

Global economic slowdown hits tropical timber prices

By Lauren Flejzor

MIS Coordinator, ITTO Secretariat
flejzor@itto.or.jp

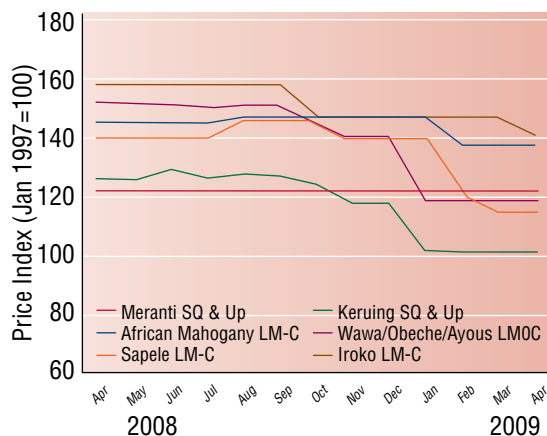
Due to favorable demand in the first three quarters of 2008, prices for tropical timber were relatively stable. However, after October 2008, prices for logs and plywood began falling slightly as the economic slowdown began to affect consumer purchasing. Towards the end of the first quarter of 2009, more consistent falling price trends were observed for logs and plywood due to waning demand in Japan, the US and UK, the economies hit hardest by the downturn. Nevertheless, as production was scaled back or supply became less available in producer countries, certain prices for particular species rose. Traders faced tough negotiations on price, with the trading environment becoming a buyer's market.

Africa less affected

The overall market situation in West and Central Africa was mixed in early 2009, as production and supply were relatively low, although there seemed enough supply in the near term to meet demand. In the UK, demand was down for key species such as meranti, sapele, keruing, and khaya (African mahogany). Prices for okoume logs were affected by low plywood consumption. Since the implementation of the Gabon log ban on four major species (douka/makore, moabi, ozigo and afo), prices for some species, notably moabi logs and lumber, rose at the end of January 2009 by about EUR30 per m³, with the expectation that buyers would take advantage of log stocks being disposed by producers until the end of March. Log imports through Chinese ports were also falling, due to dwindling supply in Africa, causing prices for some species to rise in China.

Logs dip

Tropical log FOB prices, 2008-2009

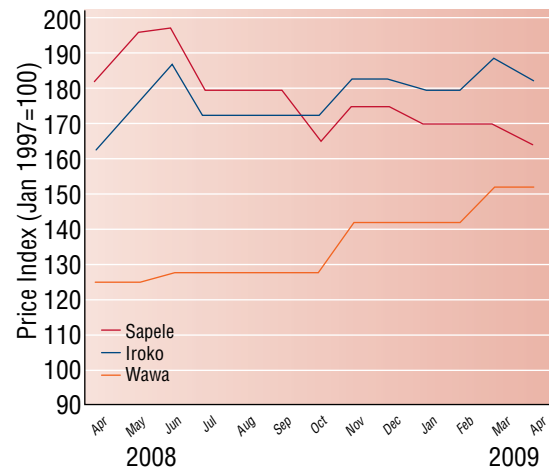


West African sawnwood prices, on the other hand, were not as affected by diminishing levels of demand, as production was low. It was expected that prices for sapele would increase in the coming months, since sapele stocks had been absorbed by buyers and production of the species was limited in Northern Congo and Central African Republic. Sipo was also likely to hold on to higher price levels.

Since prices had not been moving in Ghana during late 2008, the Timber Industry Development Division (TIDD), did not review the Guiding Selling Prices (GSP) of timber and wood precuts for the first quarter of 2009. Ghana was also facing

Sawnwood stable

West African FOB price trends, 2008-2009



price competition with intra-regional competitors, Gabon, Côte d'Ivoire and Cameroon. West Africa's trade with other key intra-regional partners, such as South Africa, was particularly low. A number of contracts negotiated in January 2009 or earlier were put on hold for later dates.

Mostly all purchases were slowing from African producer countries, with Malaysia hoping to benefit from the Democratic Republic of Congo's decision in January 2009 to cancel contracts of 156 logging deals in the country's rainforests. New contracts were expected to be issued for the over 9000 square kilometers of forests in the DRC.

Asia faces layoffs and reduced production

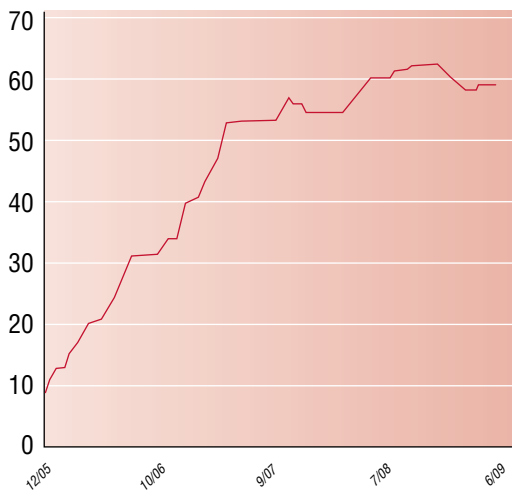
Timber earnings declined for Malaysian timber and timber products during 2008, although the value of overall commodity exports jumped 26.7% in 2008, mostly due to the rise in palm oil prices. As at end February 2009, Malaysian timber prices were low and traders were resisting further reductions. Malaysia was also feeling pressure on its international export markets, as the Malaysian ringgit was declining against the major currencies. Most timber operators in Malaysia were coping with financial losses, and it was expected that nearly 60,000 workers were likely to be affected by layoffs in the country.

The country was also facing a raw material shortage. To address this problem, the Malaysian government decided to reduce its export of natural rubber by 5%, which means that more rubber plantations can be replanted or converted to alternative projects. As a result of the decision, more rubberwood will be available and pressure on log prices is likely to subside during 2009. Prices for rubberwood furniture and furniture parts rose rapidly during 2006-2007 and maintained high levels during 2008, as the chart for rubberwood Windsor chairs shows.

In Indonesia, prices were on the decline as sawmills in the country were not purchasing more logs. With demand low for Indonesian plywood and panel products, the country was experiencing massive unemployment, the hardest hit being community-based furniture manufacturers. With the

Rubberwood rise

Prices for rubberwood windsor chairs (USD/piece), 2006 – 2009

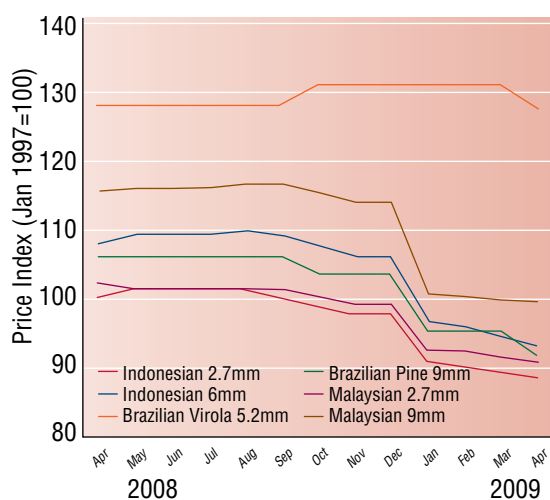


economy in crisis, it was reported that domestic prices of Indonesian timber were on the verge of collapse. Given the state of the timber trade and increasing layoffs, it was feared that more people would clear forests for agricultural purposes to generate income.

Overall demand for South East Asian plywood was low, particularly in Japan, where imports of plywood dropped 11% in year 2008, the lowest level of the country's plywood imports in 33 years. Prices for South East Asian plywood fell considerably in early 2009, due to changes in consumer purchasing, Japan's increasing reliance on domestic sources of raw materials and a weakening Japanese economy, together with reduction of demand in other key markets such as China. China was scaling back its production and manufacturing of plywood, reflecting lower offer prices for raw materials.

Plywood plummets

Tropical plywood FOB prices, 2008-2009



Brazil hard hit by slowdown

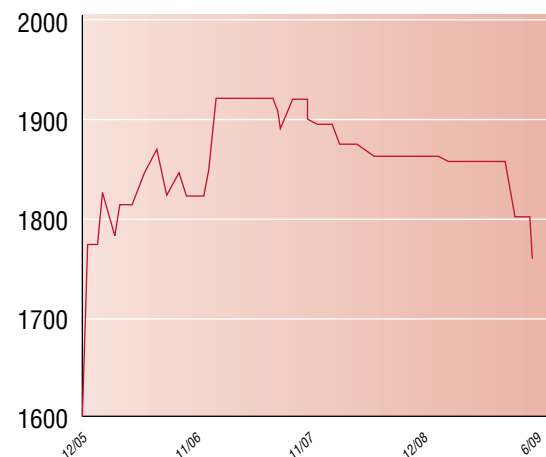
Exports were significantly lower in Latin America in 2008, as the region's major importers – the US, EU and parts of Asia – cut back orders for the region's wood products. In Peru, wood exports from January to December 2008 grew only 3% by

value, with the main export destinations being Mexico, China and the US. Sawntwood was the largest exported item during the year, representing 44.7% of the sector's exports. As seen below, prices for Peruvian mahogany rose in the early part of 2006, steadied until late 2008, and fell substantially after the new year, following similar price trends for West African and South East Asian logs and plywood.

As in parts of South East Asia and Africa, layoffs were similarly affecting the Brazilian furniture industry. In 2008 the Brazilian state of Rio Grande do Sul saw furniture exports decline by 34.3% in value terms. As a result of declining sales, further layoffs may be necessary in the furniture sector. The value of all wood products exports (except pulp and paper) declined more than 15% in November 2008 and export value of all products except wood furniture fell in December 2008 from the corresponding period in 2007. Many experts in Brazil believed the outlook for exports would be bleak, due to waning demand for wood products as well as the depreciation of the US dollar against the Brazilian real.

Mahogany on hold

Prices for Peruvian mahogany (*Swietenia macrophylla*) – Grade 1 Common and Better, KD, US market, 2006-2009



Exchange rate uncertainty

Adding to the uncertainty in market conditions were exchange rate fluctuations. This was particularly affecting the UK market, with the dollar rising about 20% against the euro and nearly 40% against the British pound since August 2008. This has led to rising prices for forward purchases, making it more difficult for European buyers to make purchases from Asian producers, especially since the banking crisis in the UK has weakened market confidence. A few large exporters in Asia have been selling stock below replacement prices, although as mentioned above, most are not reducing prices further. Nevertheless, the lowering of the exchange rates in South East Asia, particularly Indonesia, has not encouraged more buyers of Indonesia's plywood. This trend was similarly seen in Brazil.

European buyers expected prices to eventually rise, but not within the next six months. Regardless, some popular species continued to be selling well in Europe, particularly African species such as iroko and framire.