American Hardwood Export Council European market report

February 2018

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MARKET UPDATE

U.S. hardwood lumber exports increase slightly during 2017

According to the latest USDA statistics, total U.S. hardwood lumber exports to the EU for 2017 were up by 2% to 358,802m³ (value $278 million) compared to the previous year. This is the highest level since 2014 and is encouraging given the continuing economic challenges faced by many European markets. Four major markets account for 73% of the total.

Thermally modified American ash at Copperwood House, designed by HAUS Architects.

The **UK** is still easily the largest market, with lumber exports unchanged at 103,823m³, accounting for a quarter of the EU total. White oak decreased by 4% but is still 50% of all exports to the UK. Tulipwood was up 9% to 25,570m³, walnut up 9% to 7,000m³ - the same volume as ash, which has been steadily declining since 2014, and was down a further 24% compared to 2016. Red oak was up by 34% to 4,828m³ with all other species recording very low volumes including maple and cherry.

Italy saw a bit of recovery in 2017 with exports up 12% to 63,880m³, of which tulipwood was still the biggest volume (27,861m³) despite a drop of 8%. White oak increased significantly, up by 29% to 12,000m³ (although well below levels of a few years ago), mainly as a result of rising costs and pressure on the availability of European oak.

Red alder, an old favourite of the Italian furniture industry, saw a dramatic spike in exports, up 500%, albeit from a low base, to 7,828m³ - the highest levels for many years. Red oak exports to Italy were stable at just over 5,000m³ and walnut and ash were both down on 2016 levels. In the past, exports to Italy were swelled considerably by other species, such as cottonwood, willow and hackberry. But, since the economic recession, importers and manufacturers have significantly reduced the range of U.S. hardwoods, so now these species only account for 1,800m³ - down from over 10,000m³ just a few years ago.

U.S. hardwood lumber exports to **Germany** in 2017 were down slightly on the previous year to 48,136m³ with 72% accounted for by just two species, white oak 20,091m³ (up 3%) and tulipwood 14,872m³ (down 5%). Red oak was up 47% to 2,218m³, walnut dropped 20% and ash continued to decline down 34% to 1,121m³. Exports of maple and cherry were virtually non-existent. Although the German market is probably fairing better than most in Europe in terms of wood demand and consumption, U.S. hardwoods have a very small share of hardwood consumption. In fact, AHEC believe as much as 35-40% of this volume is re-exported to central European markets, such as Poland.

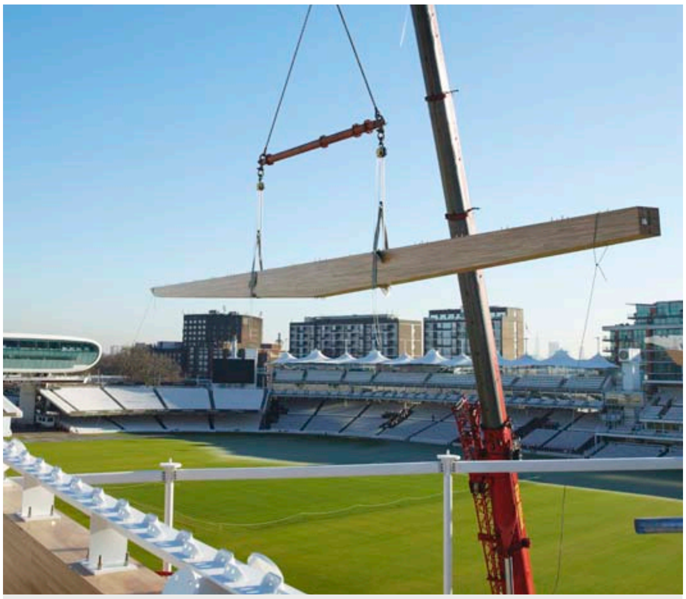
Boards of American red oak, soaked in water before cutting into strips for weaving.

Spain was virtually unchanged from 2016 with U.S. hardwood lumber exports for 2017 at 44,214m³, a whopping 80% of which were white oak at 35,759m³, making it the second most important market for white oak in Europe behind the UK. Red oak, now the second biggest export to Spain, was up by 33% in 2017 to 4,489m³. A few other species make up the rest of the volume and both ash and tulipwood decreased by 7% with walnut down 16%, compared to the year before.

While it is encouraging that overall lumber exports to Europe held up during 2017, it is too early to predict if activity levels will be maintained during 2018. Feedback from two of these markets; Spain and UK, during February provides some insight into current activity and the challenges that lie ahead.

The impact of Brexit could affect hardwood sales in the UK in 2018

In 2017, year-on-year growth for the UK economy was the weakest among the G7 group of rich nations, partly due to weaker consumer demand caused by higher inflation after June 2016's Brexit vote. Construction output suffered its biggest drop in more than five years during the final three months of 2017, according to official figures released last month. Although growth in Britain's struggling construction industry did pick up slightly in February, uncertainty linked to Brexit continues to impact forward orders.



Installation of the 27 metre long American white oak glulam beams at Lord's Warner Stand in London.

Talking to the hardwood trade, their joinery customers are still reasonably busy but sales for some importers have been slower so far this year compared to last year, which overall was a good year for the UK hardwood trade. As one importer put it "business is only just okay, we are not breaking records, and there are real concerns about the impact of Brexit, falling house prices and the prospect of interest rate rises during 2018." All of which could impact on future joinery activity such as; contract fit outs, shop-fitting, and renovation, which are currently keeping workshops busy.

A Stool for the Kitchen, in American cherry, designed by Felix de Pas for Alison Brooks. From AHEC's *The Wish List.*

In general, hardwood stock levels are low to moderate, demand for white oak is steady and with more reports of rising prices for European oak the UK is unlikely to see interest fall off much. There is a solid customer base of manufacturers who prefer the consistency of white oak for machining and the better specifications it provides, especially if wider boards or longer lengths are needed. Tulipwood is also reported as selling well, mostly in the upper grades, for mouldings and general joinery. Depending on who you speak to, some traders talk about improved interest in maple and others say that cherry is moving a little again because of more demand from furniture makers. But the reality is these species represent a very small volume of the UK's overall consumption of American hardwood. Ash, once the second most traded U.S. hardwood species in the UK, continues to see demand decline, largely as result of EAB and tighter plant health regulations and worries over long term supply. Some importers are reporting more interest in red oak especially from manufacturers who can mix it into products as a "cheaper oak source," but its main market is still for coffins. But, while red oak remains competitive compared to white oak, and architects and designers continue to show interest, then there is always hope that demand will grow.

American white oak, used for the external cladding of Church Cresent house by Evonort Architects.

UK importers are understandably anxious about recent changes to the criteria requirements for FSC's controlled wood standard and the impact it may have on their American hardwood business. On the other hand, feedback from the trade is very positive about AHEC's new environmental communications tools, such as the interactive map, and there is evidence that more UK importers are now asking for the AHEP (American Hardwood Environmental Profile).

Spanish hardwood importers hope for upturn after slower start to 2018

After improved trading conditions last year, 2018 has started a little more slowly for many companies, although one Spanish importer who sells into the UK saw brisk sales during January.

Talking to hardwood agents and importers at the Maderalia trade show in Valencia, the general mood was certainly more positive than it has been for some years. But the hardwood market has shrunk significantly as a result of the devastating impact of the economic crisis. Some of the larger players are no longer in business and there is less competition for those companies that have survived, so they are in a better position to benefit from any improvement in demand. At the moment it is the refurbishment sector, especially investment related to tourism, which is providing hardwood demand, rather than new construction.

Most importers AHEC spoke to are concerned about the rising costs of white oak and have noticed sales falling back in recent months, even though exchange rates have been more favourable of late. A bit more use of red oak is an indication that manufacturers need to find cheaper options, or in some cases, they are turning to non-wood alternatives. Not an outcome that will be good for American hardwood exports to Spain, which are so dependent on white oak. This may result in more red oak being sold this year, but the worry is that, overall, oak sales will slow.

Tulipwood may provide a competitive option for some manufacturers (using lacquered finishes)

The Ludo stools by Riva 1920 in American red oak.

and consumption is reported as rising, however, volumes traded are still relatively small and profit margins are tight. Some importers report an increased interest in ash this year, but interest in other U.S. species such as walnut, maple and cherry remains very subdued. Generally, stock levels of U.S. hardwood are low, therefore importers will need to keep buying but they are hoping that the current flurry of enquiries will turn into actual business or it could be a tough year.

ACTIVITIES

AHEC open up a dialogue about underused species in Spain

The *Too Good to Waste* installation in it's entirety, on display for the first time in Milan during design week.

AHEC's creative installation *Too Good to Waste* was exhibited as the centre piece of the Spanish importer's area at the Maderalia Fair 2018 in Valencia, Spain (February 6-9). The installation, originally designed by architects EMBT for Milan Design Week, promotes a sustainable use of the forest and highlights the importance of making use of a wider range of species and grades of American hardwoods, and not only the ones in fashion. Around 80% of U.S. hardwood imported into Spain is white oak, so this message is especially relevant in a market with such a heavy single-species focus.

AHEC was also present with a stand, which

The installation, and scale model, on display at Maderalia fair.

communicated the latest innovations with American hardwoods, such as thermally modified timber (TMT) and cross-laminated timber (CLT), and from where publications were distributed to visitors. AHEC staff were at hand to network with importers, manufacturers and architects and to help with any technical questions.

Two conferences on American hardwoods were developed in collaboration with AEIM and promoted as part of Maderalia's talk

AHEC's Mike Snow delivers his 'Communicating Sustainability' presentation.

programme. Neil Summers, technical consultant of AHEC, spoke about the use of American hardwood in exterior applications, including the latest innovations with thermally modified American hardwoods; and Michael Snow, AHEC's Executive Director, delivered a presentation titled 'Communicating sustainability', which explored an alternative approach to demonstrating the legality and sustainability of the forest resource, and promoted AHEC's latest environmental tools such as our interactive forest map and our Life Cycle Analysis online tool.

AHEC decided to promote the event through a low cost social media campaign on Instagram, which reached over 35,000 people interested in architecture and design in Valencia.

UK furniture designer tries different U.S. hardwood species

Earlier this month, AHEC Europe staff and Executive Director, Mike Snow, travelled to the south coast of the UK to visit furniture designer Ben Fowler – who runs a bespoke furniture and

AHEC's Executive Director, Mike Snow, discusses the properties of U.S. red oak with furniture designer Ben Fowler.

joinery workshop offering design, manufacturing and consultancy for private clients and leading high street retailers. He has previously designed best-selling furniture ranges for UK brands such as Marks & Spencer, Ercol and John Lewis.

Furniture designer, Ben Fowler, oiling American red oak.

AHEC has been working closely with Ben over the last few months, supplying samples of different U.S. hardwoods for prototyping and offering technical advice along the way. The ongoing discussion with Ben has been very insightful, giving AHEC a greater understanding of the relationship between furniture designers such as Fowler & Co, manufacturers and big retailers.

As a result of AHEC's efforts, Ben has developed several new pieces using underused U.S. hardwoods, such as red oak, cherry, ash and red alder, which he will be putting forward to big UK retailers. Although it's very early stages, the feedback so far on the prototypes has been positive and the designs could materialise into commercial opportunities.

Whilst at the workshop, AHEC filmed an interview with Ben discussing his positive experience working with these underused species of American hardwoods that we will promote through our social media channels. He will also produce a report outlining his view of the potential of these species in terms of their performance and appearance.

NEWS

UK Government pledges to keep EUTR after Brexit

The Confederation of Timber Industries (CTI) has welcomed a pledge from UK Environment Minister Dr Thérèse Coffey MP to "make sure the whole body of European environmental law continues to have effect" after Brexit. The Environment Minister made the commitment at the Timber Industries' Parliamentary Reception, which took place in the House of Commons in February. She told the audience "when we leave the EU, the Withdrawal Bill will make sure the whole body of European environmental law continues to have effect in UK law. This means bringing into UK law two regulations that the UK timber sector played a great role in shaping: the European Union Timber Regulation and the Forest Law Environment Governance and Trade Regulation".

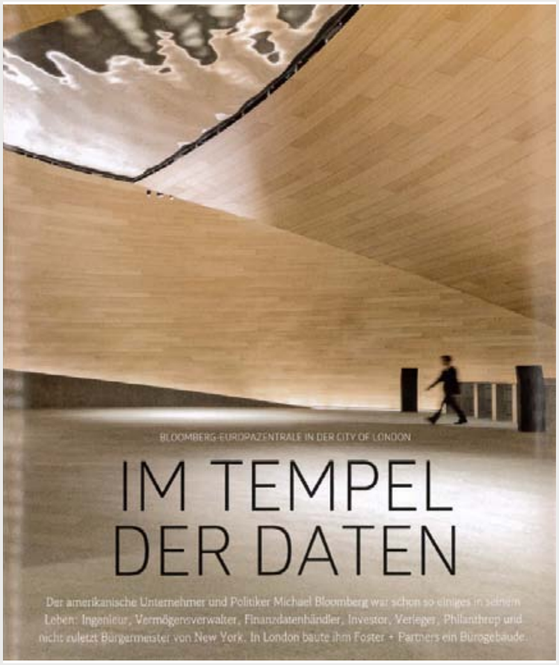
Performance of first use of TMT tulipwood cladding highlights potential

The first use in the UK of thermally modified tulipwood cladding is performing extremely well and will be a crucial reference for the potential of the material. AHEC consultant Neil Summers returned in February to the award-winning Maggie's Cancer Centre in Oldham to inspect how the cladding is performing more than year after its installation.

U.S. tulipwood cladding at Maggie's Centre, Oldham, one year after it's opening.

AHEC was instrumental in providing the information and contacts that the architects dRMM needed in order to successfully specify the TMT tulipwood. This latest inspection shows that the cladding, which was deliberately left unfinished, is ageing well and turning a silvery grey colour, showing no sign of movement and little evidence of splitting or cracking.
The project provides the perfect performance trial and a reference for other architects. Already one leading London practice is intending to specify tulipwood cladding for its latest residential development as a result of its use for Maggie's.

PR HIGHLIGHTS



Bloomberg HQ
U.S. red oak
MD | Germany

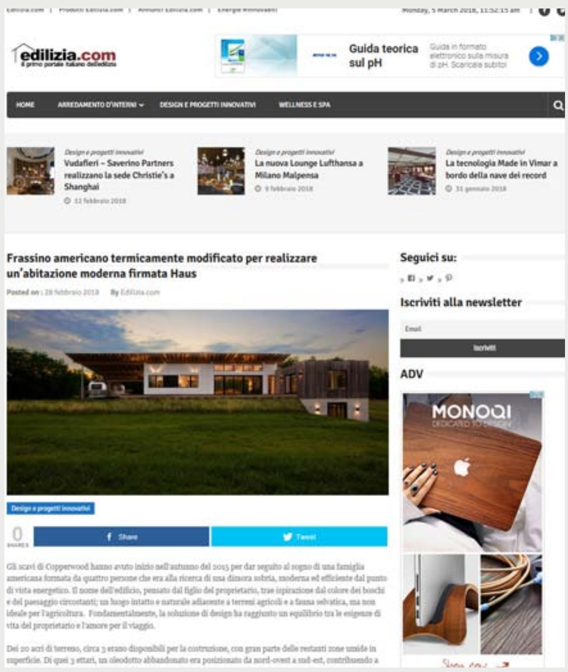
12,000 circulation

Cross-laminated timber
U.S. tulipwood CLT
Arquitecture y empresa | Spain

16,700 circulation

Bilgola Limited Edition
Design Alive | Poland

27,000 circulation



Copperwood House
U.S. thermally modifed ash
Edilizia | Italy

37,500 circulation

UPCOMING EVENTS

17th - 22nd April

Salone del Mobile
Furniture fair | Milan | Italy

16th - 17th May

Architect @ Work
Design fair | Copenhagen | Denmark

22nd - 24th May

Clerkenwell Design Week
Design fair | London | UK

30th - 1st June

Carrefour du Bois
Trade fair | Nantes | France

30th - 9th July

Gdynia Design Days
Design fair | Gdynia | Poland

15th - 23rd September*

London Design Festival
Design fair | London | UK

2nd - 4th October*

NHLA conference
Conference | Toronto | Canada

18th - 19th October

Egurtek
Architecture and trade fair | Bilbao | Spain

*DENOTES AHEC PARTICIPATION

EXCHANGE RATES

	30/11/17	31/12/17	31/01/18	28/02/18
1 EURO = $	1.18	1.20	1.24	1.23
$1 = EURO	0.84	0.83	081	0.81
£1 Sterling = $	1.34	1.35	1.41	1.39
$1 = Danish DKK	6.28	6.21	6.00	6.05
$1 = Swedish SEK	8.36	8.21	7.89	8.18
$1 = Czech CZK	21.50	21.32	20.42	20.6
$1 = Hungary Forint	262.68	258.90	250.32	255
$1 = Polish Zloty	3.54	3.4	3.35	3.39
$1 = Russian Rouble	58.43	57.61	56.22	55.9
$1 = Turkish Lira	3.96	3.78	3.78	3.79

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