

TIMBER COMMITTEE MARKET STATEMENT

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FOREST PRODUCTS MARKETS STRONG IN 1997 AND 1998, UNCERTAINTY OVER THE SHORT TERM OUTLOOK

Overview

Consumption of many forest products in Europe and North America were at record levels in 1997, and initial forecasts were for similar levels for 1998 and 1999. Final demand was relatively strong in 1997 and early 1998, especially in North America, but high-capacity and over-supply have affected some markets. Markets for tropical timbers were disrupted by political and economic events in Asia. Developments on world financial markets in autumn 1998, arising from the "Asian crisis", reduced world trade flows and the financial crisis in Russia, have created an exceptional degree of uncertainty about the outlook for 1999.

In western Europe, GDP growth averaged 2.7% in 1997, and no less than 3.8% in North America. Initial forecasts were for similar rates of growth in 1998, but these forecasts as well as those for 1999 have in some cases been revised downwards, under the influence of the Asian crisis. Although the direct exposure, through trade, of most European and North American economies to Asia is quite small, it is feared that recent financial events, notably the increased volatility of world capital markets, the fall on stock markets, which has created uncertainty could severely weaken consumer and business confidence, and significantly lower economic growth rates in Europe and North America. This uncertainty should be borne in mind when reviewing the forecasts for the forest sector set out below.

Many countries in transition saw relatively high growth rates in 1997. The average rate of growth for the transition economies of central and eastern Europe and the CIS was positive in 1997 (+ 1.7%), for the first time since 1989. Initial expectations were for a continuation of this growth in 1998 and 1999. In addition, there are wide variations between countries in the speed and nature of the transition process. However, because of the financial crisis in Russia in August 1998, it is at present difficult to evaluate the rate of change of indicators of production.

New residential construction in western Europe is expected (by EUROCONSTRUCT in summer 1998) to fall by just under 1% in 1998, drops in Austria, Germany, Italy and Switzerland counterbalancing rises elsewhere. For 1999, an increase of 1.4% is forecast. The growth in the renovation sector, a major end-use sector for sawnwood and panels is expected to be over 3% in both 1998 and 1999. Strong rates of growth in construction are also expected for several transition economies. US housing starts were expected to reach the high level of 1.54 million units in 1998, encouraged by low mortgage interest rates and high disposable income (in fact the seasonally adjusted annual rate of housing starts reached 1.72 million in July 1998). Japanese housing starts have been very weak since early 1997: in the first seven months of 1998 they were 14% below the rate of the previous year.

Forest products markets are increasingly global and large scale. Developments in one country may influence trade flows and prices on the other side of the world. This was demonstrated by the aftermath of the Asian crisis when collapses in demand, notably in Japan, (where imports of both logs and sawnwood in the first 7 months of 1998 are about 40% lower than in the same period of the previous year) and severe supply problems in several south east Asian countries affected European and North American markets. The process of concentration within the sector, through mergers and acquisitions, continues, and the average size of production units, even in hitherto smaller scale sectors such as sawmilling, is increasing.

Several sectors, including sawmilling and several panels are experiencing excess capacity. Currently, some sectors are experiencing downward pressure on prices and profitability on a regional basis. There is a continuing and increasingly urgent need to encourage the use of forest products, by improving public relations and promotion activities and by product development. It is important to communicate the basic message that wood, unlike almost all other raw materials, is a renewable and environmentally friendly raw material.

Certification of forest products from sustainably managed forests is the subject of an intense policy debate. The Committee considered the state of markets for certified forest products, and noted that, as yet, only small volumes are available, and that relatively few markets are concerned, mostly in north west Europe. Concern was broadly expressed about the potential impact of certain certification schemes proposed on small forest owners and industries in certain countries.

Softwoods

After a strong 2-year rise, European consumption of sawn softwood was forecast to level out in 1998 at 79.2 million m³ and to rise slightly in 1999. Production continues to grow faster than consumption creating a need to expand export markets in order to maintain profitability.

Indeed European exports (to destinations outside Europe) grew in 1997, especially to Japan, where they became the second largest supplier after North America. However with the downturn in many Asian markets, and the forecast downturn in European imports in 1998, exporters expanded other markets in mid 1998, for example North Africa, and to a lesser extent, the United States. European exports could hit record levels in 1998 of 32.9 million m³, with imports at 30.5 million m³.

Sawnwood prices in Europe weakened at the end of 1997. As stocks have been drawn down in 1998, both in Europe and Japan, there were some rises in sawnwood prices. The Baltic Country exports, mainly to Europe, were forecast to grow slower due to rising domestic consumption, and constraints imposed by resource limitations. The export forecasts are not homogenous in the Baltics: decreases from Lithuania, stability in Latvia, and increases from Estonia. Some other countries in central and eastern Europe forecast rising sawnwood consumption in 1998 as economies improved, for example Croatia, Hungary, Romania and Slovakia. In the Russian Federation production and exports of sawn softwood were forecast to decline somewhat in 1998, but then to regain 1997 levels in 1999.

Stimulated by active housing construction in the United States, North American consumption of sawn softwood was forecast to rise strongly in 1998 to record levels of 140.9 million m³. Production, at 145.7 million m³, neared the records set a decade earlier, but was forecast to fall in 1999. Sawnwood was said to be in good supply in 1998 as evidenced by falling prices, largely because production formerly destined for Asia became available for domestic consumption. In North America, sawnwood prices have declined generally since mid 1997.

Total United States sawn softwood imports were forecast to continue rising in 1998, by 6.3%, and again by 2.1% in 1999, to reach almost 45 million m³. After record exports in 1996, Canada, which exported 75% of its 1997 production, forecast strong declines in exports, especially to Asian destinations in 1998; in 1999, total exports were forecast to be 45 million m³.

Corporate restructuring and increasing sawmill sizes in both Europe and North America, in order to gain efficiencies of production, have the potential of creating an oversupply of sawnwood in some markets. Countries considered it desirable to cooperate in promotion efforts in order to recapture market share lost to wood substitutes.

Sawlog and veneer log production and consumption are forecast to rise in Europe to record levels in 1998, and again in 1999, to reach 152.6 and 156.9 million m³ respectively. Trade of logs, at much lower volumes, was relatively stable. Log prices have increased in some European countries.

United States production and consumption of softwood logs could rise to reach 181.3 and 172.0 million m³ respectively in 1999. North American exports of logs, which has halved in the last 10 years to a level of 10 million m³ in 1997, was forecast to rise in 1998 and 1999.

Hardwoods

European sawn hardwood consumption may have ended a long-term decline with the Committee's forecast of slight rises in 1998 and 1999 to reach 16.9 million m³. The movements are not universal: France, the largest consumer with a forecast increase of 4.1% to 2.9 million m³ in 1998 contrasted to Italy, the second largest consumer, with a forecast decrease of 4.3% to 2.4 million m³.

European production was also forecast to increase following a long decline. Net imports, of which approximately two-thirds are temperate, have remained consistently around 3 million m³. The decline in tropical sawnwood imports appears to have ceased: they are expected to remain at a level of 2.0 million m³ to 1999.

In contrast to Europe, North American production and consumption have been steadily climbing, and were forecast to rise steeply in 1999, by an average of about 7%, to reach the record levels of 33.0 and 29.3 million m³ respectively. Domestic consumption is not only influenced by housing-related demands, for example millwork and furniture, but also the 40% of sawn hardwood which is used in pallets, packaging and railroad ties (sleepers).

United States exports of sawn hardwood to both European and Asian markets were at record levels in 1997 and a further increase was forecast for 1998 to reach 4.8 million m³. (However, the most recent forecast of US hardwood exports show a sharp decline in 1999.) With the exception of those to China, most exports formerly intended for to Asian destinations were forecast to be absorbed by alternative markets, including Europe.

Light coloured species, especially beech, are in demand; although white oak has declined in furniture markets, it has increased in joinery and barrel manufacturing. Price rises have followed demand for these species. Hardwood flooring consumption for new houses in North America and renovations in Europe have tripled over the last decade.

Production of tropical forest products is in complete chaos due to the Asian crisis. Production and export volumes have fallen by an average of about 25%, despite a drop in prices by up to 50% for some products partly as a result of massive currency devaluations. The collapse in the tropical timber market has had consequences throughout the entire forest sector, from the forest to finished products. In Europe, hardwood log consumption was forecast to rise in line with sawnwood production requirements. With slight rises in 1998 and 1999, tropical log imports are forecast to end their steady decline.

Wood-based panels

Consumption of wood-based panels (particle board, plywood and fibreboard) in Europe is expected to continue to expand by 3% in 1998 and a further 2% in 1999 to a new record level of 46.3 million m³. Important production increases are forecast for the same period as a consequence of new installed capacity of medium density fibreboard (MDF), particle board and oriented strand board (OSB).

In North America a very slight drop in consumption of panels of - 0.7% is forecast for 1998 and almost no change for 1999. The continued decreased production capacity of softwood plywood had been offset these past years by the very rapid expansion of OSB. The favourable market conditions for the housing sector have reversed the OSB overcapacity situation of 1996 when supply grew much faster than demand, as evidenced by rising prices for structural panels. Russian production of wood-based panels is forecast to expand by 11.4% in 1998 and 8.7% in 1999 to 4.7 million m³. Most of this increase is expected to be consumed domestically.

Particle board production in Europe, is foreseen to increase by 5.2% in 1998 and 2.6% in 1999 to 32.2 million m³. Among the major producing countries Germany, France the United Kingdom and Poland expect significant increases. Only in Turkey are important cutbacks announced. Production increases are also expected for OSB as newly installed mills in Ireland, Luxembourg and Poland attain optimum production levels.

Few changes are forecast for plywood production as the major European producer and exporter, Finland has completed its capacity expansion during the last few years. Tropical imports from South East Asia and also softwood imports from North America are expected to increase in 1999 as a consequence of more favourable exchange rates.

European MDF production, which now represents almost 70% of total fibreboard production is expected to further increase in 1998 to 6.5 million m³, or 18.2%. New capacity expansions, 19 production lines, are expected to come on stream by the year 2000 raising total capacity to over 10 million m³. MDF is also facing the competition of cheaper imports from south east Asia, which are believed to be of lower quality in a market of speciality products.

Several delegations remarked on the danger of oversupply in Europe for MDF, particle board and OSB. European exports of MDF and particle board had developed during the last few years to the near and far East, when demand was strong and the industry of composite panels expanding. The present difficult economic situation in south east Asia has forced the industry to find new outlets in the emerging economies of transition countries and also MDF exports to the United States. But there is an uncertainty that these markets can absorb all the excess production announced.

Production of softwood plywood in the United States is expected to further drop by 700,000 m³ in 1998 and 305,000 m³ in 1999, as OSB continues to substitute for softwood plywood. Production in Canada will also drop by 4.3% in 1998 as a consequence of reduced exports to Japan and reduced capacity.

The outlook for OSB production in North America is a continued expansion of 5.6% in 1998 and 2.9% in 1999, when US production will reach 10 million m³ and Canadian 6.2 million m³. Some 90% of Canadian production is exported, mainly to the United States and exports to Japan have been affected by the Asian crisis. OSB prices which had been depressed since 1996 saw an spectacular and rapid growth in June/July 1998 as new residential construction boomed, reaching levels higher than that of the other structural panel softwood plywood. Since early September the upward trend in structural panel prices has reversed.

Particle board production in the United States is expected to drop slightly by 1.3% in 1998. In Canada, the industry is running at near full capacity. As in Europe, changes in the North American fibreboard industry are due solely to MDF. Production of hardboard and insulating board are forecast to maintain the 1997 levels. North American MDF production is expected to increase by 270,000 m³ in 1998 and by 140,000 m³ in 1999.

The discussion showed the dramatic growth and prospects for the future of engineered wood products (beams and panels) in North America and Europe. Glu-Lam, I-joists and LVL are substitutes for sawnwood and partly use lower quality raw material for similar or superior strength characteristics.

Roundwood (pulpwood and fuelwood) and wood pulp

In line with the satisfactory economic conditions, pulp production was at high levels in 1997 and early 1998, and prices rose until June 1998, only to fall thereafter as pulp stocks rose. Waste paper continued to increase its share of the fibre furnish, and to influence prices for virgin pulp.

European pulpwood consumption is expected to rise moderately, by 1.7%, to nearly 189 million m³

in 1998, with a further small increase in 1999. A rather stronger rate of growth is forecast by Finland (just over 3% in 1998). Consumption of non-coniferous round pulpwood is expected to rise faster than that of other assortments. US pulpwood consumption will show a marginal (+ 0.6%) increase in 1998, and then remain around 233 million m³. Russian pulpwood consumption however is forecast to drop by nearly 8% in 1998, before recovering most of the lost ground in 1999.

European pulpwood imports (of which 47% is accounted for by two countries, Finland and Sweden) are forecast to rise by about 3% in 1998, and then to fall slightly in 1999. European pulpwood exports will continue the steady decline visible since the early 1990s, to just over 14 million m³ in 1999. Estonia and Latvia each account for about 2.5 million m³ of pulpwood exports, mostly to the Nordic countries. North American pulpwood exports, mostly to Japan, will remain roughly stable around 15.5 million m³.

Although data on volumes and prices are available from only a very few countries, there are clear signs of emerging wood energy markets in some countries. In some cases, wood is already competitive on price with coal, for large scale combined heat and power plants, even without fiscal advantages. The existence of a carbon tax in Sweden has strongly stimulated the growth of a modern wood energy sector which also imports energy wood (e.g. demolition wood from Germany).

Total European removals are forecast to rise by about 1% to reach 370.7 million m³ in 1998 and marginally in 1999 to reach 375 million m³. A similar picture is visible for USA, where total removals in 1998 are expected to be 482 million m³. Russian removals are forecast to fall to 78 million m³ in 1998, and then to recover slightly in 1999.

Certified forest products

For the first time during its market discussions, the Committee discussed the certified forest product marketplace. Certified forest products are wood-based products which can be identified as coming from forests which have been certified, generally by a second or third party, to be managed sustainably. There is a wide variety of concepts and schemes. As there are no separate statistics collected for these products, which can be either primary or secondary products, descriptions of individual markets were obtained from country market statements.

Current demand for certified forest products is mainly expressed through buyers groups in some western European countries, for example the United Kingdom. Final consumers are not the current driving force of demand. In general, price premiums are not received for certified forest products, despite the additional direct and indirect costs of the certification process. Despite the absence of premiums, other benefits of marketing certified products could be to maintain or to increase market share, to improve corporate image and to incorporate environmental concerns into a company's marketing strategy.

In the discussions, many of the problems of certification of sustainable forest management were raised. Countries expressed concern that certification and labelling could be a trade barrier and could lead to further loss of market share to competitive materials which are neither sustainable nor renewable. Concern was broadly expressed about the potential impact of certain certification schemes proposed on small forest owners and industries in certain countries.

The Committee will continue to follow the developments in these markets in both its annual market discussion and country market statements.