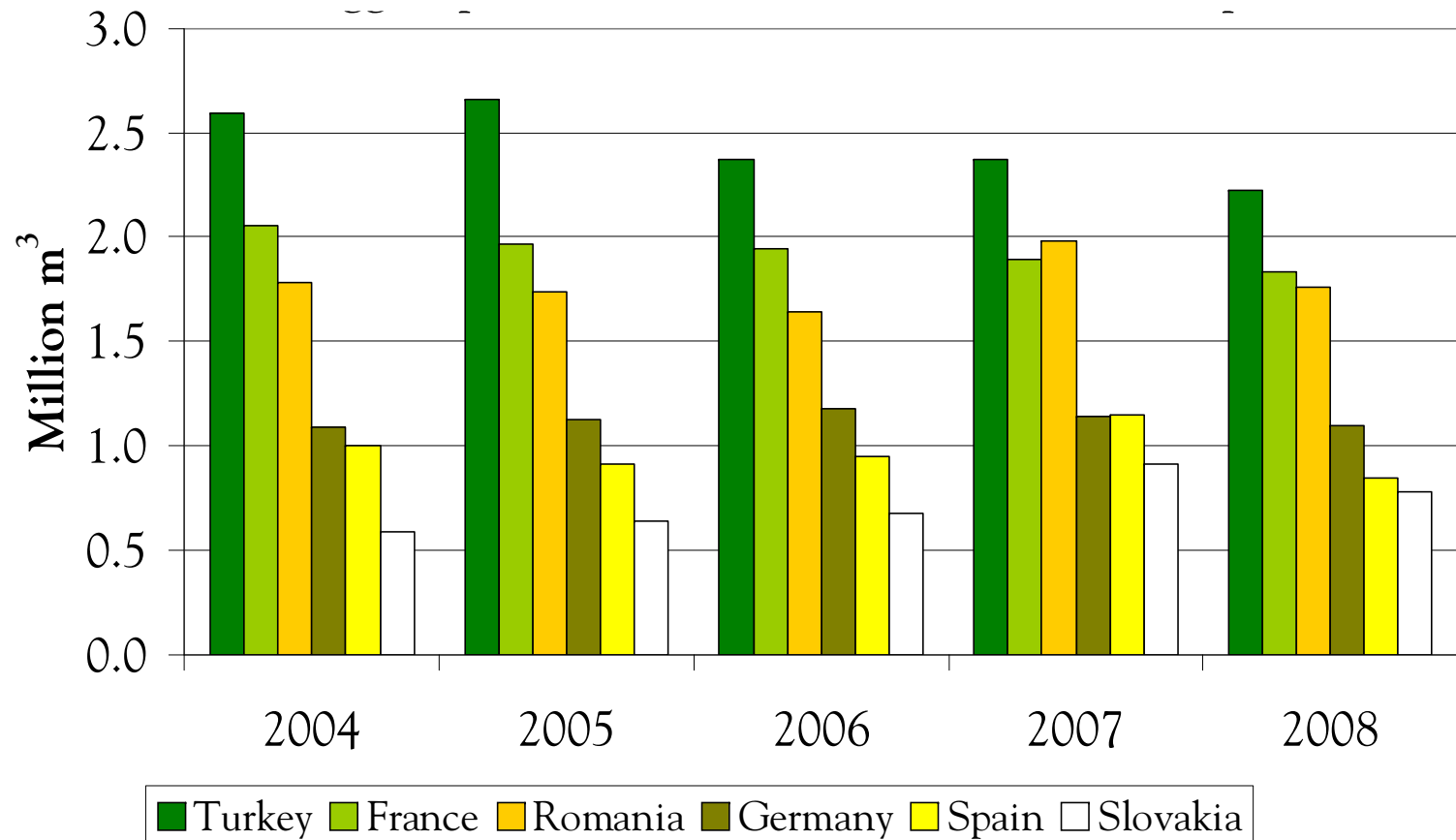
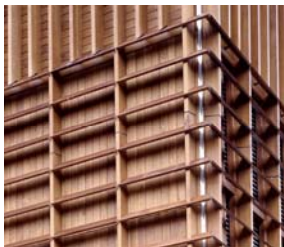


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# Major European hardwood producers

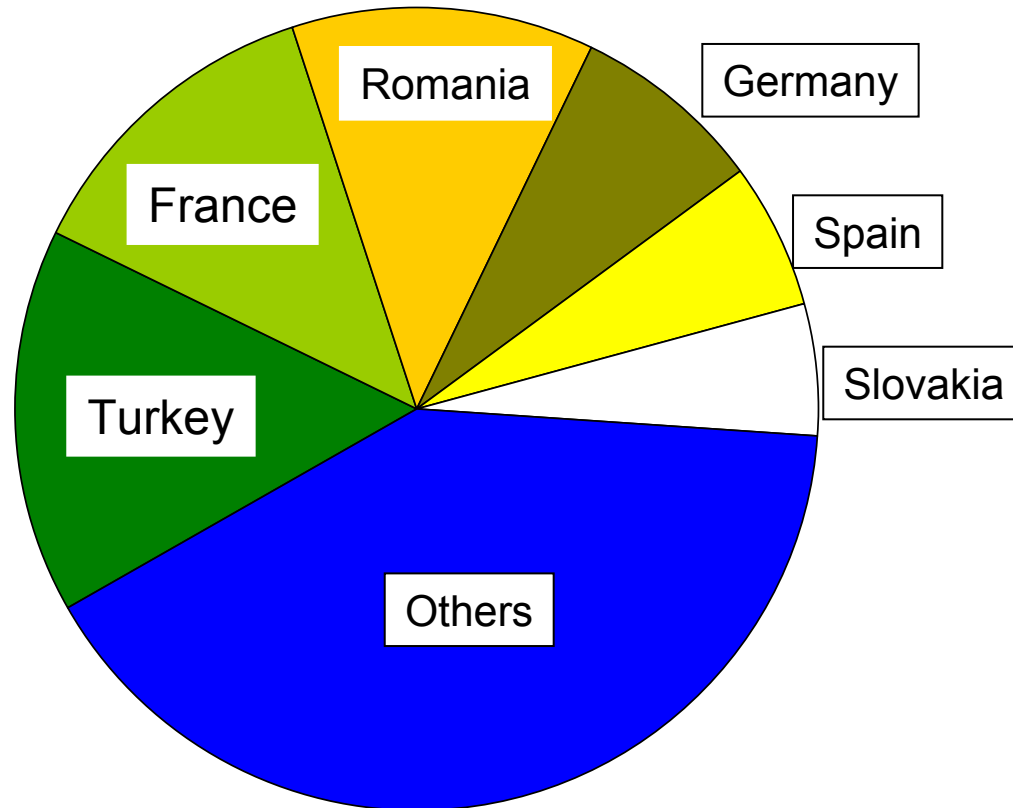
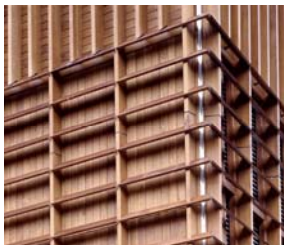


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# Major European sawn hardwood producers, 2008

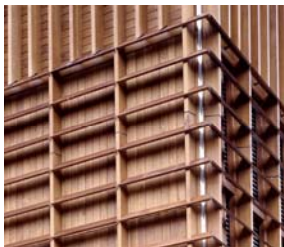


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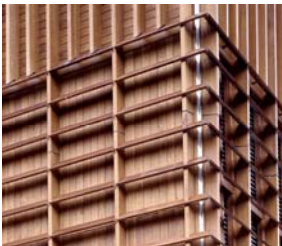
# Sawn hardwood trade in Europe



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# Current market trends



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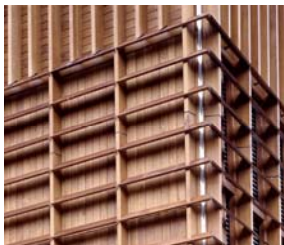




## Main market trends



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

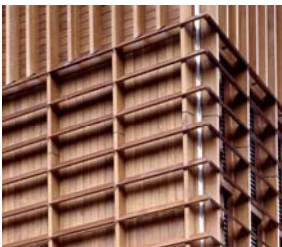


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## Main market trends



- “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



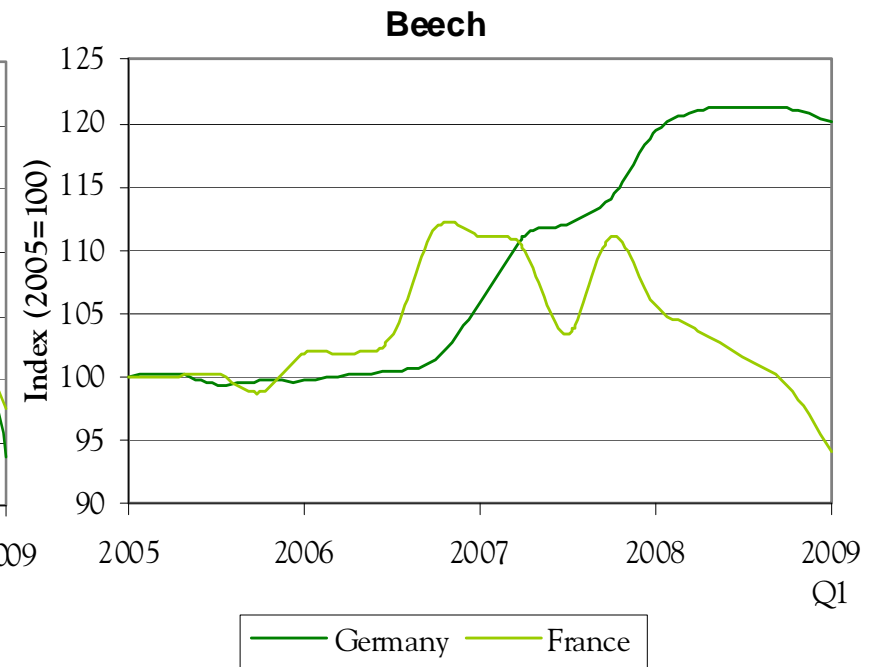
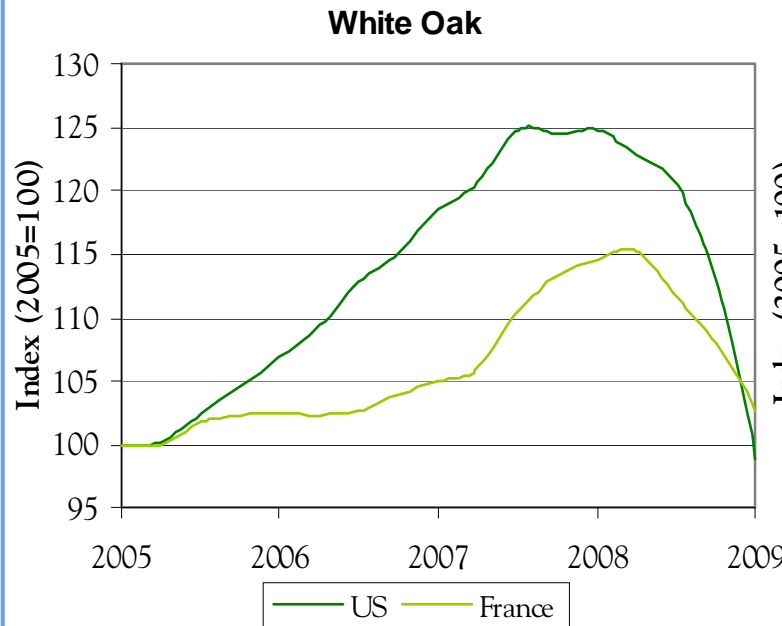
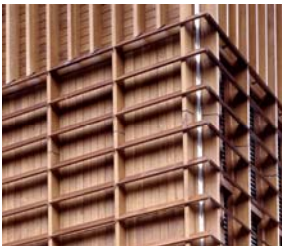
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# Main market trends

Steep decline in prices on both sides of the Atlantic

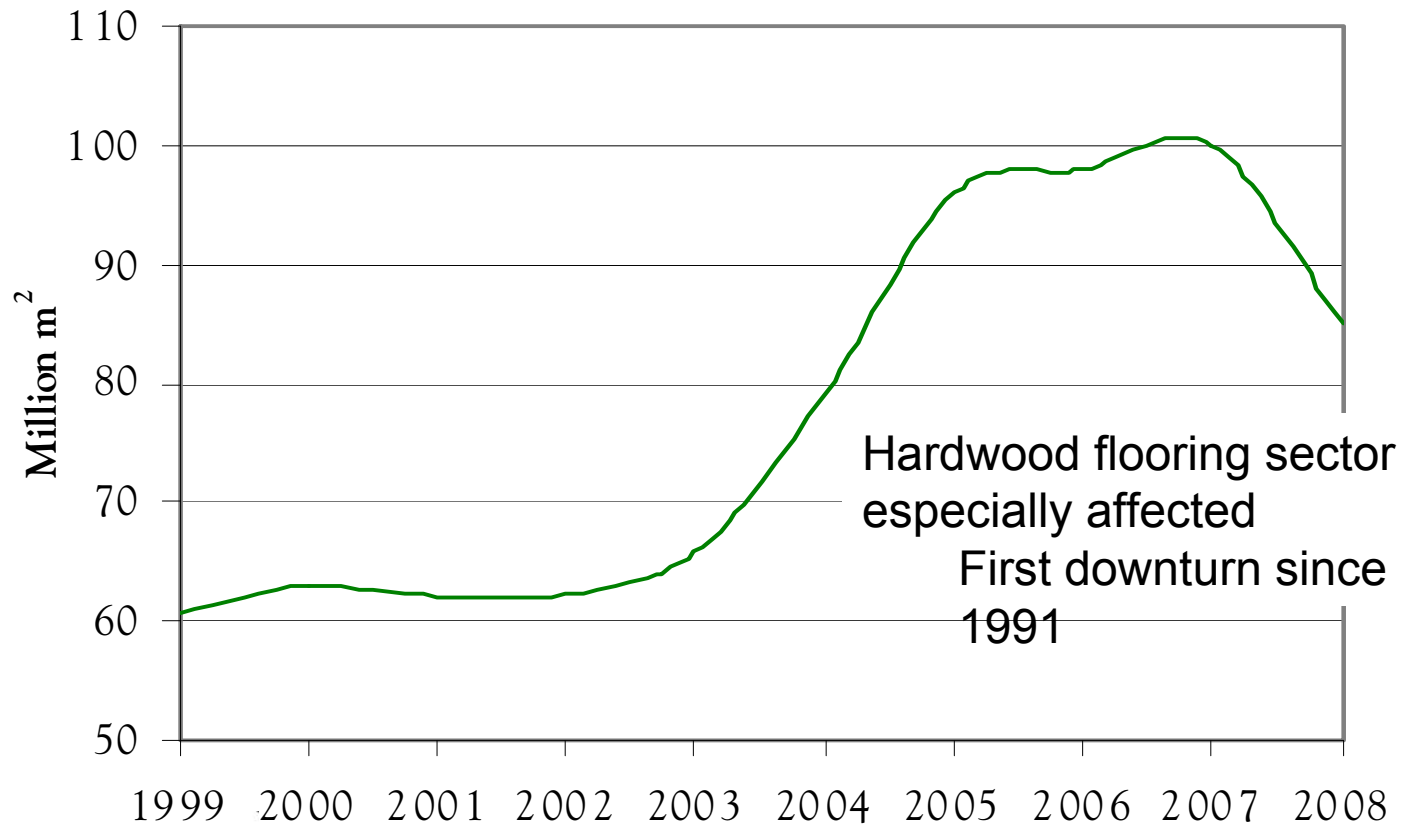
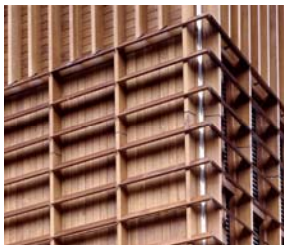


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# Market trends – European flooring production

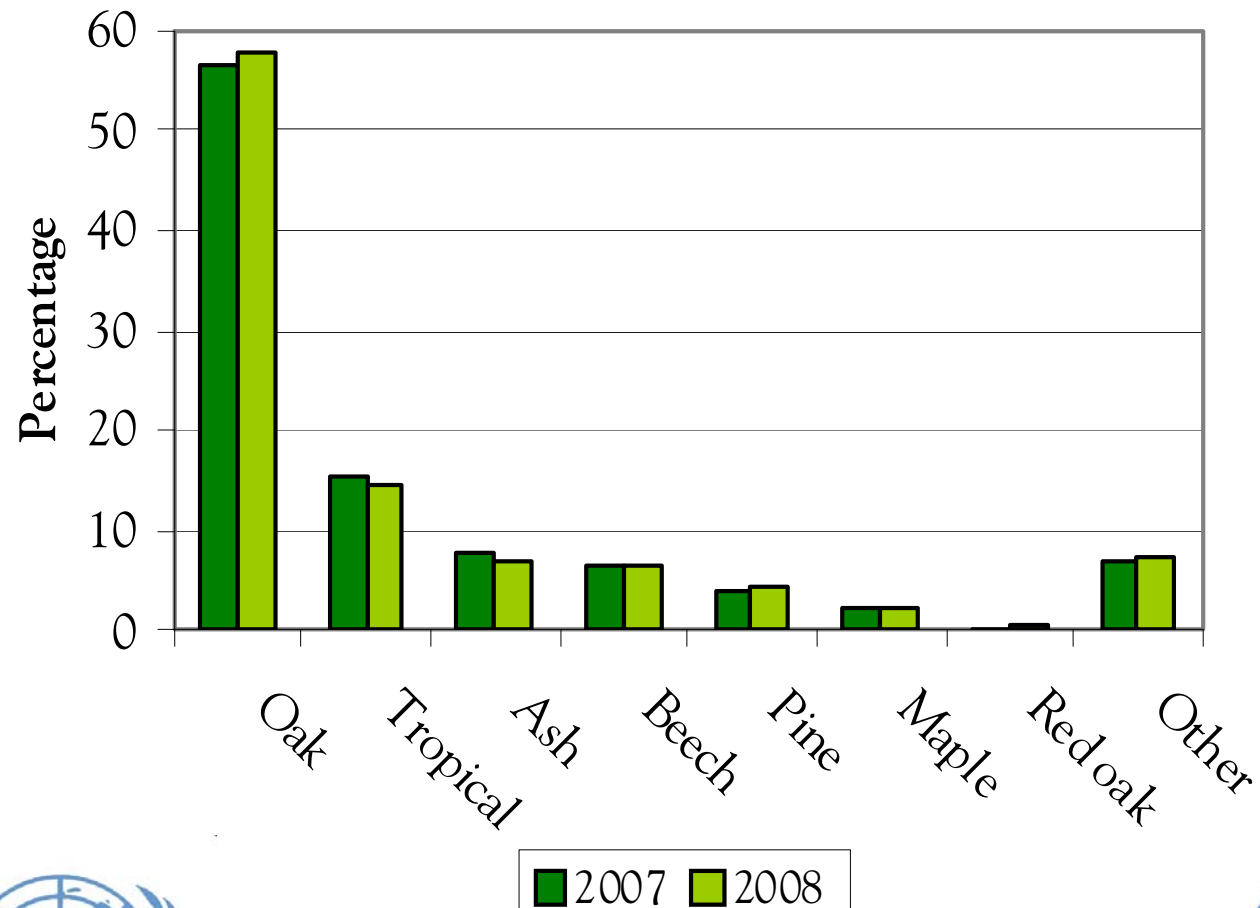
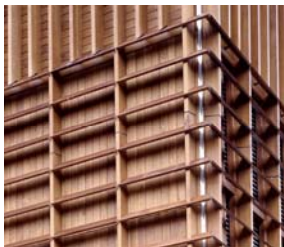


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# Main European flooring species



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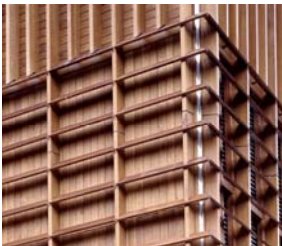


# Main market trends – certification

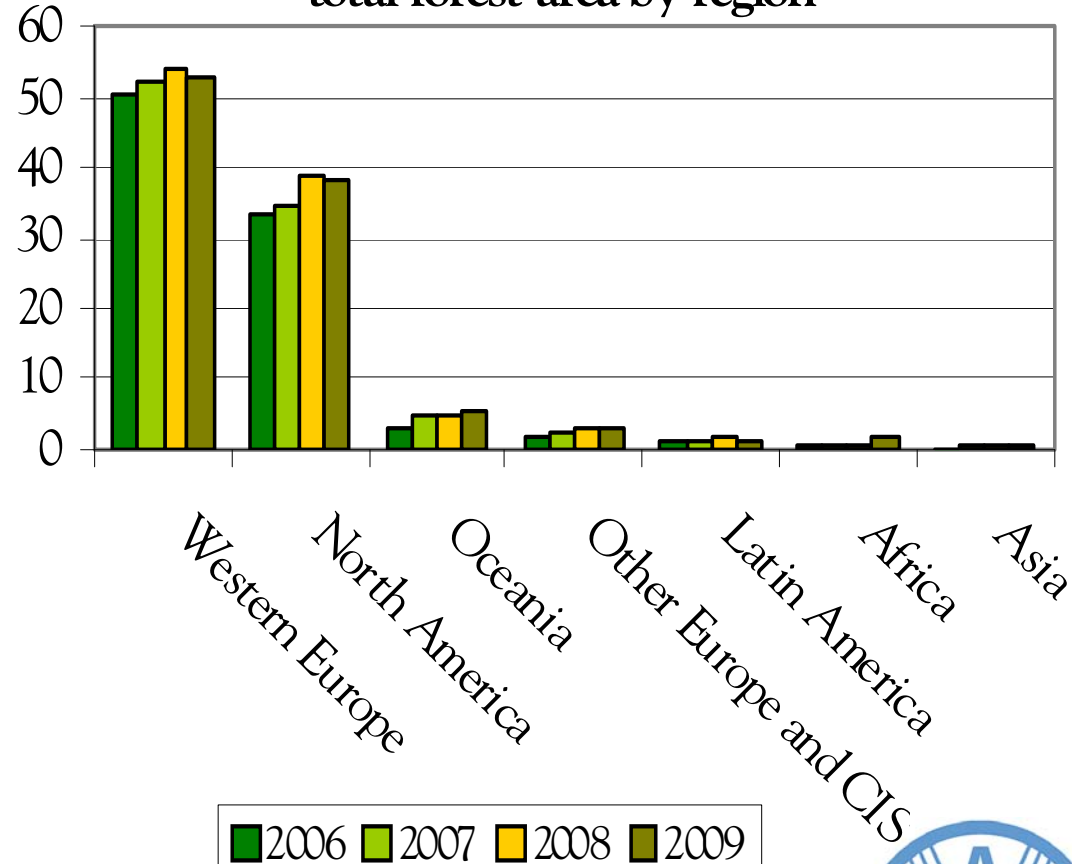


Certification and increased concern about illegal trade

- Public and private green procurement policies
- Corporate social responsibility



### Certified forest area as a percentage of total forest area by region

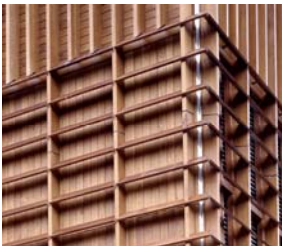


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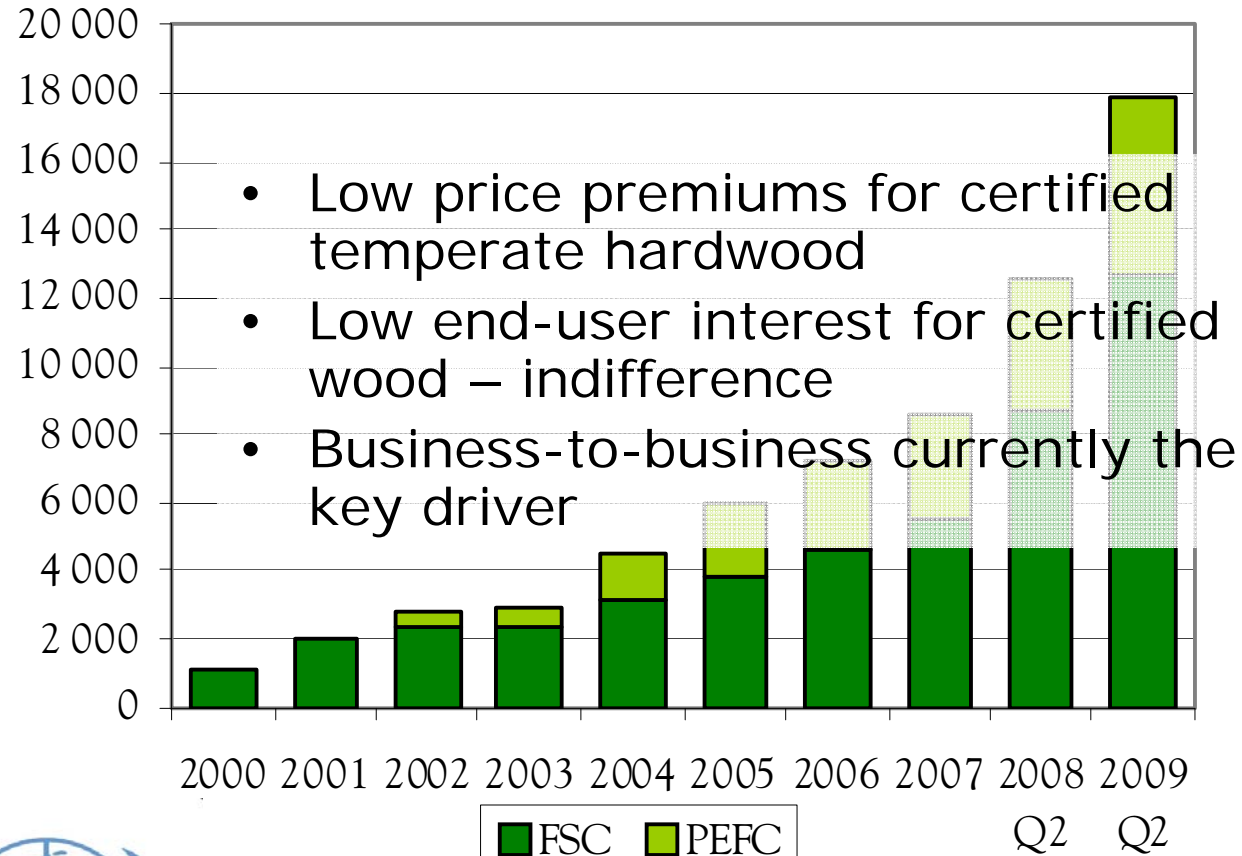




# Main market trends – certification



Number of CoC certificates



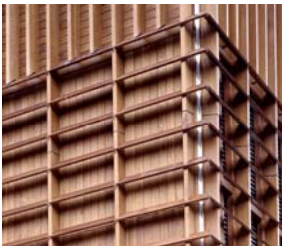
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## Main market trends – Lacey Act



- 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

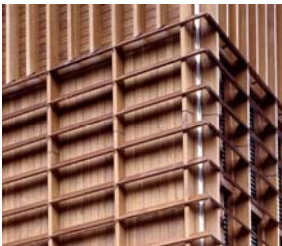


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# Main market trends – EU FLEGT

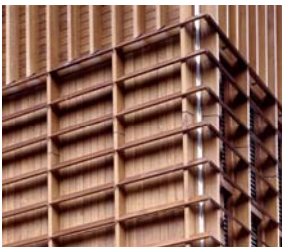


- Action Plan for Forest Law Enforcement Governance and Trade
- Due diligence system
- Companies must ensure legality of the source
- Wood has to be harvested according to country's laws
  - Properly documented
  - Audited
  - Within and outside of Europe
- Not yet approved by the EU Agricultural Council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



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# Future trends

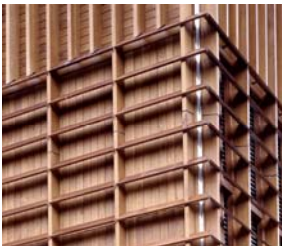


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## Future trends



- Decline in demand could continue well in to 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



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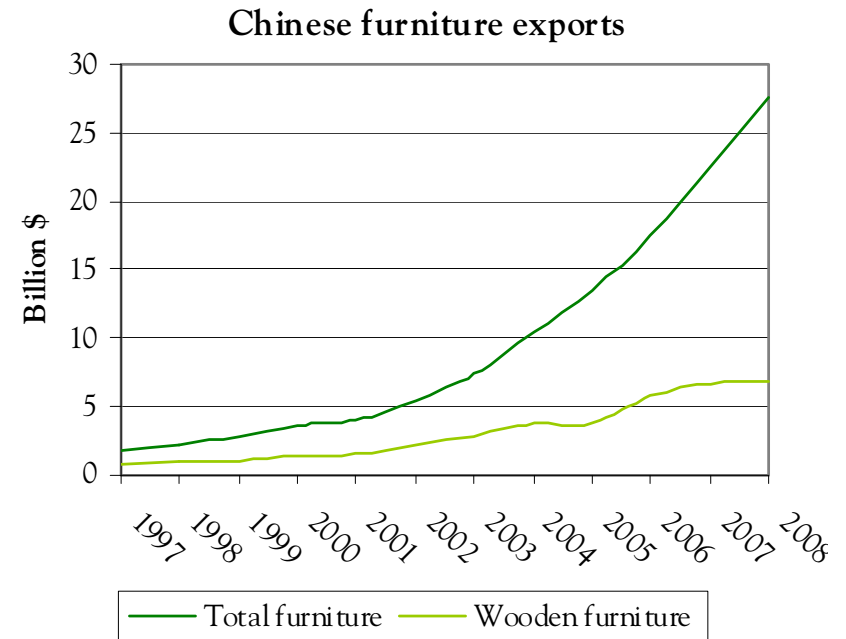
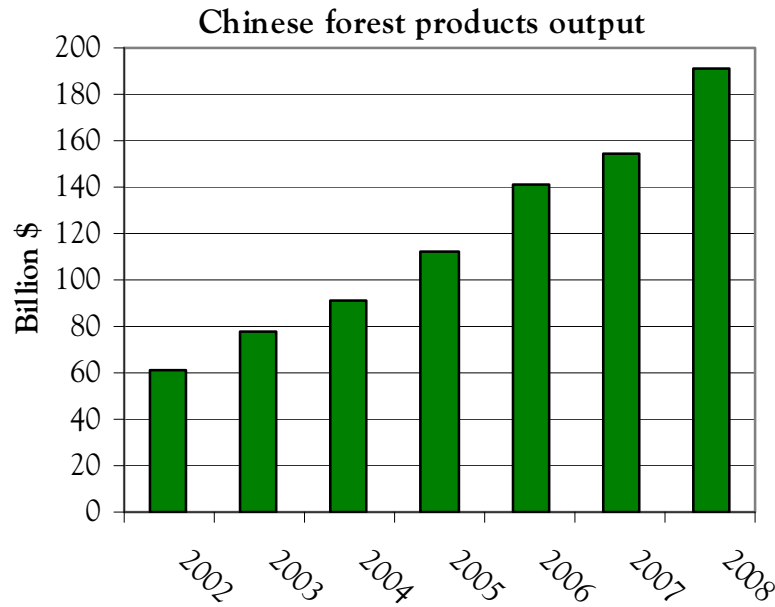
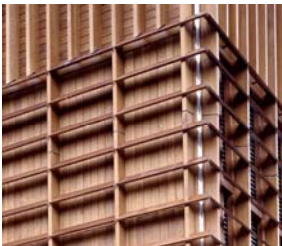




# Future trends

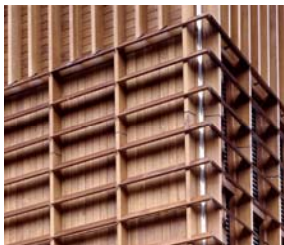


- China's increasing influence
  - World's largest exporter of wooden furniture



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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

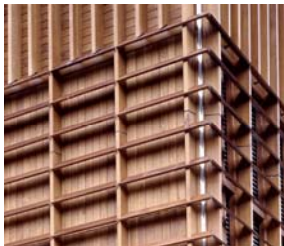


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# UNECE Timber Committee forecasts

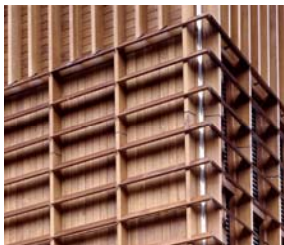


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## UNECE Timber Committee forecasts (from October 2009)



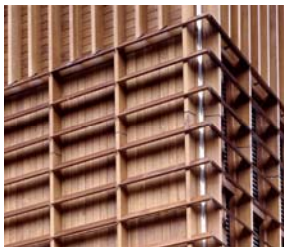
- North America the production of sawn hardwood continued falling in 2008 and 2009, by 9.1% and 6.4% respectively – no change is expected in 2010.
- Although US domestic demand is weak, sawnwood exports are forecast to improve, rising by 7.2% in 2010.
- The European hardwood consumption and production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



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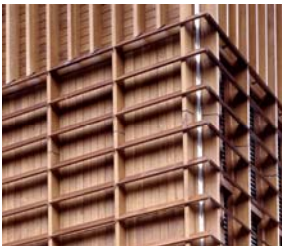
## UNECE Timber Committee forecasts (from October 2009)

- 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.

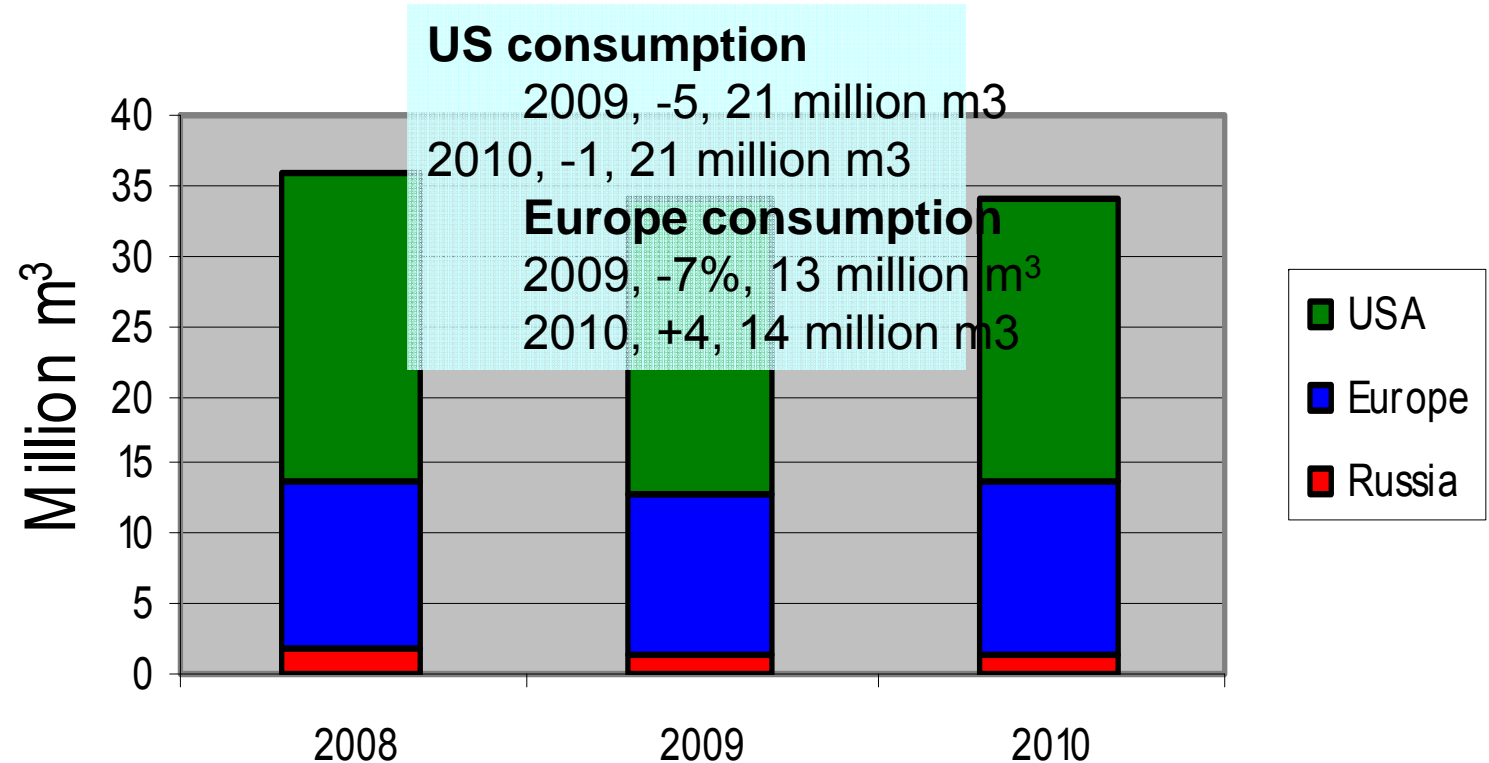


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# Sawn hardwood forecasts – Consumption

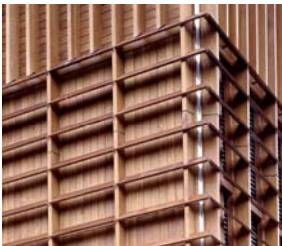


Source: UNECE Timber Committee, October 2009

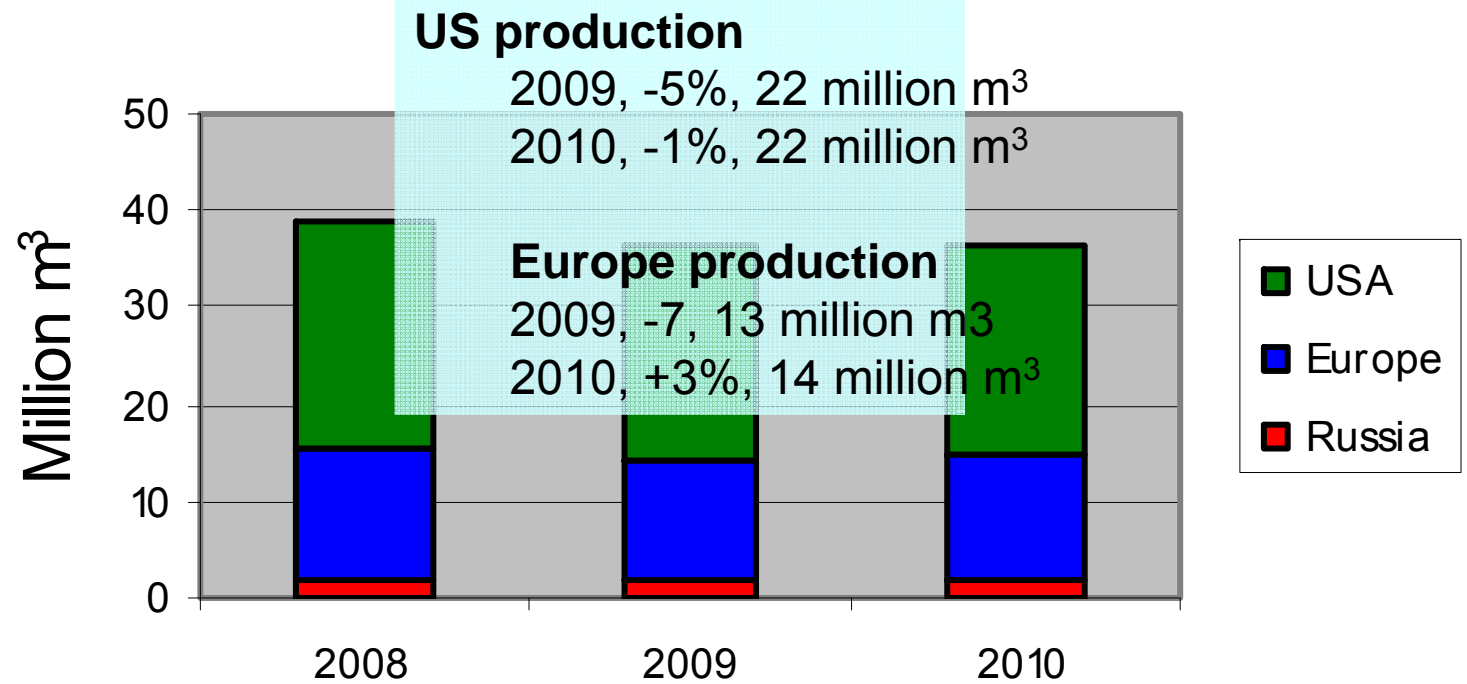


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# Sawn hardwood forecasts – Production

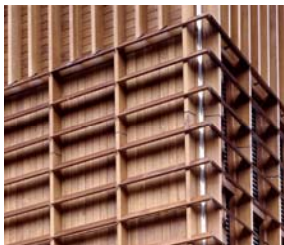


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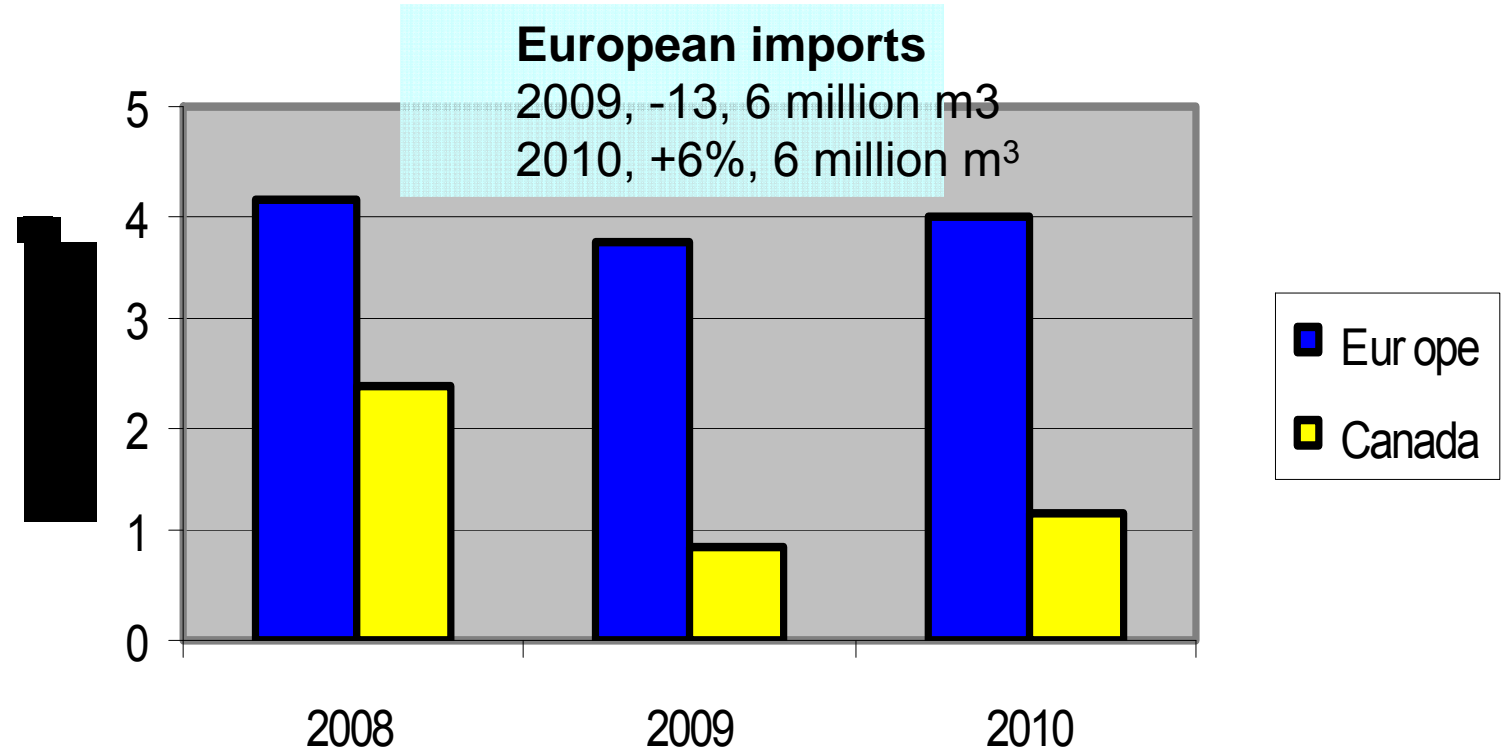


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# Sawn hardwood forecasts – Imports



Source: UNECE Timber Committee, October 2009

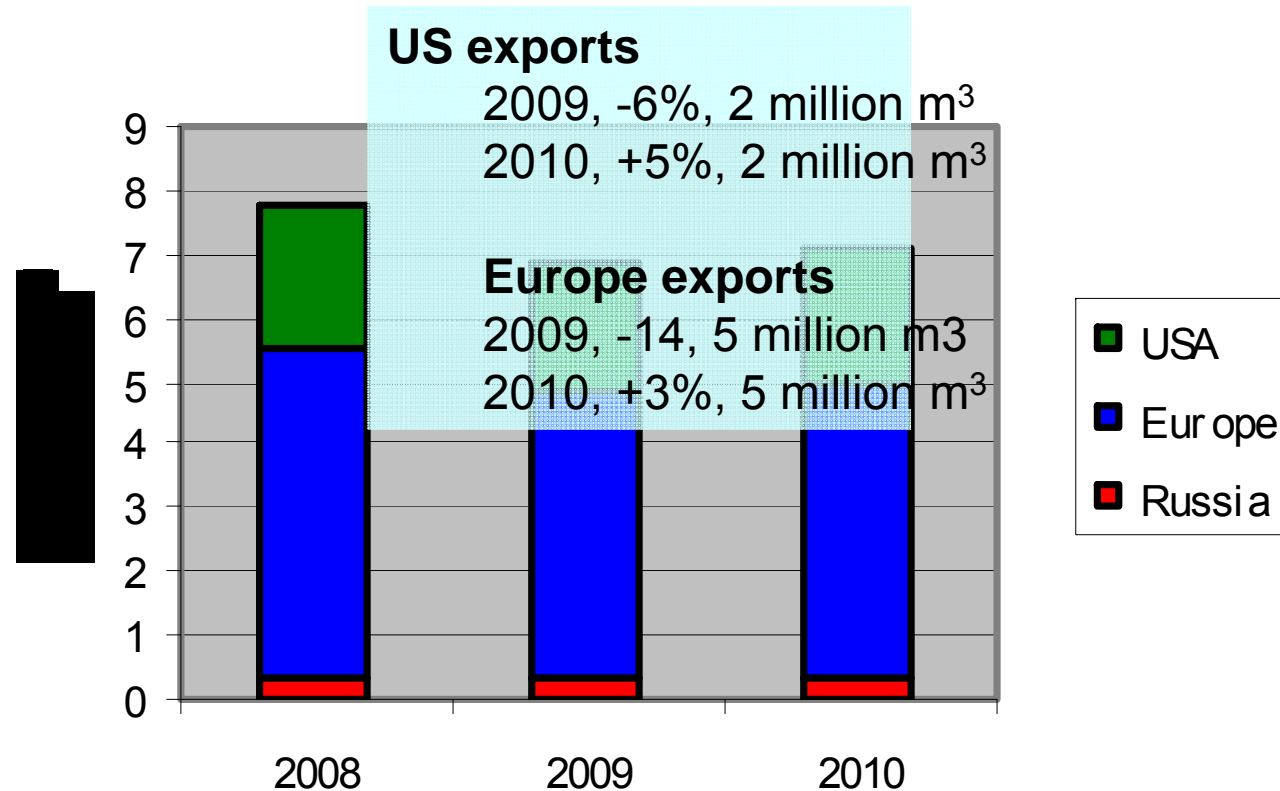
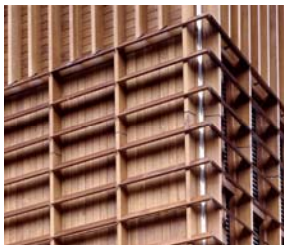


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# Sawn hardwood forecasts -- Exports



Source: UNECE Timber Committee, October 2009

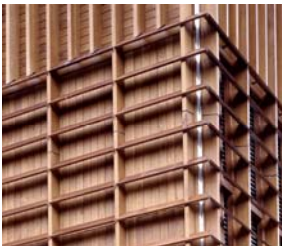


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# UNECE Timber Committee forecasts for US sawn hardwood



- Consumption
  - 2009, -5%, 21 million m<sup>3</sup>
  - 2010, -1%, 21 million m<sup>3</sup>
- Production
  - 2009, -5, 22 million m<sup>3</sup>
  - 2010, -1, 22 million m<sup>3</sup>
- Exports
  - 2009, -6%, 2.1 million m<sup>3</sup>
  - 2010, +4.5%, 2.2 million m<sup>3</sup>

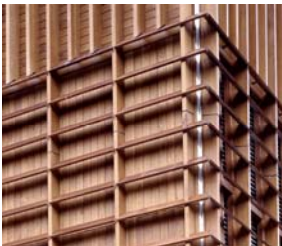


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# Timber Committee forecasts for European sawn hardwood

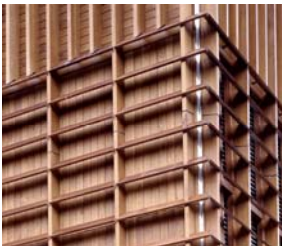


- Consumption
  - 2009, -7%, 13 million m<sup>3</sup>
  - 2010, +4%, 14 million m<sup>3</sup>
- Production
  - 2009, -7, 13 million m<sup>3</sup>
  - 2010, +3, 13 million m<sup>3</sup>
- Exports (including within Europe)
  - 2009, -14%, 4.8 million m<sup>3</sup>
  - 2010, +3%, 4.9 million m<sup>3</sup>
- Imports (including within Europe)
  - 2009, -13%, 5.6 million m<sup>3</sup>
  - 2010, +6%, 5.9 million m<sup>3</sup>

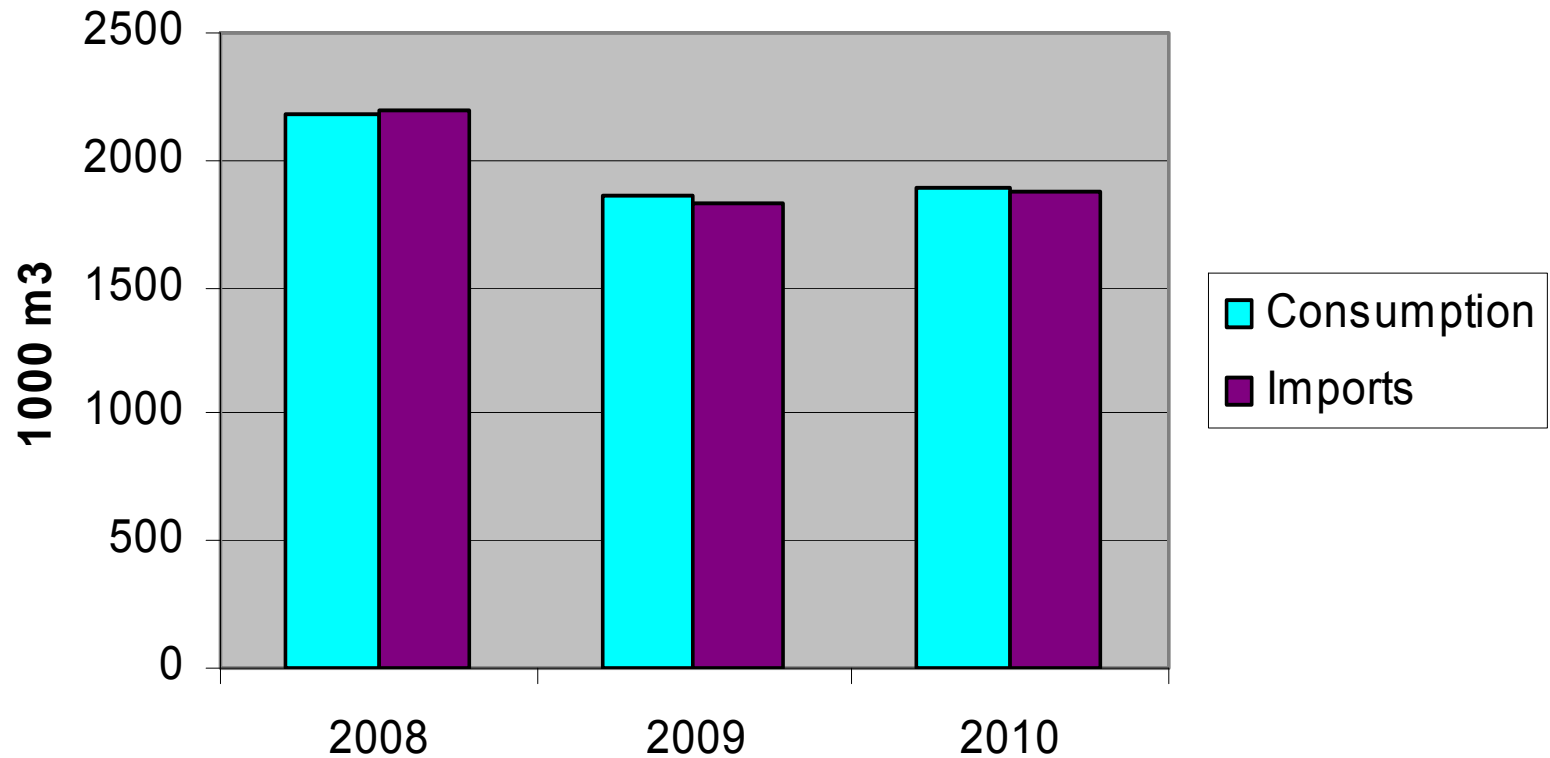


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# European tropical forecasts



Source: UNECE Timber Committee, October 2009



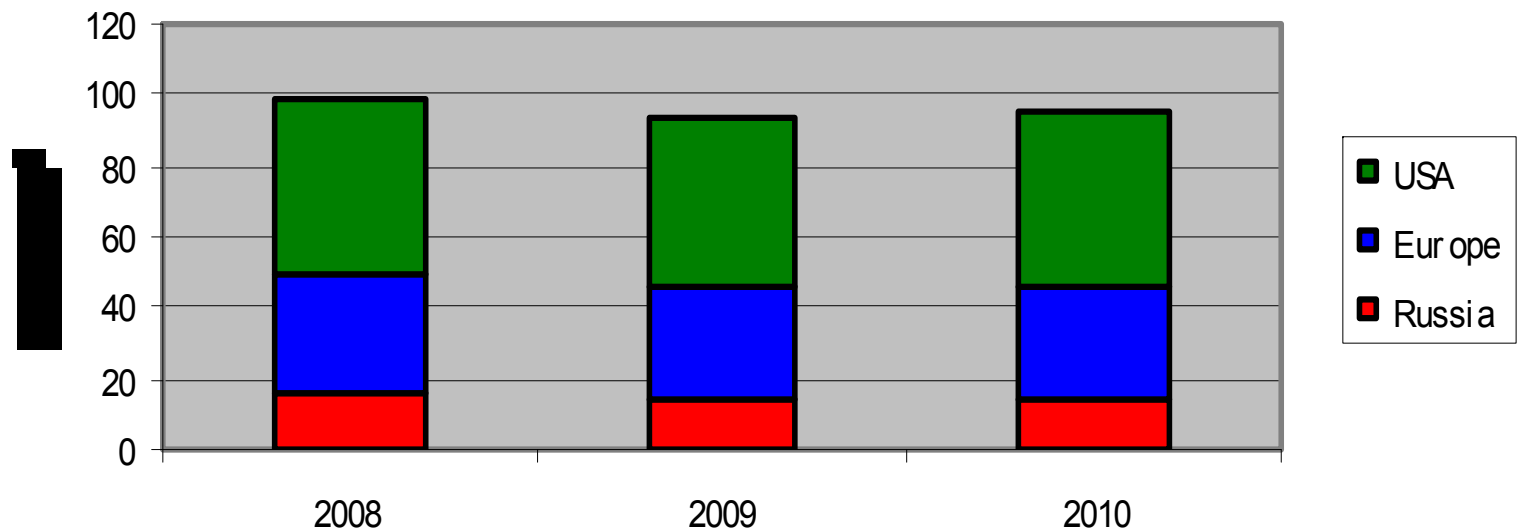
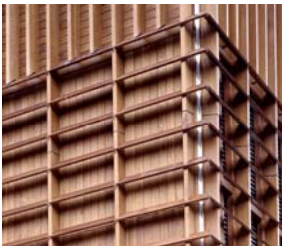
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# Hardwood logs – Consumption



Source: UNECE Timber Committee, October 2009

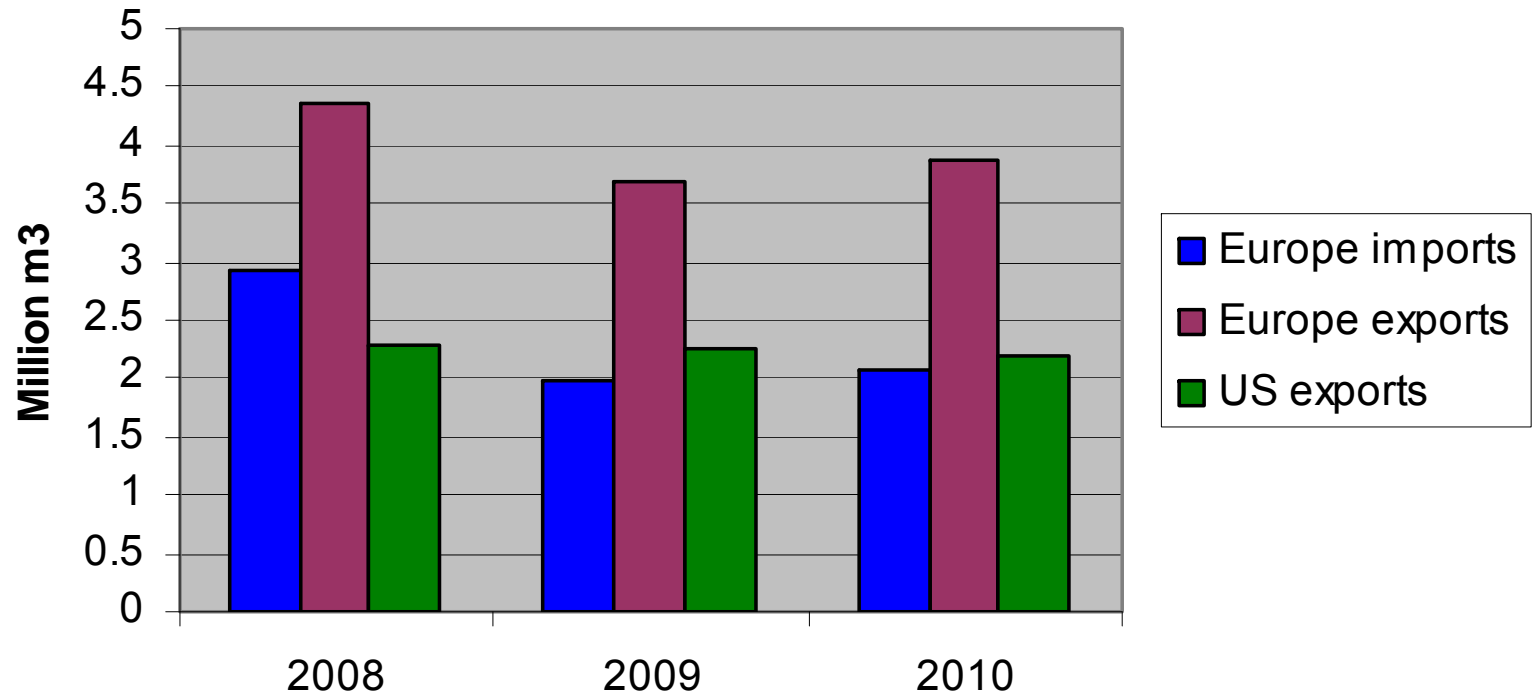
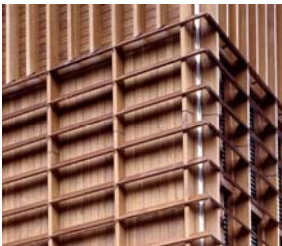


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# Hardwood logs – Trade



Source: UNECE Timber Committee, October 2009

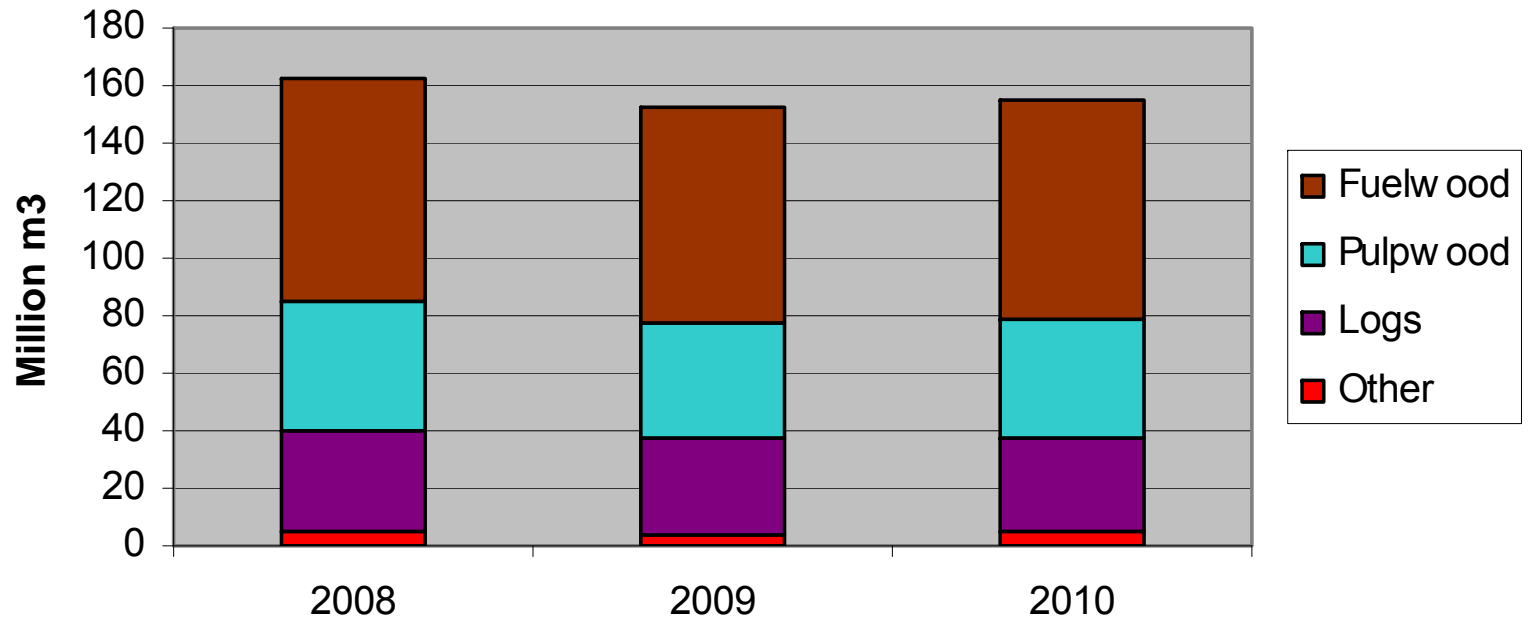
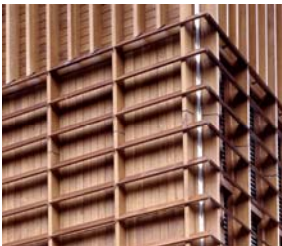


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# European hardwood harvests



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

Source: UNECE Timber Committee, October 2009

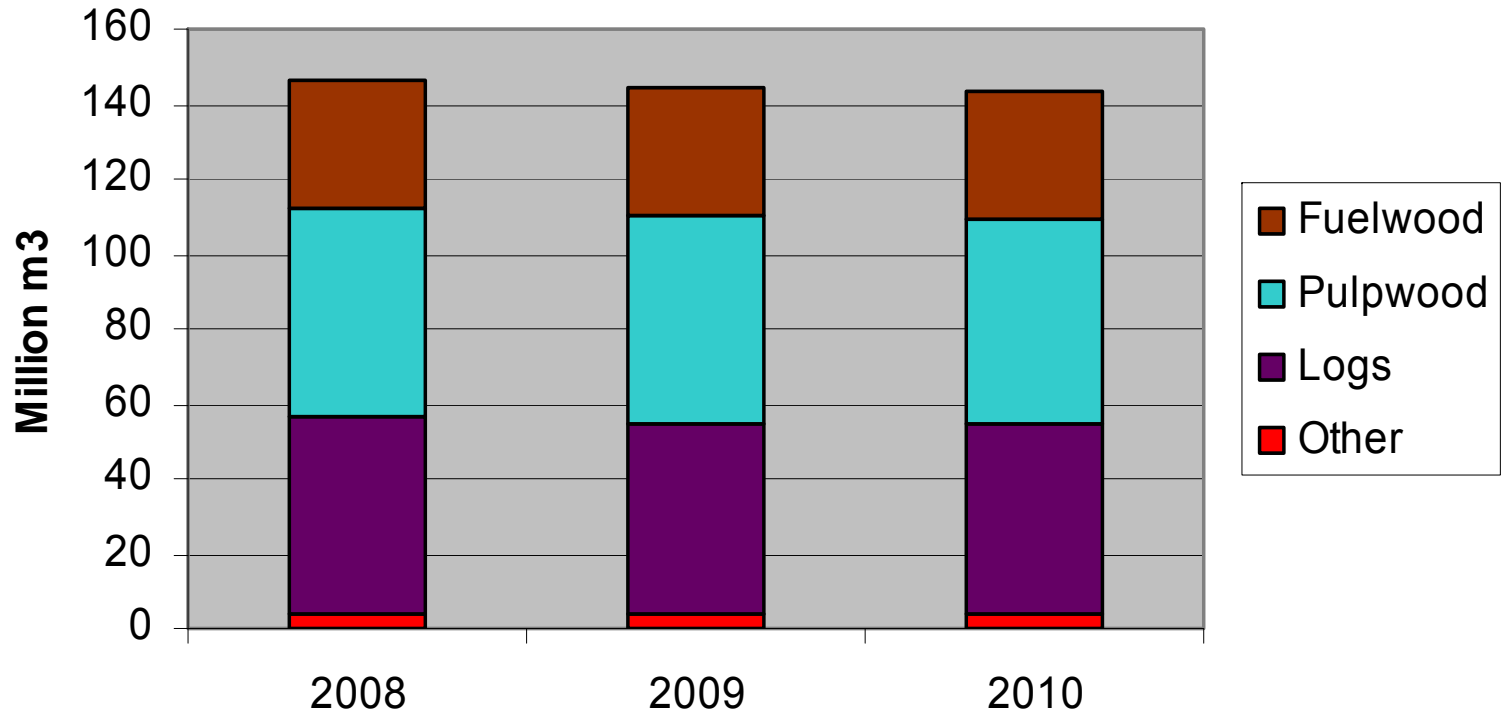
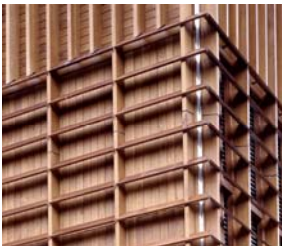


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# US hardwood harvests



US harvests -1.1% 2010

Source: UNECE Timber Committee, October 2009



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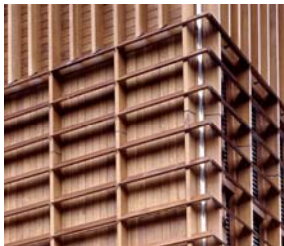




## US hardwood lumber exports, through August 2009 vs same 2008



- World \$566 million, -31%
- EU-27 \$144, -36
- White oak, tulipwood, alder, ash, red oak, walnut, maple, etc.

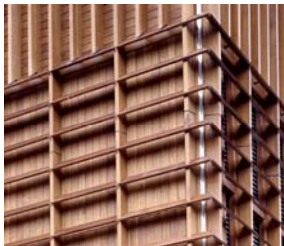


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## Conclusions



- 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

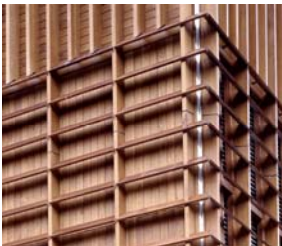


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# Questions

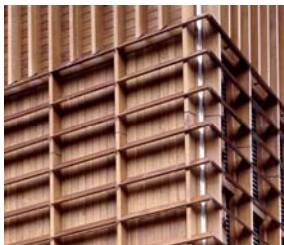


- Have housing markets stabilized and will they rebound?
- Will lumber capacity come back, log supplies increase, production restart, before prices escalate?
- Is green building a market driver or a market constraint (if rating systems don't accept sustainably produced hardwoods)?



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