

Prospects brighten for tropical timber producers

Compiled from information contained in ITTO's Market Information Service reports www.itto.int/market_information_service

The economic indicators have moved into positive territory in most traditional tropical timber markets, with encouraging signals that the worst of the downturn is over in the European Union (EU) and the United States (US).

Prices for tropical timber exports improved in the first half of 2014, with prices for commodity products such as logs and sawnwood reflecting firm demand in China and India. It is difficult to separate the influence of rising demand from declining tropical log availability, however.

Imports of plywood, flooring and furniture by the EU and US are showing firm signs of recovery, but further growth in the markets for such products depends very much on growth in housing construction and renovation, where the signals are mixed.

Housing

United States

Figure 1: Housing starts, US ('000 of units)



Source: US Census Bureau

Prospects for the US housing market improved considerably in the first six months of 2014 (Figure 1), although the US will continue to suffer a hangover from the bursting of its housing bubble for years to come. Home prices are almost back to pre-bubble levels, and the number of people having to give up their homes because they can't service their housing loans has fallen.

Significantly, there has been a rise in sales of existing homes (by 2.4% in July 2014), bringing projected annual housing starts in the US in 2014 to 5.15 million. The increase in sales comes on the heels of good news that the pace of single-family home construction continues to increase. Analysts caution, however, that the housing market remains fragile, with the pace of sales still below what it was in the first half of 2013.

European Union

According to the latest half-yearly report issued by Euroconstruct, EU construction output fell in 2013 to its lowest level in 20 years. Nevertheless, growth of around 2% is forecast for construction in 2014 and through to 2016.

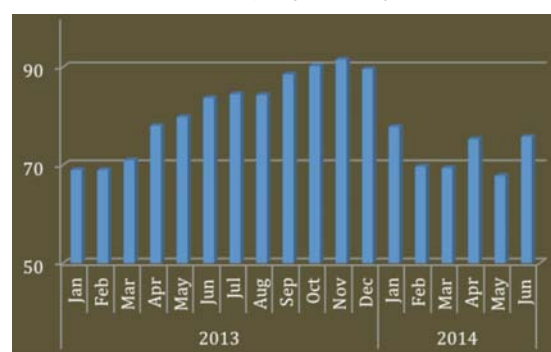
The pace of recovery projected by Euroconstruct is slow, suggesting that the construction sector will be stuck at near-depression levels for some time. High unemployment and debt, low investment, tight credit and financial

fragmentation in the euro zone will continue to dampen demand.

In most European countries, house prices should stabilize this year as economic fundamentals improve, but a full recovery is still a long way off for those housing markets worst hit by the downturn, such as Spain and the Netherlands. The strongest rebound has been in the United Kingdom (UK), while house prices in Germany should remain steady.

Japan

Figure 2: Housing starts, Japan ('000 units)



Source: Japan Ministry of Land, Infrastructure, Transport and Tourism

Japan is the world's second-largest housing market, accounting for 10% of global housing investment. It is, therefore, a huge market for wood products. Its population is shrinking, however, and soon there will be fewer buyers in the market. The number of households is increasing for now but is projected to decline after 2015.

Housing starts in Japan began to grow when the Liberal Democratic Party was returned to power in 2012 with a massive parliamentary majority. Starts grew steadily between May and November 2013 (Figure 2) as home buyers scrambled to complete purchases before the consumption tax was raised from 5% to 8% in April 2014.

In its latest report, the Land Institute of Japan says that house prices have been rising steadily in 2014, following on from the housing market recovery last year. The average price of an existing detached house in Japan has increased by 2.4% since the beginning of the year.

Builders are finding that, while demand has slowed after the pre-tax increase boom, it is still at its strongest for more than five years, which analysts attribute to government reflationary policies. House prices are expected to continue rising in 2014, given that the government is expected to inject additional stimulus into the economy in the second half of the year.

China

Most analysts say that the Chinese housing market has moved beyond the days of double-digit annual growth but that there is still room for growth in this market.

China and India both import large volumes of commodity wood products (logs and, to a lesser extent, sawnwood),

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and both countries are having major impacts on commodity wood product prices. The Chinese government has been steering manufacturing away from a reliance on export markets and creating an environment in which domestic consumption plays a bigger part in economic growth. Because of this fundamental change, developments in the housing market in China are having a greater impact on tropical timber imports.

Property sales account for 12–15% of China's gross domestic product (GDP), so a continued slowing in home sales (as indicated by data from China's National Bureau of Statistics) is a risk to the economy. Falling prices for homes and a decline in building have knock-on effects in other parts of the Chinese economy—such as construction worker wages, furniture demand and family expenditure.

India

It is estimated that, by 2020, India will need to build up to 50 million new homes, requiring an investment of US\$100 billion annually, more than double the current level. The present urban housing shortage is said to be more than 18 million units, of which 95% is for low-income families.

With the new government already busy with plans for economic revival, there are high expectations in the housing sector that infrastructure deficiencies in the country will be addressed. This is essential if the housing sector is to contribute optimally to the economy.

The Indian real-estate sector has long campaigned to be recognized as an integral part of the infrastructure industry, not merely as a business. The real-estate sector will grow rapidly if the government can deliver on infrastructure. It currently contributes about 5% to national GDP, is the second-largest employer after the agricultural sector, and is growing at around 10% annually.

Imports

European Union

Plywood imports from Malaysia to the EU declined by 12%, to 53 300 m³, in the first six months of 2014, a turnaround from the 9% increase in 2013. The decline is explained by: rising prices due to an increase in Generalized System of Preferences duties, from 3.5% to 7%, on 1 January 2014; higher production and freight costs in 2014; and robust sales in other parts of the world.

The high prices for Malaysian plywood have affected demand in the relatively large but price-conscious UK market. Imports of Malaysian plywood into the main continental European markets have increased this year.

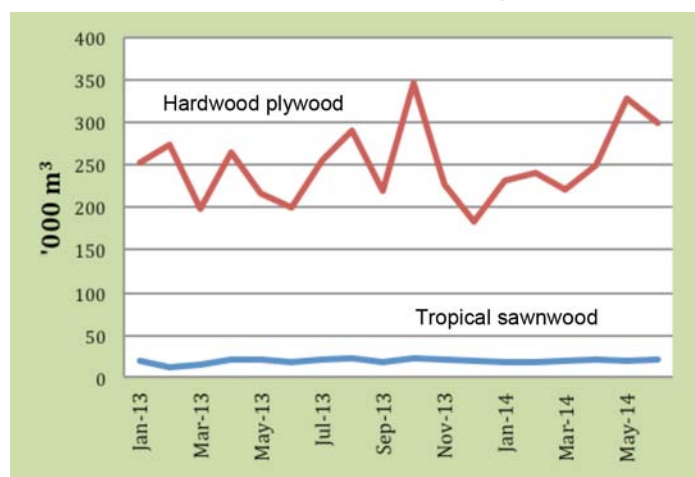
Imports of hardwood plywood from Indonesia were up by 5% in the first six months of 2014 following a decline in imports in 2013. Imports into Belgium declined by 25%, but this was offset by rising imports into Germany, Italy, the Netherlands and the UK.

Like Malaysian products, Indonesian plywood prices have risen this year. However, Southeast Asian plywood continues to benefit in the EU market from relatively high prices for competing Russian and European birch plywood.

EU imports of wooden furniture have been declining since the start of 2011. After peaking in 2010, imports from China have fallen, but the pace of decline in imports from other countries has been faster and China's share of overall EU wood-furniture imports has therefore risen from 49% to 54% since the start of 2010. Imports from Viet Nam have been relatively stable since 2010 and, as a result, the share from this country has also risen, from 9% to 11%. The share of imports has fallen from 8% to 6% for Indonesia and from 5% to 4% for Malaysia.

United States

Figure 3: Imports of tropical sawnwood and hardwood plywood, US



Source: US Department of Commerce, US Census Bureau, Foreign Trade Statistics

Year-to-date imports of hardwood plywood are slightly below those for the first half of 2013 (Figure 3). However, plywood imports from Indonesia were 38% higher in the first half of 2014 than in the corresponding period in 2013, and hardwood plywood imports from China also grew, by around 30%.

Although, overall, they are up by 9% in the first half of 2014, US imports of hardwood sawnwood fell by 50% in June, following a high point in May, when imports were over 150 000 m³. Tropical imports have increased gradually since the start of the year, while temperate sawn hardwood imports have fluctuated.

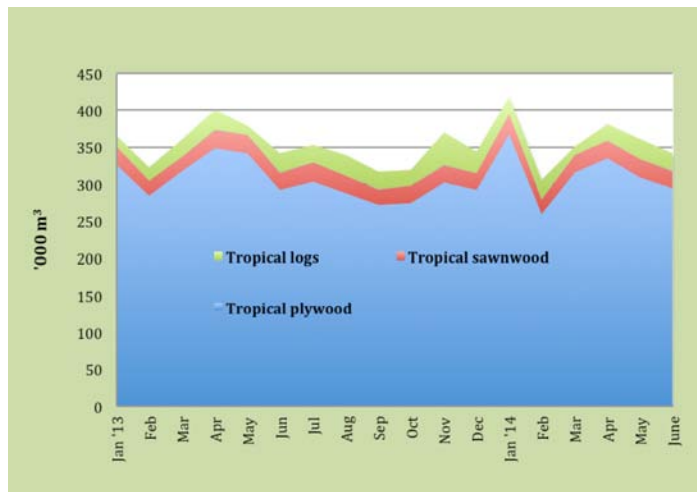
US demand for windows and doors of all materials is expected to grow by 7% per year to 2018. Demand will reach US\$32.0 billion in 2018, up from US\$22.8 billion in 2013. Plastic products are expected to take market share from both wood and metal and, of the three materials, wooden window frames and doors are forecast to have the slowest demand growth. Nevertheless, demand for those products is still expected to grow by 6.2% per year to 2018.

Japan

Japan's plywood imports have averaged around 3.5 million m³ per year since 2011, and they amounted to 1.88 million m³ in the first five months of 2014 (Figure 4).

Malaysia is the largest supplier of plywood to Japan, but the volume of 137 000 m³ shipped in the first five months of 2014 represented a decline of 8.5% year on year. Indonesia supplied 87 000 m³ in the first five months

Figure 4: Imports of tropical plywood, sawnwood and logs, Japan



Source: Japan Lumber reports

of 2014, also down (by 13%) over the same period in 2013. China's plywood shipments to Japan in the first five months amounted to 71 000 m³, a 7% decline.

Japan is no longer a major tropical log importer. In 2013, the country's log imports comprised 3.4 million m³ from North America, 0.6 million m³ from New Zealand, 0.25 million m³ from the Russian Federation and 0.3 million m³ from Southeast Asia (80% from Malaysia and the balance from Papua New Guinea and others).

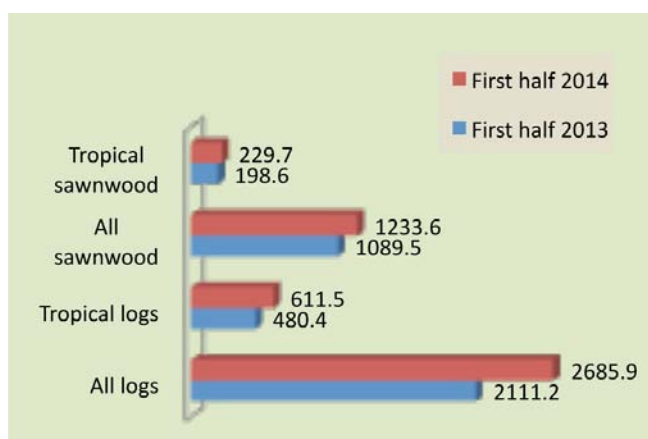
Japanese furniture imports have almost doubled in value in the last decade. Imports from China and Southeast Asia account for the largest proportion of furniture and parts, while higher-priced imports come mainly from the EU and North America.

China

The shift in China from an export-led timber trade to one aimed at the domestic market presents many challenges for Chinese timber companies and will be felt in the international timber trade. In the longer term it should lead to a wider range of wood-product imports. In the short term, however, the focus of Chinese importers will be on commodity wood products to feed domestic mills.

Chinese wood-product manufacturers are undergoing a transformation from low-value-added, obsolete production methods to processes using the latest technologies.

Figure 5: Imports of logs and sawnwood, China (10 000 m³)



Source: Chinese Academy of Science

The supply of timber from domestic resources in China has fallen by close to 20% per year for the past decade, a deficit which has been filled by imports from temperate and tropical countries.

The Russian Federation supplied around 50% of all logs to China until 2013. The imposition of export taxes in the Russian Federation, however, has seen the share of Russian log imports fall to below 10%. Nevertheless, the Russian Federation (along with Canada) still meets a major part of China's demand for sawnwood.

China's total log imports rose by 27% in the first half of 2014 compared with the same period in 2013 (Figure 5). Tropical log imports rose by 26%, total sawnwood imports rose by 13% and tropical sawnwood imports rose by 16%. China accounts for 15% of Brazil's sawnwood exports.

Explosion in demand for hongmu. Hongmu, or "rosewood", has a long history of use in China. In the Qing Dynasty, hongmu furniture and wooden utensils were highly prestigious, providing comfort and dignity as well as prestige. The Chinese domestic market for hongmu products grew steadily between 2001 to 2007, but demand erupted in 2008 and Chinese importers began sourcing a variety of rosewoods from around the world for sale as hongmu. Traditionally, hongmu refers to the heartwood of *Pterocarpus* spp., *Dalbergia* spp., *Millettia* spp. and *Cassia* spp., the density, texture and colour of which meet the requirements of the National Hongmu Standard. The smuggling of high-value rosewoods has become a serious problem for many tropical countries and, in response, the Chinese government has put systems in place to control and manage hongmu imports.

The EU Timber Regulation

More than a year has passed since the coming into force of the EU Timber Regulation (EUTR), which requires importers in the EU to demonstrate due diligence in their timber purchases to ensure that such timber has not been obtained illegally. There is no clear indication that the EUTR is having a negative impact on the trade, although it is still early days. One noticeable effect, however, has been to concentrate the trade in the hands of a few larger importers because smaller importers have found the costs involved too high. Instead of importing directly, therefore, they are purchasing their timber from larger importers, which are better equipped to handle the EUTR.

The European Timber Trade Federation and several national trade organizations are raising concerns about the inconsistent application of the EUTR across the EU and even within member states. Also of concern is the perceived lack of guidance on key elements, such as risk assessment, and the need for a greater focus on the commercial implications and evolution of cost-effective mechanisms for compliance.