6 Sawn hardwood markets, 2011-2012

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Highlights

- After a promising start to 2011, sawn hardwood consumption across the UNECE region fell in the second half of the year as austerity measures and the euro crisis undermined economic confidence in Europe and the recovery in the US housing sector was slow to gain traction.
- Sawn hardwood consumption across the UNECE region was 31.1 million m^3 in 2011, only a 2% increase over 2010. Production was 33.3 million m^3 in 2011, an increase of 2.4% over 2010.
- After several years of turmoil, supply and demand for sawn hardwood in the UNECE region are now finely balanced at levels that are low compared with before the economic crisis of 2008-2009, and prices are more stable.
- Total European production of sawn hardwood decreased by 1.4% to 12.6 million m^3 in 2011, with rising production in Croatia and Germany offset by declines in Romania and Slovakia.
- Overall European consumption of sawn hardwood in 2011 was 13 million m^3, a 0.6% decline compared with 2010 and well down on the level prevailing prior to the European recession.
- Oak continued to consolidate its dominant market position in the European flooring and joinery sectors during 2011, whereas tropical hardwoods continued to lose share due to limited availability and development of innovative new products for external applications.
- Sawn hardwood production in the CIS increased by 6.8% to 3.5 million m^3 in 2011, boosted by rising levels of exports of Russian sawn oak to China.
- After dipping to 16.4 million m^3 in 2010, sawn hardwood production in North America increased by 4.4% to 17.2 million m^3 in 2011 as domestic consumption stabilized and there was a revival in export demand, particularly in China and Viet Nam.
- Globalization in the furniture sector, combined with weakness in the construction and housing sectors, has led to a decline in demand for appearance-grade sawn hardwood within the UNECE region and increasing exports of these grades to other markets, particularly China. However, there are early signs of a trend towards "reshoring"[10] of furniture and cabinet manufacturing within the UNECE region, which might revive demand for appearance-grade sawn hardwood in the future.
- The US Lacey Act Amendment and the EU Timber Regulation are placing new obligations on suppliers to demonstrate "low-risk" status with respect to illegal logging and should benefit hardwood supplies in regions where there is strong evidence of good forest governance.

[10] "Reshoring" is a technical term defined as the reversal of outsourcing; the transfer of a business operation back to its country of origin.

6.1 Introduction

The most valuable sawn hardwood demand stems from appearance-grade sawnwood manufactured into furniture, cabinets, mouldings panels, and flooring. Low-grade hardwood is most often used for industrial applications including pallets, trailer floors, and railway ties (sleepers).

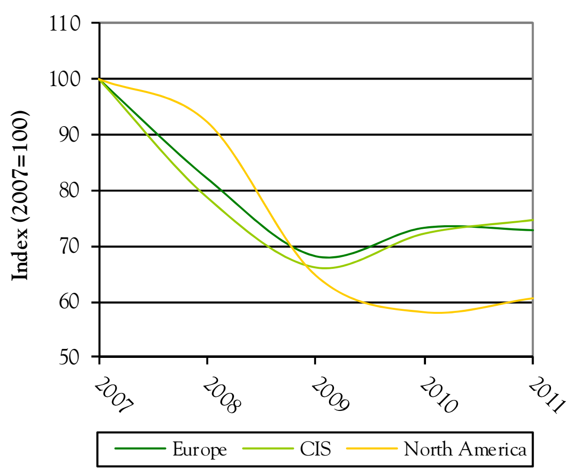
While preparing this chapter, I became aware of the generally poor quality of statistics on production and trade in sawn hardwoods. I have therefore heavily relied on anecdotal information from a wide range of contacts and market reports; which might account for discrepancies between trends in the text and those in the data tables and charts.

Although 2011 began with the promise of continuing improvements in the sawn hardwood industry after the severe downturn reported in the 2009 and 2010 *Market Reviews*, market activity during the year did not fully live up to expectations. Tightening austerity measures and the onset of the euro crisis severely dented market demand in the second half of 2011, particularly in southern Europe. The upturn in North American demand was also delayed by only very slow recovery in the US construction sector. As markets within the UNECE remained subdued, an increasing proportion of hardwood produced within the UNECE region was exported to other regions, notably China.

Total apparent consumption of sawn hardwood across the UNECE region was 31.1 million m^3 in 2011, a mere 2% increase over 2010 (graph 6.1.1). This follows a 2% fall between 2009 and 2010. Overall production across the region was 33.3 million m^3 in 2011, an increase of 2.4% over 2010. In 2010, the increase over 2009 had been 2.2%.

GRAPH 6.1.1

Consumption of sawn hardwood in the UNECE region, 2007-2011



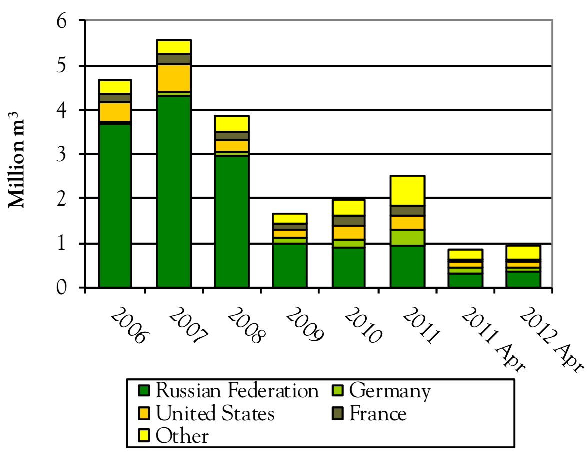
Source: UNECE/FAO TIMBER database, 2012.

Although in this chapter we will be looking at events within the UNECE region, the long-term future of global sawn hardwood markets is becoming increasingly dependent on events outside the region. China's role in the international hardwood trade is particularly critical. Its imports of temperate hardwood logs fell from a peak of 5.6 million m^3 in 2007 to under 1.7 million m^3 in 2009 (graph 6.1.2). This large downturn was largely due to a big fall in imports from the Russian Federation following the Russian government's introduction of high log export taxes designed to boost the domestic processing industry. The decline affected China's imports of birch logs for commodities other than sawnwood, notably plywood, and of oak logs for sawnwood and veneer. Russian exports of oak logs to China declined dramatically from 827,000 m^3 in 2008 to 90,000 m^3 in 2011.

Meanwhile, China's imports of higher-value logs for manufacture of appearance-grade veneer and sawnwood from Europe and North America fell slightly in the 2008-2009 period during the economic downturn. However, these imports rebounded dramatically after 2009 to reach over 1.5 million m^3 in 2011, thereby offsetting the decline in imports of Russian oak logs. Cooling economic conditions in China and in export markets for China's finished products led to the build-up of excess stock of oak logs in China by the end of 2011. As a result, China's imports of oak logs have declined slightly in 2012. This has been offset, however, by a rise in imports of beech logs, which are now more in demand in China due to stable and relatively competitive pricing (graph 6.1.3).

GRAPH 6.1.2

Chinese imports of temperate hardwood logs, 2006-2012



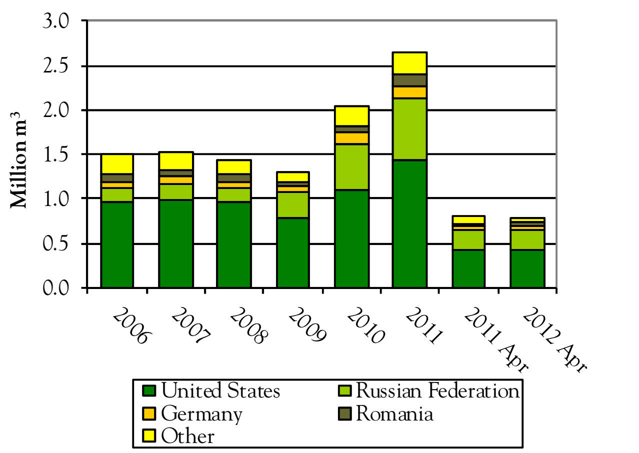
Source: Global Trade Atlas, 2012.

Despite importing large volumes of temperate hardwood saw and veneer logs, China has become more reliant on imported sawn timber. Its imports of sawn temperate hardwood had declined modestly between

2007 and 2009 (from 1.5 to 1.2 million m³) but rebounded very strongly in 2010 and 2011. During 2011, imports of temperate sawn hardwood were 2.65 million m³, with over 1.4 million m³ coming from the United States. The pace of increase slowed in the first half of 2012 and import levels for the full year are now expected to be at around the same level as in 2011.

GRAPH 6.1.3

Chinese imports of sawn temperate hardwood, 2006-2012



Source: Global Trade Atlas, 2012.

Overall, the signs are that the combination of strong economic and construction growth in China and other emerging markets, and a tightening in supplies of Russian and tropical hardwood logs are creating significant new opportunities for other hardwood producers within the UNECE region. In the long term, there is likely to be continuing strong demand for North American and European hardwood logs from China and Viet Nam, but also rising demand for sawn temperate hardwood in China, southeast Asia and Latin America. These opportunities are all the more welcome in the light of a likely slow market recovery in traditional markets of Europe and North America.

6.2 Europe subregion

6.2.1 Market developments in 2010-2011

Sawn hardwood production in Europe was 12.6 million m³ in 2011, 1.4% less than 2010 (table 6.2.1) and well down on prevailing levels before the economic downturn. Table 6.2.2 shows production gains in Croatia (10%) and Germany (12%) were offset by declines in Romania (-4%) and Slovakia (-7%).

TABLE 6.2.1

Sawn hardwood balance in Europe, 2010-2011

(1,000 m³)

	2010	*2011*	*Change %*
Europe			
Production	12 822	12 640	-1.4
Imports	5 528	5 718	3.4
Exports	5 283	5 369	1.6
Net trade	-245	-349	
Apparent consumption	13 067	12 989	-0.6
of which: EU27			
Production	9 206	8 958	-2.7
Imports	4 973	5 109	2.7
Exports	4 237	4 313	1.8
Net trade	-736	-796	
Apparent consumption	9 942	9 754	-1.9

Source: UNECE/FAO TIMBER database, 2012.

European hardwood sawmills struggled to obtain sufficient logs in the early weeks of 2011 due to poor weather conditions and to larger volumes of logs being diverted to export markets, particularly Asia. However, log supply problems had eased by the end of the first quarter as weather conditions improved and log exporters were less active at French and German auction sales (EUWID, 2011a, 2011b, 2011c). Throughout the rest of the year, most French and German sawmills reported that supplies of logs were adequate to ensure steady production in line with demand (EUWID, 2011d, 2011e).

Consumption trends during 2011 were mixed. Reports from the large German and French sawmilling sectors during the first half of the year were generally positive, with some of them reporting sales 15% to 20% higher than 2010. Both domestic and many export markets, particularly in China, were active. There was a robust recovery in demand in several northern European countries, including Belgium, Denmark, Germany, the Netherlands and Sweden.

Demand was particularly buoyant in Germany where construction activity was strengthening during 2011. The activity was concentrated in the refurbishment and renovation sectors as lack of alternative investment opportunities encouraged more consumers to increase spending on their homes. This fed positive trends in the German door, flooring, and furniture industries.

However, consumption was patchy elsewhere during 2011 and lost ground in the second half of the year, particularly in southern Europe, with the onset of the euro crisis. Spain's construction sector remained in deep recession during the year, dampening demand in the door, flooring, cabinet and furniture sectors. In Italy, the important furniture sector came under intense pressure from weak domestic consumption, mounting credit problems and loss of competitiveness in export markets. After the encouraging signs of recovery in 2010 and early 2011, the hardwood trade weakened again in France and the UK in the second half of 2011.

Romanian hardwood sawmills had great difficulty in sourcing logs from public forests in 2010. Availability of hardwood logs improved with the onset of the 2010/2011 winter harvesting season. Nevertheless, Romanian sawmills continued to report heavy pressure on raw material supply during 2011. This was partly due to increased diversion of unprocessed logs to export markets.

Romanian hardwood log exports increased from around 125,000 m^3 in 2010 to 225,000 m^3 in 2011, with exports to China rising from 48,000 m^3 to 122,000 m^3. Prices for hardwood logs were rising in Romania during 2011, while prices for sawn hardwood products were under pressure due to declining consumption in key markets such as Egypt, Italy and Syria.

The Romanian Forestry Association (ASFOR) is leading efforts to boost the competitiveness of the Romanian hardwood sawmilling sector and improve marketing. The sector is seeking new markets, especially in China, India, Pakistan and the Gulf States[11]. However there are major challenges in a sector dominated by many small sawmills and that lacks investment in modern equipment. At present nearly all of Romania's sawn hardwood is sold green or air-dried without a reliable grading system and without adding significant value to the product (ASFOR, 2011).

Demand for European sawn hardwood in countries outside the region was rising in 2011. Overall, EU-27 exports of sawn hardwood to non-EU countries increased by 5% in 2011 to 1.35 million m^3 (Forest Industries Intelligence, 2012). In 2011, the EU-27 exported around 370,000 m^3 of sawn hardwood to China – an increase of 30% over the previous year. As a result, China overtook Egypt to become the largest external market for EU sawn hardwood. This trend was driven by strong growth in China's furniture and flooring sectors that year.

There were also significant increases in EU-27 sawn hardwood exports to India, Japan, Malaysia, Morocco and Tunisia. However, political unrest led to a big decline in exports to Syria (which had been the third largest export market in 2010) and a minor decline in exports to Egypt.

Sawn hardwood production in Turkey, having fallen significantly between 2007 and 2008, stabilized at around 2.1 million m^3 in 2009 and rebounded to 2.27 million m^3 in 2011. In volume terms, Turkey is the largest producer of sawn hardwood in Europe. Most of its sawn hardwood is produced from low-grade domestic timber, as well as from small-dimension plantation logs. Production is mainly for the pallet and packaging industry, with only a small proportion earmarked for export. Thousands of small to medium-sized mills produce sawnwood in Turkey. In recent years, Turkish companies have also begun setting up operations in low-cost neighbouring Black Sea countries.

TABLE 6.2.2

Production of sawn hardwood in Europe 2010-2011

(1, 000 m^3)

	2010	*2011*	*Change %*
Europe	12 822	12 640	-1.4
of which:			
Turkey	2 259	2 269	0.4
Romania	1 610	1 541	-4.3
France	1 422	1 472	3.5
Germany	898	1 007	12.1
Slovakia	797	744	-6.6
Croatia	584	644	10.3
EU27	9 206	8 958	-2.7

Source: UNECE/FAO TIMBER database, 2012.

Imports of sawn hardwood into the EU-27 from outside the EU were 2.64 million m^3 in 2011, almost exactly equivalent to the 2010 level. This implies that there has yet to be any real recovery from the massive fall in imports between 2008 and 2009. Over the last three years, total EU hardwood sawnwood imports have remained static at around half the level typical before the crash.

During 2011, countries of the former Yugoslavia, particularly Bosnia and Herzegovina, and Croatia, together with Ukraine, increased their share of Europe's hardwood market (Forest Industries Intelligence, 2012). This was partly because the value of the euro rose against the Croatian and Ukrainian currencies during 2011. At the same time, supplies of oak sawnwood from the former Yugoslavia began to recover last year after a slump in production in 2009/2010.

Tropical sawn hardwood continued to lose share in the European hardwood market during 2011. EU-27 imports from tropical countries in 2011 reached 1.16 million m^3, down 3% from 1.2 million m^3 in 2010. Tropical hardwoods accounted for 43% of all EU hardwood imports during 2011, down from 45% the previous year.

These figures compare to 53% market share for tropical wood which was typical a decade ago (Forest Industries Intelligence, 2012). This is due to a combination of factors. Availability of tropical hardwoods to European buyers has declined following the closure of many mills in key African supply countries during the

[11] Refers to the countries surrounding or adjacent to the Persian Gulf, namely Bahrain, Kuwait, Iraq, Islamic Republic of Iran, Oman, Qatar, Saudi Arabia and United Arab Emirates.

recession and increased diversion of supplies to China and regional markets in the tropics.

Lack of credit has also meant that European importers have become more risk adverse and there has been a very strong shift to "little-and-often" purchasing. This, in turn, has favoured more readily available temperate hardwood species (particularly oak) and further refinement of techniques to expand their application and look, including staining, smoking, and thermal treatment.

Around 30 companies across Europe are now operating thermal treatment plants with a total capacity of over 300,000 m^3 (EUWID, 2010). These companies are able to offer a widening range of heat-treated temperate hardwood and softwood products that are marketed as alternatives to tropical hardwood in the external joinery and furniture sectors.

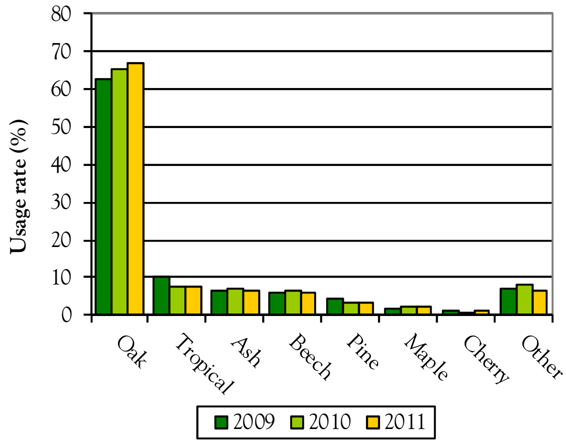
Source: Florian Steierer, 2009.

The European Federation of Parquet producers (FEP)[12] reported a 0.6% increase in European parquet flooring production during 2011 to 70.7 million m^2 (FEP, 2012). While production made a minor recovery from a low of 67.5 million m^2 in 2009, in 2011 it remained 30% below the peak level of 100 million m^2 recorded in 2007. Between 2010 and 2011, significant gains in flooring production in Hungary, the Nordic countries and Switzerland were offset by falling production in Spain. Meanwhile, parquet flooring consumption in the FEP area during 2011 decreased by 1.65% to 91.5 million m^2.

Oak further consolidated its dominant market position in European finishing sectors during 2011, increasing its share of total parquet flooring production from 56% in 2008 to 67% in 2011 (graph 6.2.1) (FEP, 2012). The major loser last year was tropical hardwood, which saw its share of wood flooring produced in Europe drop from 14.7% in 2008 to 7.4% in 2011. The 2011 data suggest little change in the use of other species between 2010 and 2011.

GRAPH 6.2.1

European hardwood flooring species, 2009-2011



Note: "Other" includes species with less than 3% market share: birch, eucalyptus, acacia and chestnut.
Source: European Federation of the Parquet Industry, 2011.

6.2.2 *Market developments in 2012*

Overall market conditions for European sawn hardwood deteriorated in the second half of 2011 and showed little improvement in the first half of 2012. This is to some extent due to the general economic and financial crisis; low construction activity; declining consumer confidence; lack of access to bank credit in many key end using sectors (such as furniture); and low availability and high costs for hardwood logs, partly driven by high levels of log exports to Asia.

There may be incremental increases in demand in some European markets during 2012, notably in northern countries, dependent on the success of continuing efforts to improve the competitiveness and marketing of European sawn hardwood relative to other non-wood products – for example, through innovation to expand use in external environments and construction applications, and through concerted efforts to ensure recognition of the environmental benefits of hardwoods.

[12] FEP member countries: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Hungary, Italy, Netherlands, Norway, Poland, Romania, Slovakia, Spain, Sweden and Switzerland.

However, the economic position of many hardwood sawmills in Europe remains precarious, limiting opportunities for new investment to increase processing efficiency, improve quality and create innovative products. The latest gross domestic product forecasts by the European Commission also suggest that short-term market prospects in southern Europe are extremely uncertain and may well further deteriorate.

The recession in the overall European economy is apparent in downgraded expectations for the construction sector. At its June 2012 conference, Euroconstruct revised downwards forecasts for construction-sector activity in 2012 and beyond, having in June 2011 forecast 1.3% growth for 2012. A decline of 2.1% is now expected.

However, the building renovation and maintenance market has remained robust, falling only 10% from the record levels of 2008-2009. The sector is expected to return to record levels by 2014 (Euroconstruct, 2012). This is particularly welcome for the hardwood sector, which, unlike softwood, tends to have a higher presence in renovation work than in new build.

A key feature of the market for European oak sawnwood in 2011 was the rise in exports to China, particularly to feed the furniture and flooring sector. However, in 2012, the market has cooled, partly due to a rise in the value of the yuan on international currency-exchange markets. This, combined with rising labour costs, has undermined the competitiveness of Chinese finished products. The pace of expansion in China's domestic market for hardwood products has also slowed this year (EUWID, 2012a).

The lower demand from China's wood-flooring and furniture sectors has coincided with relatively high stocks of European oak left over from 2011. As a result, there has been more European oak sawnwood available seeking-an outlet in the domestic market during 2012 than in the previous year.

European sawmillers' plans to increase prices for sawn oak to absorb rising log and energy costs have been put on hold and, in some cases, prices have even declined. Nevertheless, some grades of European sawn oak have been performing reasonably well in certain areas during 2012. For example, there has been strong demand for "rustic grades" of sawn oak (which have a higher proportion of small knots) in central Europe this year. And in France this year, the use of oak in manufacture of garden furniture has been rising. In the UK, there continue to be reports of good demand for sawn oak for structural applications (EUWID, 2012b).

The market for European sawn beech has remained more stable than the oak market. Export demand for beech has been particularly active in Asia, North Africa and the Gulf States during 2012, boosted by the weakening euro-dollar exchange rate which has increased price competitiveness compared with North American substitutes such as red oak, alder and maple. European domestic demand for beech has remained stable in 2012. Against this background, European sawmills have been able to push through small price increases for sawn beech. However, price rises combined with increases in freight rates, have prompted some Asian buyers to switch to lower quality grades of beech in an effort to reduce procurement costs (EUWID, 2012a, 2012b, 2012d).

6.3 CIS subregion

Sawn hardwood production in the CIS increased by 6.8% between 2010 and 2011 to reach 3.52 million m^3 (table 6.3.1).

TABLE 6.3.1

Sawn hardwood balance in the CIS, 2010-2011

(1,000 m^3)

	2010	*2011*	*Change %*
Production	3 293	3 518	6.8
Imports	72	71	-1.2
Exports	983	1 126	14.6
Net trade	911	1 055	
Apparent consumption	2 383	2 463	3.4

Source: UNECE/FAO TIMBER database, 2012.

Sawn hardwood exports from the Russian Federation have increased in recent years from around 375,000 m^3 in 2009 to 746,000 m^3 in 2011. The gain was due to a large rise in exports to China and suggests that the Russian Federation's introduction of log export taxes may have encouraged increased domestic conversion, at least in the eastern part of the country. Whether this will be a long-term trend is now in doubt following the government's announcement that it intends to reduce log export taxes following its accession to the WTO (expected in August 2012 assuming the Duma votes to ratify the agreement).

Exports of sawn hardwood from Ukraine, which are dominated by oak, were around 336,000 m^3 in 2011, a 12% gain on the 2010 figure of 301,000 m^3. This continues the recovery since 2009 when exports were only 262,000 m^3 at the height of the European recession. The dominant export markets for Ukrainian sawn hardwood are in the EU, notably (in order of significance) Poland, Lithuania, Italy and Germany. However, between 2008 and 2011 the share of Ukrainian sawn hardwood exports destined for EU countries fell from 88% to 78% as more volume is now being exported to China, India, the Russian Federation, Turkey and Viet Nam (Global Trade Atlas, 2012).

Ukrainian sawn hardwood supply has been constrained since 2011. Importers sourcing oak sawn from private sawmills in that country have struggled to obtain supply as State-run mills have been given preference in sawlog sales from State forests. Several smaller and medium-sized private mills have ceased production due to log supply problems in the last two years. While sawn hardwood can be obtained from State-run mills, a special licence is required which the government issues only to selected companies.

With log and sawnwood supplies limited, and transport costs increasing, prices for Ukrainian sawn oak have been rising during 2011 and 2012. This trend has continued despite a slowdown in demand for Ukrainian sawn oak in China and southeast Asia. The problems in oak supply have encouraged greater purchasing of ash as a substitute. Many Ukrainian sawmills are now demanding advance payment for sawnwood purchases in order to finance log procurement, which is making buying in Ukraine increasingly difficult (EUWID, 2011f, 2012c).

Imports of sawn hardwood into the CIS from outside the subregion were low once again in 2011 – much less than 100,000 m^3 (Global Trade Atlas, 2012). Imports are restricted due to the large domestic resource, limited capacity for secondary processing, a poorly developed importing sector and lack of market familiarity with imported hardwoods.

Intra-country trade in sawn hardwood within the CIS subregion is also negligible, with total annual flow between all countries amounting to much less than 100,000 m^3 (Global Trade Atlas, 2012). The main flows within the region comprise exports from the Russian Federation to Kazakhstan and Uzbekistan, and exports from Ukraine to the Russian Federation.

6.4 North America subregion

6.4.1 *Market developments in 2010-2011*

The recession in the North American and external markets for wood products began to affect the sawn hardwood sector from 2007 onwards, with production falling from 27.0 million m^3 to 16.4 million m^3 in 2010. It increased in 2011 by 4% in 17.2 million m^3 as the domestic market stabilized and export demand improved, particularly from China and Viet Nam (table 6.4.1).

North American sawn hardwood consumption declined from 23.8 million m^3 in 2008 to 15 million m^3 in 2010. In 2011, it increased by only 4% to 15.6 million m^3, as it continued to be affected by reduced activity in the US construction sector, low consumer spending in the furniture sector, and mounting pressure from imported wood and non-wood alternatives (Hardwood Market Report, 2012). Consumption of lower grades of sawn hardwood was also affected by increased recycling and use of plastics in the pallets sector.

TABLE 6.4.1

Sawn hardwood balance in North America, 2010-2011

(1,000 m^3)

	2010	*2011*	*Change %*
Production	16 421	17 150	4.4
Imports	1 160	1 209	4.2
Exports	2 594	2 727	5.1
Net trade	1 435	1 519	
Apparent consumption	14 986	15 631	4.3

Source: UNECE/FAO TIMBER database, 2012.

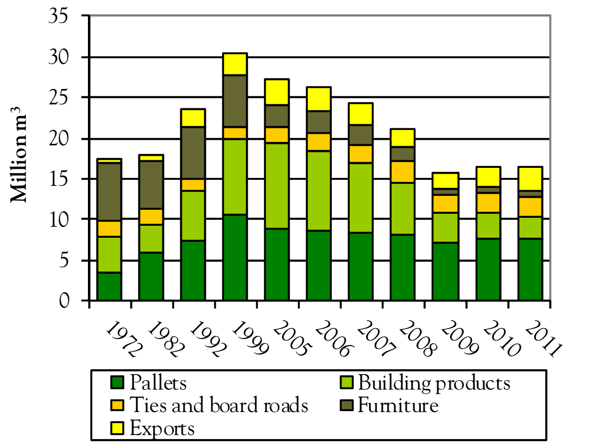
Recent years have seen a major structural shift in US sawn hardwood consumption (graph 6.4.1). Before 1999, the furniture sector had consumed between 6 million m^3 and 7 million m^3 of sawn hardwood annually. But during the next decade, this volume fell dramatically and consistently: the annual consumption in 2009 was only 710,000 m^3 (Luppold, 2011). According to the Hardwood Market Report (2012), consumption improved in 2010 to around 830,000 m^3 but then declined again to 680,000 m^3 in 2011 as consumer spending on furniture weakened significantly in the second half of the year.

During the boom years of the US construction sector, loss of consumption in the furniture industry was offset by increased consumption for building products, including flooring, mouldings, and kitchen cabinets. In 2005, this sector consumed over 10 million m^3 of sawn hardwood. But following the collapse of the US housing market after 2008, consumption of building products fell to 2.57 million m^3 in 2011 (Luppold 2011, Hardwood Market Report, 2012). Consumption of US sawn hardwood in the construction sector has also suffered from loss of share to non-wood and imported materials.

As higher value appearance-grade markets in the US have declined in importance, an increasing proportion of sawn hardwood is being used in low-value industrial applications, including pallets and railway ties (sleepers). In 2011, 33% of US sawn hardwood was used in appearance applications and 67% in industrial applications. Only a decade earlier, the ratio between appearance and industrial applications was 60% and 40%, respectively (Luppold, 2011, Hardwood Market Report, 2012).

GRAPH 6.4.1

United States sawn hardwood consumption by sector, 1972-2011



Source: Author's interpretation of Luppold, 2011 and Hardwood Market Report, 2012.

Even though a growing share of appearance-grade sawn hardwood has been exported, this has not been enough to offset the decline in domestic consumption. Sawn hardwood exports rose from 2.8 million m^3 to 3.1 million m^3 between 1999 and 2006, falling to 1.9 million m^3 in 2009. In 2011, they rebounded to 2.83 million m^3. Between 2009 and 2011, exports to China increased from 474,000 m^3 to 1.03 million m^3 (AHEC, 2012a).

Over the past decade, US hardwood harvests have been falling steadily, driven by declining overall consumption and structural changes in the forest sector. In particular, there has been a major reduction in the number of logging professionals: many have been discouraged by a combination of falling log demand, rising insurance costs, elusive financing and higher fuel costs (Hardwood Review Express, 2010).

Sawn hardwood buyers have been responding to recessionary pressures by shortening lead times, requiring a more customized product, and buying smaller sawnwood quantities to cut costs and increase operational flexibility. There are also indications that consolidation has been occurring in the sawn hardwood industry, generally as a way to maximize operational efficiency.

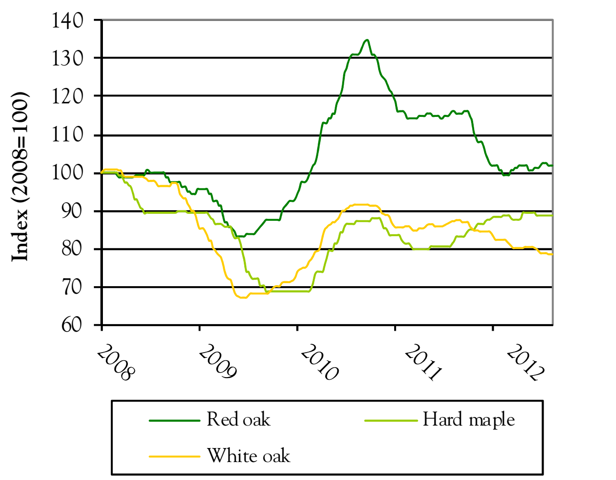
Larger firms have more resources to invest in technology and professional management teams, and have larger negotiating power with suppliers and logistics services providers (Espinoza et al., 2011).

As limited consumption of US hardwoods during 2011 was matched by limited supply, prices overall were fairly stable. The industry responded to slow demand by winding down the level of production so that kiln-dried sawn hardwood inventories steadily declined in the second half of the year. However, there were significant variations between species.

Supplies of sawn red oak and white oak were running ahead of demand throughout 2011 and prices for these species were trending downward (graph 6.4.2). Prices for cherry also declined during 2011 due to weak activity in the US cabinet sector. In contrast, prices for sawn ash were rising during 2011, partly as a result of increasing demand in export markets as a cheaper alternative to white oak and growing interest in thermal treatment. There was also pressure on supplies of ash due to reduced harvesting following widespread flooding in the Mississippi valley in early 2011. Hard maple prices gained some ground in 2011 as producers responded to weak demand by greatly reducing production. Tulipwood prices received a boost from strong demand in Asian markets (Hardwood Review, 2012).

GRAPH 6.4.2

Price development for selected hardwood species in the US, 2008-2012



Sources: UNECE/FAO TIMBER database, 2012.

6.4.2 *Market developments in 2012*

Sawn hardwood consumption in North America remained slow during the first half of 2012, although there are some indications of improving market conditions. Sawmills have continued to keep production down, and log supplies have been only fair. Trucking is a severe problem in many areas, with reports that drivers are becoming more difficult to find, with many having left the industry in search of better opportunities elsewhere.

Sawn hardwood distributors report that sales are only fair, with customers still short on credit, and are maintaining low inventory levels. Overall export sales are steady, with Asia picking up the slack of slowing European shipments. Prices for kiln-dried sawn hardwood were quite stable during the first half of 2012, although there has been some increase in prices for green (undried) sawn hardwood leading to reduced margins in the kilning sector.

There is concern in the industry that production might edge up during the second quarter of 2012, while demand might edge down, resulting in softer prices. However, according to Hardwood Review Express (2012a) "sawmill discipline, cash flow restraints, logger shortages and strong markets for low-grade, industrial sawnwood should keep grade sawnwood production under control. Moreover, solid exports to non-European destinations will help offset sluggish demand from other sectors".

While economic conditions remain uncertain in the US, more positive signals are beginning to emerge in the housing and furniture sectors, boding well for future hardwood demand. Housing starts were rising in the first four months of 2012, and permits to build new homes rose sharply in May 2012, suggesting that a nascent housing recovery is on track.

Source: AHEC, 2012.

Attendance at the High Point Furniture Market in April 2012 was the highest for several years, with reports of particularly strong interest in the "Made in America" Pavilion, which occupied double the space of the previous year (Hardwood Review Express, 2012b).

Recent articles in the US trade press highlight an emerging trend to bring high-end furniture manufacturing back to the United States. According to Wood & Wood Products (2012): "Companies are finding the upside of domestic production – speedier and more reliable delivery, and reduced transport costs – increasingly offsets the wage differential [with overseas manufacturers]. An added bonus: design and engineering can work collaboratively with manufacturing during product development. This combination gives an edge, in many cases, to North American production."

Studies by the Massachusetts Institute of Technology and The Boston Consulting Group (2012) conclude that the pace of "reshored" or "insourced" manufacturing will accelerate in the next two years. Boston Consulting Group suggests residential furnishing is one of seven segments likely to see a big move back to US factories by 2015.

There are also indications of a return to growth in the US cabinet industry. According to a recent report by IBISWorld (2012), in the five years to 2012 the number of firms in the industry declined at an average annual rate of 3.2% to 8,347 enterprises. But in 2011, the industry began to see positive revenue growth and is expected to grow a further 8.6% in 2012 as consumer spending grows and the housing market begins to stabilize.

6.5 Policy and other market issues

A range of policy and other market issues are increasingly affecting the sawn hardwood trade and industry.

The US Lacey Act Amendment, introduced in May 2008, and the EU Timber Regulation, which will be enforced from March 2013, impose new obligations on suppliers to demonstrate "low-risk" status with respect to illegal logging. Hardwood supplies in regions where there is strong evidence of good forest governance are likely to benefit in the long term.

In December 2011, the US Department of Commerce announced the imposition of antidumping duties on Chinese multi-layered wood flooring following a complaint by the Coalition for American Hardwood Parity that imports of this product were "sold in the United States at dumped prices, and that Chinese manufacturers have gained an unfair competitive advantage." According to the US International Trade Commission, imports of multi-layered wood flooring totalled $310 million in 2010, slightly more than half of the US total consumption (US Federal Register, 2011).

6.6 References

Note: The *Review* has a statistical annex, which is available at: www.unece.org/fpamr2012

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