American Hardwood Export Council European market report

October 2018

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MARKET INSTABILITY IN SPAIN

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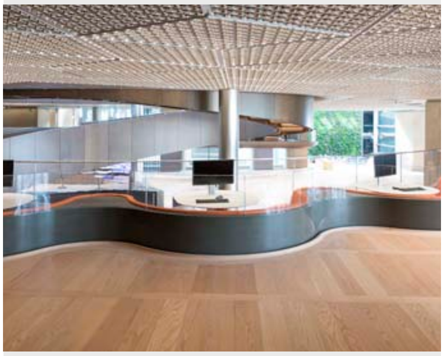
MARKET UPDATE



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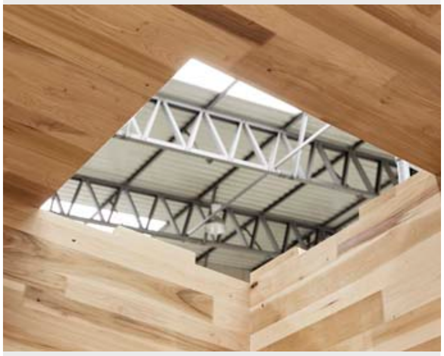

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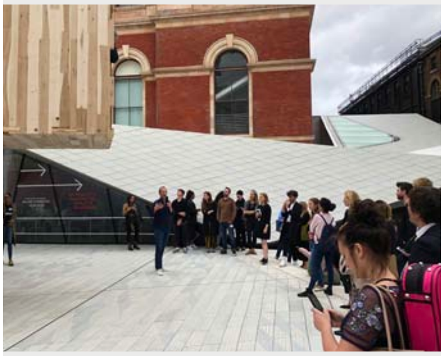

UPCOMING EVENTS

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MARKET UPDATE

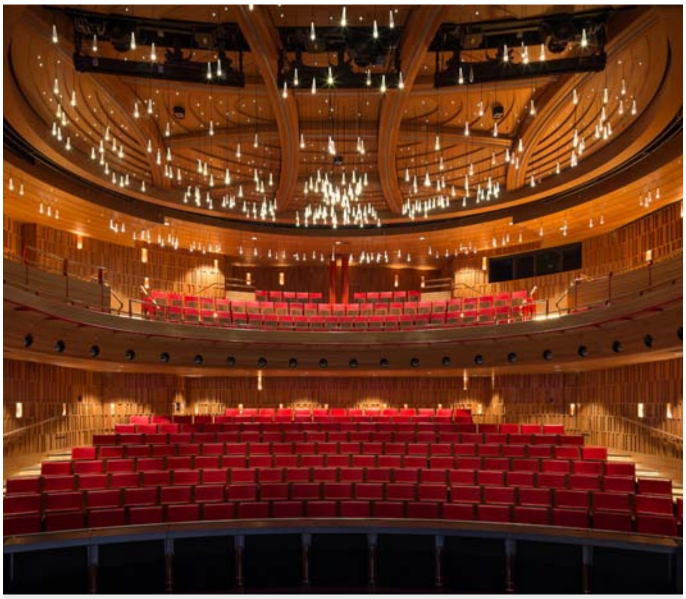
MARKETS

The slow down in demand from China for American hardwood, especially red oak, is being widely reported in the European trade press. The introduction by China of tariffs on hardwood lumber from the USA is, of course, the key factor and is already impacting shipments.

Export data for U.S. hardwood lumber for the first nine months of the year shows shipments to China are down by 9% compared to same period last year - a drop of 160,000m^3. Half of that was red oak, which fell by 12%, whereas white oak shipments remained at similar levels to 2017.

Lumber exports to Europe for the same period were up very slightly by 1% in volume and 3% in value. So, can the U.S. hardwood industry look to Europe to help fill some of the gap created by reduced exports to China? Any shift in fashion towards darker, warmer finishes could bring cherry or even red oak into play and would have an immediate impact on sales, equally any resurgence for maple would also benefit the industry.

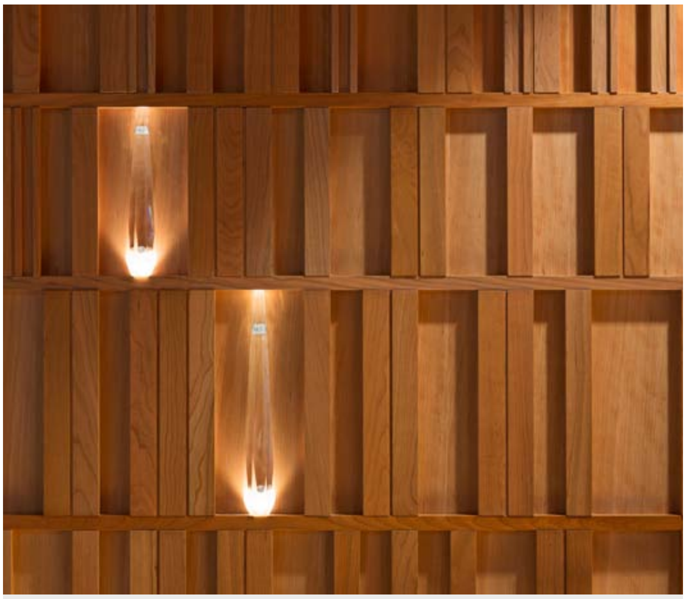
This month we spoke to hardwood buyers in two key markets in Europe; Spain and the UK, to gauge current levels of market activity for American hardwoods and pose the question: *will European markets continue to dismiss red oak or do current price levels and availability offer a new opportunity?*



Royal Academy of Music, by Ian Ritchie Architects, designed in American cherry.

SPAIN - Market instability

The first nine months of this year have seen reasonable hardwood activity in Spain probably at higher levels than last year. However, since the summer break the market has suddenly ground to a halt and business right now is very slow. Spanish hardwood importers are citing general instability both internally and externally. At home the issue of independence for Catalonia has not gone away, state budgets are not approved and indecision about potential new mortgage taxes has affected investment in the housing sector.



Detail of the American cherry panelling at the new Royal Academy of Music, used for it's strong acoustic properties.

External pressures are also relevant, the trade war between USA and China has stirred fears of a new global recession and EU countries are anxiously awaiting the outcome of Brexit negotiations with the UK. None of which is good for market stability.

The current market instability is impacting wood consumption with most sectors affected by a lack of investment and weaker consumer confidence. In the first half of the year construction activity had been steady boosted by a 5% growth in tourism. Hotel and holiday home renovation has been helping to provide a steady demand for hardwood products. The concern for wood importers now is that, given the current uncertainty in the market, this growth may not be maintained and, with new house builds still at low levels, construction activity is likely to slow down. Importers AHEC spoke to did not think the current market situation will improve in the short term, and the next six months could be difficult, so stocks will be maintained at low levels and buying restricted to essential items on a "just in time" basis.

SPAIN- American hardwoods

White oak is an important species in the market, but sales have slowed in recent months due to less demand in the joinery, kitchen and furniture sectors. However, a number of importers report that white oak sales for flooring have been quite good as producers react to firming European oak prices and reduced availability. On the other hand, reports from the door industry suggest that increasingly white oak is being substituted for cheaper lacquered finishes.

So, could this at last be an opportunity for red oak to increase its market share? Importers and manufacturers in Spain are aware that red oak prices have fallen sharply and it is true imports of red oak are on the increase. The latest statistics show red oak lumber exports to Spain for the

American red oak flooring in the Amsterdam School of Music by Frits van Dongen.

first nine months of this year were up 10% on the same period last year to just over 3,300m^3, while encouraging this only represents just under 12% of the total exports for the period. The shift to red oak is happening gradually and according to the trade, mostly as a substitute for white oak within existing products such as doors rather than as red oak labelled products.

American red oak was used to create the the frames in Weaving Architecture - a collaboration between AHEC and Spanish Architect Benedetta Tagliabue (EMBT) for the Venice Biennale.

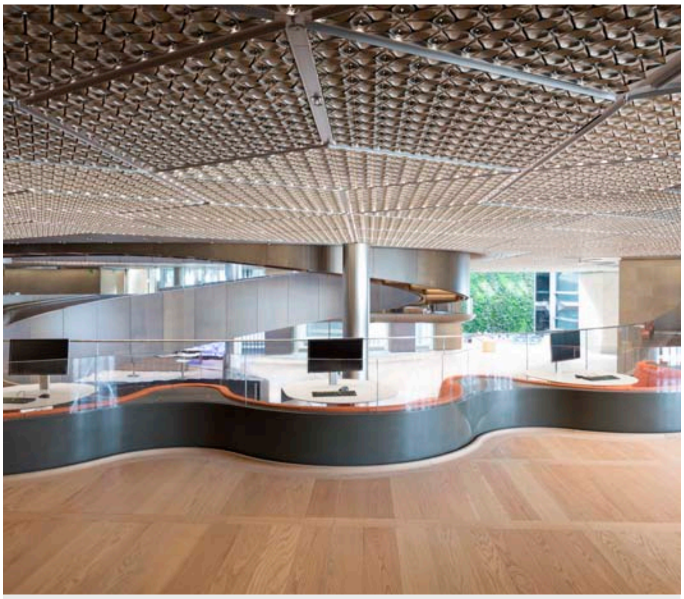
According to AHEC sources, there is still a lot of scepticism and reticence among trade and manufacturers to commit to red oak. One flooring manufacturer told AHEC that they have considered a new line in red oak but have rejected the idea as they "don't believe there will be price stability in the long term and that when China starts buying again the red oak price will rise." This sentiment was echoed by others in the trade who think that the current prices for red oak are temporary and will not be sustained. However, not all the feedback was negative, one leading hardwood importer believes red oak could represent an important new sales opportunity in Spain, but it should be marketed as a new species not as a substitute to existing oak supplies.

The activity in other U.S. hardwood species has always been limited in the Spanish market and volumes sold are small compared to white oak. Most importers report increasing demand for tulipwood, mostly for painted or lacquered finishes. One contact said that he was now selling regular containers of tulipwood, which is business that didn't exist for him a year ago. Ash has a small but steady market, often stained to highlight the grain but has to compete with European ash. There is very little interest in maple or cherry at the moment and demand for walnut has fallen away as manufacturers look for less expensive options.

In such a price sensitive market there is a constant battle to keep market share for solid wood. Spain is a big producer of board materials such as MDF, plywood and particle board, and demand is growing right now as these products offer manufacturers a cheaper option to solid wood. Of course, this creates demand for hardwood veneer but this sector is also facing increasing competition from lacquered non-wood finishes that are not only cheaper, but also fashionable.

UK - Market uncertainty

The UK is another market gripped by uncertainty - a lot of which has been self-generated as a result of Brexit. As we approach the deadline of March 2019, the business mood is becoming increasingly anxious because no matter whether companies are for Europe or believe UK should leave, none of them will benefit from a "no deal". This kind of uncertainty makes planning and forecasting very difficult. As one leading hardwood importer told AHEC *"I would like to give an opinion on Brexit and how it will affect our business but in truth I just don't know at this point."* Brexit aside, the UK economy is actually in good shape, employment is at historically high levels, and wages are rising which should prop up consumer spending at least for a time.



Bloomberg's European Headquarters in London uses an engineered American red oak flooring system. The building has this year won the acclaimed RIBA Stirling Prize.

The general joinery and shopfitting sectors are key to hardwood consumption in this market and so far this year activity has been steady. Due to the bespoke nature of this kind of business, planning ahead is always difficult, and is being made even harder given the air of uncertainty around what kind of Brexit the Government will be able to deliver. So inevitably the hardwood sector is applying a cautious approach to forward planning and keeping stocks as low as they can without losing sales. One importer also claimed they had turned some business down recently because the margins were just too low.

UK - American hardwoods

U.S. hardwood lumber exports to the UK rose by 6% for the first nine months of the year at just over 86,000m^3, with white oak accounting for nearly 50% of this total. White oak is widely stocked by importers, but for most traders, European oak remains the volume seller, as much as 70-80% in some cases. There are exceptions, one leading importer in the North of England has seen their white oak sales grow significantly in recent years to 90% of their total oak sales. They cite AHEC's grading workshops for their sales staff as a key element in this success.

One of the reasons European oak sells so well in the UK is not just a question of familiarity but also because importers can offer their joinery customers prime sap-free grades, albeit at a hefty premium. And at the top end of the market they pay the price, which can be as much as 30-40% more than FAS white oak. The demand by joinery companies for sap-free oak stems from its widespread use for external joinery, as well as the question of colour variation. There is still a lot of oak applications, kitchens, flooring etc. that need a more competitive price option and U.S. white oak fills that gap.

So, what about red oak? We asked leading importers if they thought that current price levels would help them sell more. Most said they had

AHEC regularly organises grading workshops across Europe with key importers, collaborating with Dana Spessert from the NHLA to explain FAS grading system.

tried in the past and their customers either don't like red oak or are reluctant to switch even if the price is attractive. One importer said they were selling a bit more red oak, mainly as a paint grade hardwood. Another said if they thought prices would remain stable at current levels they would be more willing to stock it.

On a more positive note, AHEC have heard that two sizeable moulding and joinery companies, who buy direct from the USA are seriously looking at taking advantage of current price levels and shifting some of their production to red oak.

Clearly there are huge barriers to overcome to create regular red oak demand in this market and proactive marketing from importers and more stock on the ground would help, but no one wants to speculate right now. In the meantime, AHEC will continue its efforts to educate the trade and inspire specifiers.

Most importers report good steady sales of tulipwood this year, which are backed up by the latest statistics showing that exports of tulipwood lumber for the first nine months of the year increased by 13% to just over 25,000m^3. American ash exports for the same period were up over 30% to 7,000m^3 and most importers AHEC talked to reported good demand. Importers report very little demand still for cherry or maple, although one contact thought that maple demand could improve over the next 12 months as a substitute for European beech for specialist products such as fire doors. Despite its high price walnut is still selling well and exports for the first nine months of 2018 were up in volume by 11%.

ACTIVITIES

Growing interest in Spain in wood construction

AHEC attended the Egurtek conference in Bilbao, a focused conference on building with wood which each year is attracting more and more interest. A packed programme of international speakers presented projects and product innovations designed to stimulate more use of timber in construction in Spain. Leading manufacturers of construction systems also presented their products in an exhibition showcase.

Andrew Waugh presents the manufacturing behind *MultiPly* at Egurtek, Bilbao.

One of the key note speakers was Andrew Waugh from Waugh Thistleton Architects who designed the ground-breaking tulipwood CLT structure *MultiPly* for this years London Design Festival. Andrew talked about the potential of tulipwood CLT and also how, through thermal modification, hardwoods such as tulipwood, can now be used for external cladding. In fact, Andrew confirmed that he has specified TMT tulipwood cladding for the first time for a new office complex he is currently designing in London.

AHEC met with Spain's most important CLT manufacturer, who were exhibiting. The majority of their production is based on a local supply of pine, however they are interested in developing new products and they like the idea of a high-performance hardwood CLT. They acknowledged that the AHEC demonstration projects have created a demand for hardwood CLT and prove the product works, so the next step is to determine the commercial viability.

Following discussions, AHEC have agreed to provide all the production schedules and test data from the *MultiPly* project. This will be followed by a visit to the factory. This is an important development towards finding CLT producers in Europe prepared to work with tulipwood.

First re-use of *MultiPly* a big success

MultiPly takes a new configuration outside London's Building Centre.

Six of the original seventeen tulipwood CLT modules outside the Building Centre.

MultiPly has had a successful second outing in London, taking a new shape for NLA's (New London Architecture) 'Factory-made Housing' exhibition. This show explores how new technologies – such as hardwood cross-laminated timber - and pre-fabricated solutions can be used to build better cities and is attracting a high number of architects and engineers.

AHEC commisioned a 1:8 scale model of one of the cubes of *MultiPly* as a tool for communicating about the project at exhibitions and trade fairs.

The show held at the Building Centre was launched with a VIP event attended by London's top architects; globally acclaimed architect Richard Rogers delivered the opening speech, in which he mentioned *MultiPly.*

The new configuration, made of six of the original tulipwood CLT modules, was the focal point of the exhibition for two weeks, taking over Store Street in Central London. The installation was accompanied by tables and benches created

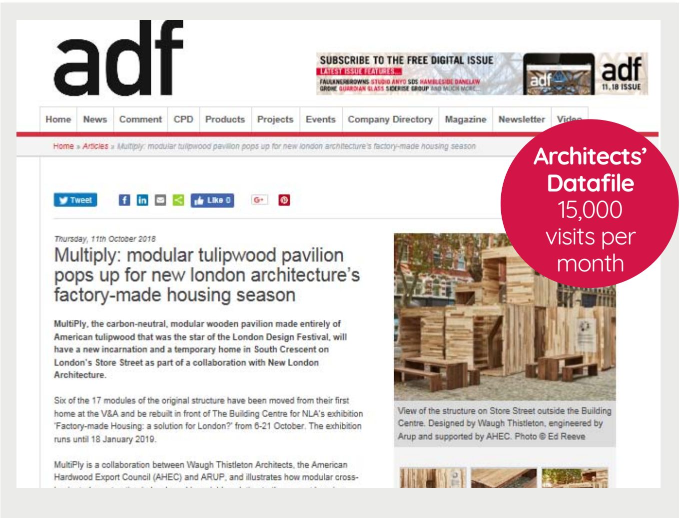
AHEC and Waugh Thistleton hosted a well-attended pop-up talk on Store street to discuss to ideas and innovations behind the project.

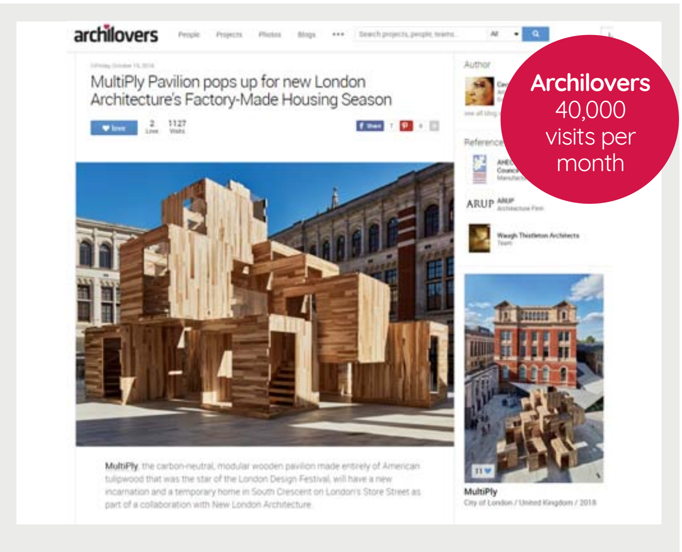
from thermally modified tulipwood CLT. The structure included informative panels explaining the sustainability of U.S. tulipwood and how building in this material would be an effective way of fighting both climate change and the housing crisis.

AHEC's model of *MultiPly* and the *MultiPly* film are also displayed within the exhibition, which will stay open to the public until the end of January 2019.

As part of this collaboration with the NLA, AHEC's David Venables and Waugh Thisleton's Andrew Waugh delivered a pop-up talk to architects and engineers on the story behind *MultiPly* and its innovations.

Here are a few examples of the extra coverage and social media activity on *MultiPly* generated thanks to this collaboration:





NEWS

Red oak trophies for the best designers and architects in Poland

AHEC have been collaborating with renowned Warsaw-based designer Tomek Rygalik to create a new American red oak furniture collection, which will be manufactured and exhibited around Europe in 2019 as part of AHEC's push to promote red oak.

Tomek was recently commissioned by The Warsaw Home to design the trophies for their awards, and he decided to create them in American red oak. The Warsaw Home is Poland's main furniture and interiors show and is attended by both Polish and other European top designers and architects.

Cleverly designed American red oak trophies double as bookends.

AHEC provided the show with American red oak donated by AHEC members to create these trophies, which can be cleverly used as bookends! The trophies included AHEC's logo and have been featured on social media and e-newsletters.

AHEC bring architect of *MultiPly* to NHLA convention

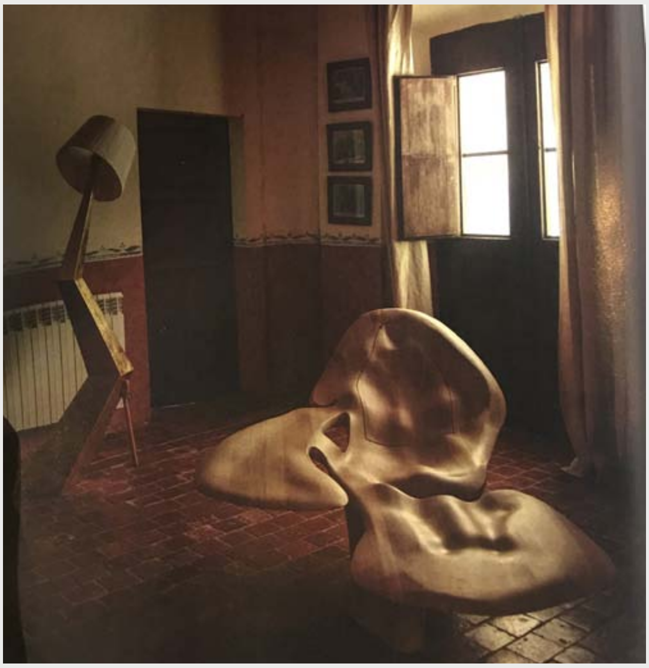
Architect Andrew Waugh, creator of AHEC's latest and most ambitious hardwood CLT structure, MultiPly, was invited to the NHLA convention in Toronto to talk about the project and his work in pioneering timber for mass construction.

In conversation with AHEC's David Venables, Andrew confirmed he would use tulipwood CLT in his projects if it was commercially available and that he believes that hardwood will play an increasingly important role in the future of timber construction. Professor Henry Quesada from Virginia Tech talked about the research he has been carrying out to establish how the U.S. hardwood industry could supply structurally graded lumber for construction, including the manufacturing of CLT. During the convention AHEC staff also attended the NHLA working group on CLT and took part in a packed session on export markets where the trade war with China and the challenge to find new red oak markets, were top of the agenda.

PR HIGHLIGHTS

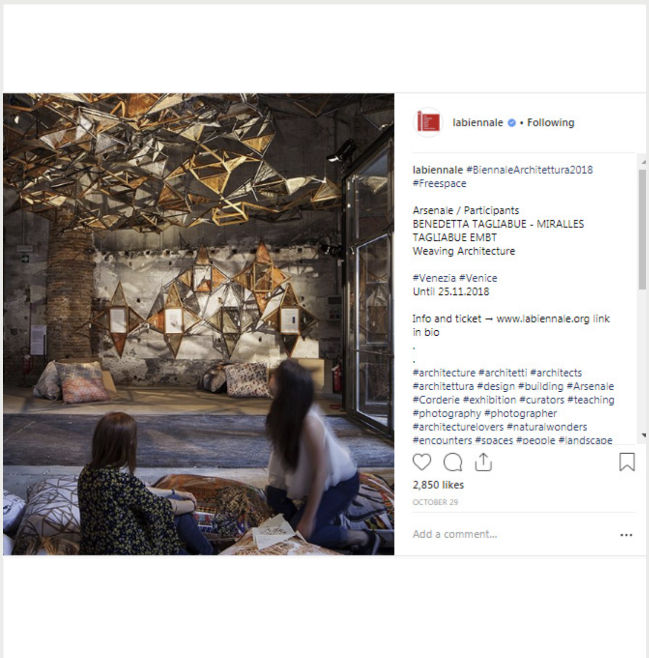
MultiPly, UK
American tulipwood CLT
Diseño Interior | Spain

32,000 circulation



The Workshop of Dreams
American cherry
ICON | Spain

375,000 circulation



Weaving Architecture, Italy
American red oak
La Biennale Instagram

292,000 followers

MultiPly, UK
American tulipwood CLT
Blueprint | UK

8,000 circulation

UPCOMING EVENTS

26 May - 25 Nov*

Venice Biennale
Architecture festival | Venice | Italy

10 October - 18 January*

NLA: Factory-made housing season
Exhibition | London | UK

12 November*

AHEC seminar
Architectural event | Rome | Italy

12 - 13 November

Brachentag Holz
Trade fair | Cologne | Germany

15 November

Houtdag
Trade fair | Amsterdam | Netherlands

20th November*

Wood Awards ceremony
Design competition | London | UK

28 - 29 November

World Architecture Festival
Design awards| London | UK

*DENOTES AHEC PARTICIPATION

EXCHANGE RATES

	31/07/18	31/08/18	30/09/18	31/10/18
1 EURO = $	1.17	1.17	1.15	1.14
$1 = EURO	0.86	0.86	0.87	0.88
£1 Sterling = $	1.31	1.30	1.30	1.28
$1 = Danish DKK	6.37	6.38	6.48	6.57
$1 = Swedish SEK	8.78	9.13	9.05	9.16
$1 = Czech CZK	21.92	22.04	22.41	22.77
$1 = Hungary Forint HUF	275.50	279.30	281.69	285.60
$1 = Polish Zloty PLN	3.66	3.67	3.74	3.81
$1 = Russian Rouble RUB	62.51	68.12	66.45	65.67
$1 = Turkish Lira TRY	4.88	6.61	6.13	5.51

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