

Trade restrictions will have far-reaching impacts

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The first half of 2010 saw the continuing implementation of economic stimulus measures, but the timber sector was hit by bans and restrictions that are likely to have a long term impact on the timber trade. A log export ban by Gabon came into effect in May. As a result, the availability of okoume logs has been substantially reduced. This annual loss of over 500 000 m³ of okoume logs is set to have a long term impact on plywood manufacturers in Europe, China, North Africa and elsewhere. The ban triggered frenetic log buying from neighbouring countries, but the situation has eased due to the subdued economies of importing countries.

In June, the European Union reached agreement on legislation against illegally harvested timber which will set new conditions for European importers. The Indonesian government had also announced a 2-year moratorium on new permits to convert natural forests to oil palm or other crops beginning in 2011 that may impact availability of raw material supply to the timber processing industry.

Fluctuating exchange rates, higher freight costs and uncertainty over the economic recovery had a significant influence on timber markets during the first half of 2010. Despite the reduced availability and long lead times for tropical timber, importers in Western markets tended to keep stocks low and place only small orders. China and ASEAN countries continued to be the main drivers of tropical timber consumption.

In its latest forecasts, the IMF predicts that global output will experience decent growth of 4.2% this year, a full percentage point more than foreseen at the end of 2009. Other forecasts are slightly more optimistic, predicting global growth of 4.5% in 2010 – close to the average pace of the boom years prior to the recession. The largest emerging economies, namely China, India and Brazil, are experiencing the fastest growth, close to, or exceeding double-digit rates. The IMF reckons that the US will grow by as much as 3% this year. In contrast its growth forecast for Europe, where the downturn was particularly pronounced during the first half of 2010, is only 1% in the Euro-zone and 1.3% in the UK this year.

Mixed trends

China's timber sector continued to grow in the first half of 2010 and this having a positive effect on tropical hardwood imports. However, the economic situation in EU and North America has made it difficult for importers and sawnwood producers to pass on higher log and sawnwood prices to buyers in spite of low stocks and reduced availability of tropical timber. In addition, longer lead times of up to several months and rising ocean freight costs are undermining the market environment, resulting in lost market share for tropical timber. In particular, European manufacturers are replacing tropical sawnwood with temperate species, while South East Asian plywood is facing stiff competition from Russian birch and Chinese plywood products.

Nevertheless, hardwood demand is benefiting from housing renovation activity in some parts of Europe and demand for sawnwood has revived to some extent. Sawnwood prices have firmed and sawmillers in Central and West Africa are contemplating increasing output and some are re-opening mills that were forced to close when the recession hit consumer demand hardest in 2008/2009.

Intra-African trade has not been affected by the global recession to the same extent as international trade. However, Voluntary Partnership Agreements between the EU and some African countries, the latest of which was just concluded with Cameroon, are expected to boost timber exports to Europe.

South-sea (Asia and Oceania) tropical timber supplies fell short of demand from Chinese and Japanese manufacturers pushing up price levels. Demand is expected to strengthen further if the predicted recoveries of the US and European economies materialize. Local manufacturers in producing countries reportedly have strong order books and their aggressive purchasing is also lifting log prices. The tight log supply is anticipated to last at least until late August.

Chinese imports soar

In the first quarter of 2010, total log imports to China were 7.7 million m³ valued at US\$1.3 billion, up 37% in volume and 60% in value over the same period last year. Tropical log imports amounted to 2 million m³, increasing 48% over last year. Imports from Malaysia increased 144% to 264 200 m³. Tropical logs accounted for 27% of total log exports.

Around 3 million m³ of sawnwood (including sleepers) valued at US\$691 million were imported in the first quarter of 2010. Sawnwood imports increased 83% in volume and 85% in value over the first quarter period of 2009. Plywood imports were 40 100 m³ in volume and US\$22 million in value, increasing 20% and 12% respectively from 2009, as did all other wood panel products. SPWPs and wooden furniture imports were up 45% and 4% respectively over the same period last year. All these trends were maintained into the second quarter of 2010.

Rebound

China's timber Imports (million US\$)

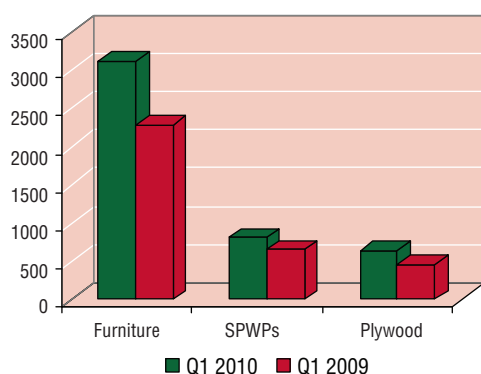


Sharp increase in exports

Soaring imports of logs and sawnwood by China in the first quarter of 2010 have contributed to the strong export performance for processed timber products. The total value of wooden furniture exported was over US\$3.1 billion, up 36% from the first quarter period of last year. The second largest export category was other SPWPs including wooden doors and windows, flooring, wooden handicrafts and wooden packaging. A total of US\$808 million was exported in this category, up 24% over the same period in 2009. Plywood exports also increased considerably in the first quarter of 2010.

Furniture leading

China's wood products exports (million US\$)



Chinese national policy is tending towards a scaling down of domestic harvesting and domestic timber supply. Timber consumption for domestic home decoration and furniture production is said to account for 65% of the end uses for wood in China. As the rate of house building accelerates in China, so does consumption of wood products. In a situation of declining domestic and international supplies amid growing demand, prices are set to climb. This implies improved prospects in the Chinese market for timber suppliers, particularly for Least Developed Countries (LDCs) following China's removal of all tariffs on wood products imports from these (mostly tropical) countries.

US imports stable

Many US hardwood companies expect demand in 2010 to be similar to that in 2009, although higher ocean freight rates will be a challenge for US importers. While some expect a slight improvement in business towards the end of 2010, the consensus is that if the market recovers faster than expected, hardwood suppliers would not be able to keep up with demand. Inventories are currently very low and thus have kept prices up.

Total US imports of tropical sawnwood in the first five months of this year were nearly the same as in 2009. There has been no significant recovery since the downturn in imports in 2008 and 2009, except for a few species. Hardwood demand from flooring producers remains strong

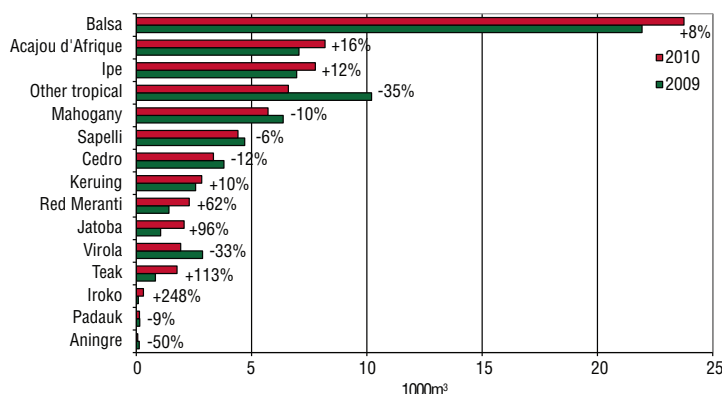
in the US market. There has also been little change in hardwood moulding imports, with the US\$71 million in imports to May 2010 down by 4% on the same period last year.

January to May 2010 imports of hardwood flooring were 60% below 2009 levels. The largest drop has been in imports from China which plunged 79%. Hardwood flooring imports from Brazil were US\$959 000 (-26%), while imports from Malaysia were US\$868 000 (-31%). Bucking the trend, Indonesian flooring exports increased 38% to US\$226 000 in the five months to May 2010.

In general, many US customers are tending to replace more pricey hardwoods with less expensive alternatives, affecting demand for tropical species such as mahogany. However, demand for tropical timber traded in euros is an exception, given the depreciation of the euro. As initial enforcement of the Lacey amendment coincided with the recession, it is difficult to say if the Act is having any impact on imports.

Up and down

US tropical sawnwood imports by species (Jan-May)



Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics

No recovery in EU imports

Trade in tropical hardwoods remained at depressed levels in the first quarter of 2010, with aggregate imports of hardwood logs, sawnwood, plywood and veneers from tropical countries less than 775 000 m³. This is slightly below the volume recorded in the first quarter of 2009, a year when total European imports of tropical timber fell by over 40%. In value terms, imports of these commodities during the first quarter of 2010 fell 12% compared to the same period in 2009.

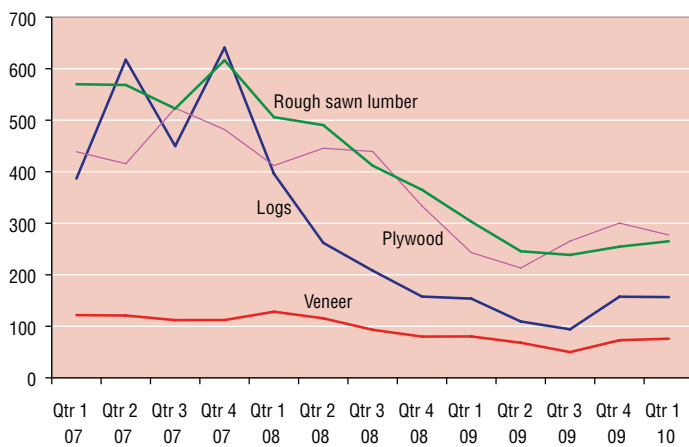
The decline in unit values for tropical sawnwood and plywood indicates that European importers and manufacturers are switching to lower grade materials in an effort to cut costs during the recession. The figures support reports suggesting that tropical hardwood shippers seeking to push through CIF price increases in Europe this year have continued to come up against firm resistance from European importers.

The continuing weak hardwood import performance in the first quarter of 2010 is all the more disappointing as it seems to confirm that the apparent upturn in European buying in the last quarter of 2009 was not a response to any real improvement in European consumption. Rather, as many suspected, it seems to have been the result of short-term efforts by importers to fill gaps in heavily depleted stocks at a time when CIF prices seemed set to rise.

One reason for declining tropical timber imports in Europe is a drop in parquet flooring production (down 20% in 2009) combined with an increase in the use of temperate hardwoods like oak. According to the European Parquet Flooring Federation, oak's share of total parquet flooring production grew from around 56% in 2008 to nearly 63% in 2009 while that of tropical hardwoods fell from 15% to 10%. Some of this decrease is attributed to supply problems for tropical hardwoods, with producers often unable to meet manufacturers' growing demand for wood on a just-in-time basis. Another factor was increased environmental concern which led some manufacturers, notably in Austria, to boycott the use of tropical wood last year.

Reaching bottom?

EU quarterly tropical timber imports (1000 m³)



Exchange rate impacts

During the first half of 2010, the downward trend of major currencies against those of producer countries had the effect of making tropical timber imports more expensive. Exports to Western markets are expected to pick up if the euro and US dollar appreciate. However, some importers, such as in India, have already been able to take advantage of fluctuating exchange rates to fill stocks, implying a slight easing of sales and shipments if exchange rates become more stable.

The euro has been weakening due to the effect of the Greek crisis and the UK pound has also been dragged down. This means that CIF prices for tropical hardwood products from the Far East (quoted in dollars) have increased markedly in European markets, while prices for African hardwoods (quoted in euros) have been less affected. For US buyers, the reverse effect of increasing demand for tropical timber traded in euros was seen. The appreciation of the Brazilian currency against the US dollar has hit exporters who already faced weak US demand.

China has recently set the RMB exchange rate against the US dollar at 6.7858, the highest since July 2005. The appreciation of the RMB is expected to make Chinese exports more expensive in global markets but will at the same time strengthen China's purchasing power.

Post-stimulus outlook

Tropical timber demand from the Chinese manufacturing sector has improved but new clouds are gathering in terms of increasing labour and other costs. Some analysts are predicting that furniture manufacturing will gradually move out from China as costs are getting higher than in some ASEAN countries. On the other hand, increasing purchasing power of China and also improving ASEAN economies could drive demand for tropical timber products, in spite of continuing subdued market conditions for tropical timber in Western markets.

Although the global economy seems to have returned to growth, this has largely been driven by various government stimulus measures since 2009. For example India has reduced interest rates, exports and furniture production have benefited from Brazil's stimulus package, the US has granted rebates for energy efficient home construction and renovation, and fiscal stimulus packages have been launched in all countries in Europe. These measures, however, have yet to result in any significant improvement in demand for tropical hardwood.

News from the European construction sector suggests that sustained improvement in Europe's domestic consumption of tropical hardwoods and other wood products will take time to materialize. The European construction sector fell by 8.8% in 2009 and a further contraction of 4% is expected in 2010. Construction output across Europe is expected to increase only by 1.2% in 2011. Nevertheless, there is some optimism in the European hardwood trade as demand from renovation activity is improving.

Immediately after the federal tax credit programme for homebuyers expired at the end of April, home sales in the US fell sharply by 32.7%. In order to sustain housing activity, the US Congress extended the programme until the end of September 2010. Housing starts also dipped in May after showing some improvement in the earlier months of 2010. Japan's housing activity has largely followed the US pattern.

However, opportunities for tropical timber products are emanating from the buoyant real estate market in China. Although the Chinese government is implementing measures to cool the property market so as to avoid an asset bubble, the impact has not yet been felt and investment in property is continuing.

With the improving economic situation and the impact of stimulus measures in India, house building has become more active. House prices in India are almost back to levels seen prior to the economic slowdown in 2008/2009. This is translating into firming prices for wood and wood products in India and in countries where India buys logs.

All in all, markets continue to be uncertain over the sustainability of the global economic recovery as government stimulus measures are gradually being removed and austerity measures are being introduced in an effort to calm market concerns over the level of public debt. The phasing out of stimulus packages coupled with the consolidation of public finances is expected to negatively impact on Western economies in coming years.

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