

EUROPE MORE PROMINENT U.S. HARDWOOD DESTINATION EVEN AS EXPORTS FELL

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In 2019, U.S. sawn hardwood export value to Europe declined 9.5% to \$268 million while export volume decreased 9.0% to 336,000 m³. The decline in trade last year was common to all the main European markets, although it was larger in Germany, Italy, Spain and Portugal than in the UK (Chart 1). The decline in exports was concentrated in white oak, tulipwood and red alder and partly offset by gains in ash and red oak.

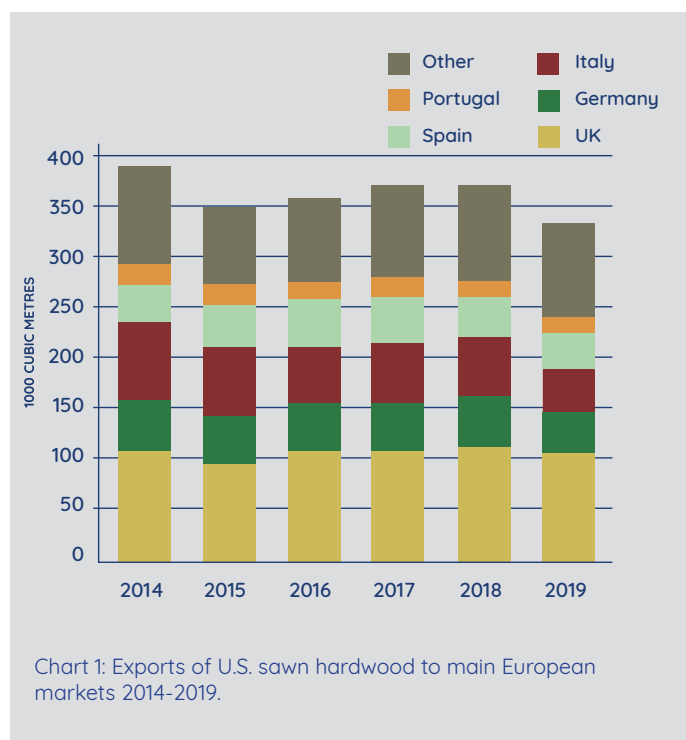


Chart 1: Exports of U.S. sawn hardwood to main European markets 2014-2019.

The fall in U.S. sawn hardwood exports to the EU in 2019, following four years of growth, formed part of a wider downturn in the global trade. Last year, worldwide U.S. hardwood exports were down 25% in value to \$1.88 billion and 20% in volume to 3.25 million m³. The downturn in global trade followed on from the U.S.-China trade dispute, and other signs that the Chinese economy was slowing, which led to a 39% fall in U.S. sawn hardwood exports to China, from 2.05 million m³ in 2018 to 1.26 million m³ in 2019 (Chart 2). Red oak and ash exports to China each fell 38%, while white oak was down 45%. The decline in China meant that Europe's share of total U.S. sawn hardwood export value increased from 12% in 2018 to 14% in 2019.



Chart 2: Exports of U.S. sawn hardwood by destination region 2014-2019.

Despite the fall in exports to China, the U.S. remained comfortably the largest sawn hardwood exporter in the world in 2019, with export value twice that of Thailand, the second largest exporter (Chart 3).

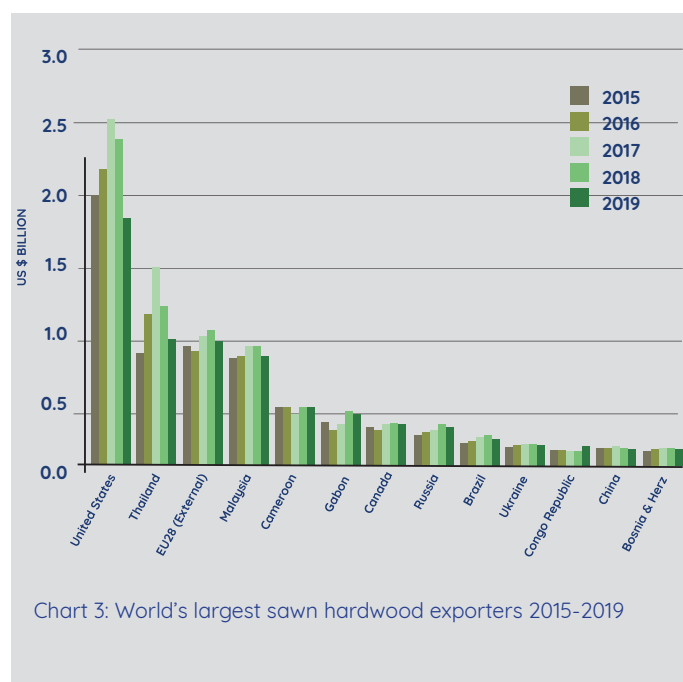


Chart 3: World's largest sawn hardwood exporters 2015-2019

MOUNTING UNCERTAINTY IN THE EUROPEAN ECONOMY

The decline in U.S. sawn hardwood exports to Europe in 2019, which was most pronounced in the second half of the year, coincided with a period of mounting uncertainty in the wider economy. The Autumn 2019 Economic Forecast



published by the European Commission in November noted that “the European and world economy have weakened over the past year. Europe has seen a sharp slowdown in external demand and a contraction in manufacturing, which is starting to spill over to other parts of the economy”.

The Forecast went on to observe that “the fact that growth is no longer expected to rebound meaningfully in the next two years is a major shift compared to previous forecasts and is based on the assessment that many features of the global slowdown will be persistent.”

Similarly, the IMF’s latest forecast for European economic growth, also published in November, emphasises downside risks expected to lead to even weaker growth in 2020: “amid high uncertainty, there are several risks to the outlook, including Brexit-related disruptions, intensifications of protectionism and related uncertainty, abrupt declines in risk appetite, and rising geopolitical tensions”.

For U.S. hardwood exports to Europe, the slowing economy had a detrimental effect on exchange rates, contributing to a 4% decline in the value of the euro against the dollar last year following an 8% fall the previous year. The British pound also dipped to an all-time low against the dollar and other top currencies in the middle of 2019 as Brexit-related concerns mounted, although it did rally to some extent towards the end of the year.

On the other hand, the Euro and British pound remained reasonably strong relative to currencies in several key Eastern European supply countries, including Ukraine and Russia. These exchange rate fluctuations generally favoured buying of European hardwoods and were a drag on imports from the United States last year.

Review of EU import data suggests that total EU imports of sawn hardwood from outside the region declined only marginally in 2019, by 0.6% to 2.17 million m³. The United States share of total EU imports fell from 15.2% in 2018 to 13.3% in 2019. Key trends in EU total sawn hardwood

trade in 2018 and 2019 include a significant rise in imports from Brazil and Russia, a partial recovery of tropical imports from Cameroon, and a decline in imports from Ukraine after a period of strong growth between 2013 and 2016 (Chart 4).

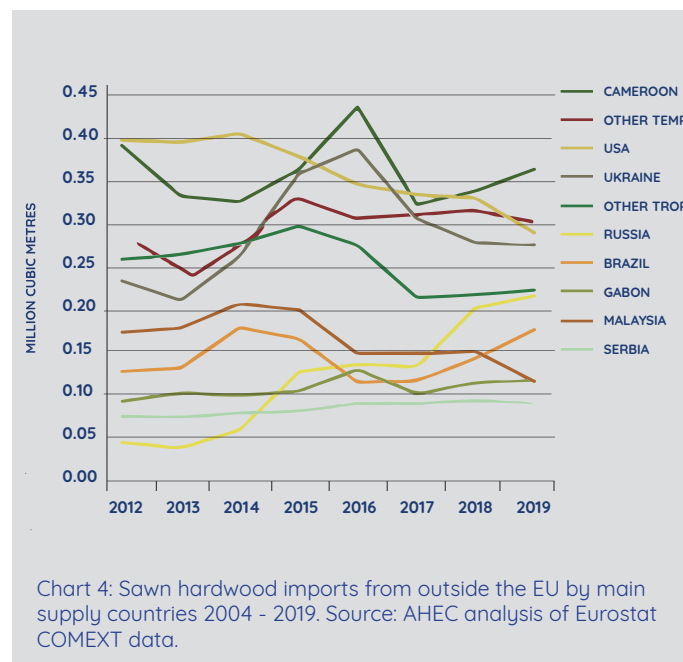


Chart 4: Sawn hardwood imports from outside the EU by main supply countries 2012 - 2019. Source: AHEC analysis of Eurostat COMEXT data.

The turmoil in China may have had a direct effect on demand for U.S. hardwoods in Europe, reducing pressure on supply of European oak. It also led to a weakening in prices for some US hardwood species and grades just at a time when demand in Europe was cooling and importers were sitting on more expensive stocks purchased at the end of 2018 and early in 2019. In such circumstances, importers will have been reluctant to build stock on a declining market and more likely to adopt a wait-and-see attitude in the hope that prices will fall even further. Only time will tell whether the downturn is cyclical and these trends reversed in 2020 as landed stocks fall and prices stabilise encouraging European importers back into the market.

EXPORTS TO THE UK MORE BUOYANT THAN TO OTHER EUROPEAN COUNTRIES

U.S. sawn hardwood exports to the UK were 108,500 m³ in 2019, 3% less than the previous year but still the second highest level since 2001. Exports to Germany fell 10% to 42,000 m³ in 2019,



continuing a decline starting in 2016. Exports to Italy weakened considerably last year, down 27% to 41,000 m³, the lowest level on record and only half the volume of five years ago. There was also another fall in exports to Spain in 2019, by 12% to 35,100 m³, down to the level last seen in 2014. Exports to Portugal fell 16% to 15,100 m³ in 2019, which at least was more comparable with longer-term performance (Chart 5).

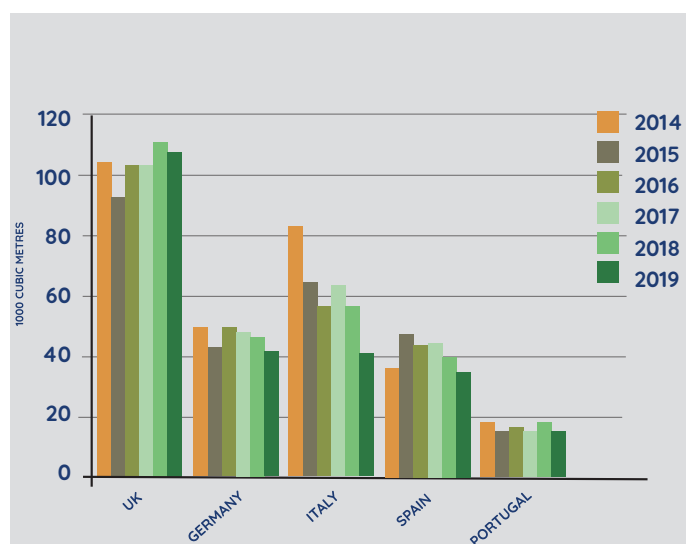


Chart 5: Exports of U.S. sawn hardwood to main European markets 2014 - 2019.

Exports declined to many smaller European markets in 2019 including Ireland (-9% to 12,900 m³), Sweden (-12% to 11,500 m³), Belgium (-19% to 9,600 m³), Norway (-14% to 7,200 m³), France (-11% to 5,500 m³), Netherlands (-11% to 4,800 m³) and Greece (-16% to 4,700 m³). A 55% rise in exports to Estonia, to 14,000 m³, and a 26% rise to Denmark, to 9,000 m³, were rare shafts of light in a gloomy picture (Chart 6).

WHITE OAK, TULIPWOOD AND RED ALDER FOCUS FOR MARKET DECLINE

The decline in U.S. sawn hardwood exports to Europe in 2019 was concentrated in white oak and tulipwood, the two leading species, together with red alder of lesser traded species. Exports of white oak were down 10% at 168,000 m³ in 2019, while tulipwood declined 7% to 81,000 m³ (Chart 7).

U.S. exports of red oak, a key focus of AHEC

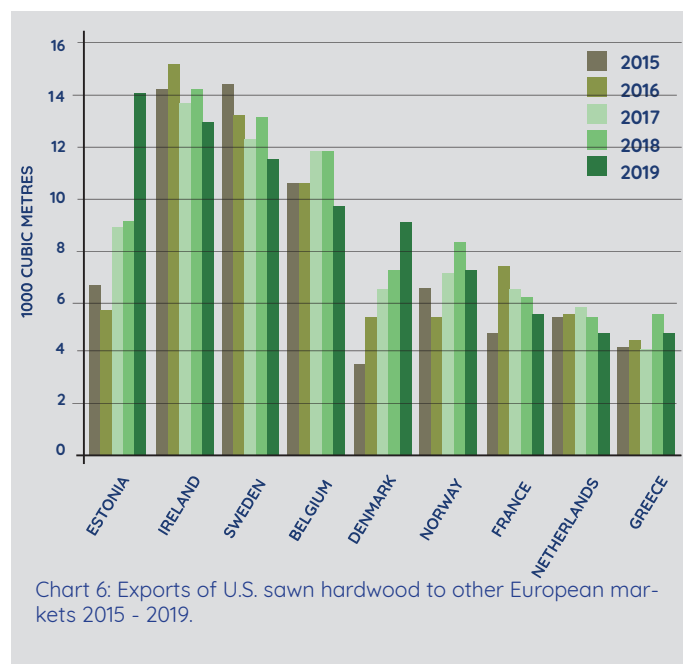


Chart 6: Exports of U.S. sawn hardwood to other European markets 2015 - 2019.

marketing this year and last, rose 17% to 25,000 m³ in 2019, the highest level since 2007 and the second highest in the last two decades. Exports of ash also increased, by 4% to 26,000 m³. Exports of walnut were reasonably stable, at 22,000 m³, down 3% on 2018 but higher than in 2017. European demand for hickory was also up last year, with exports rising 57% to over 4,000 m³. Red alder was the big loser amongst lesser traded species, down over 80% to 1800 m³ (Chart 8).

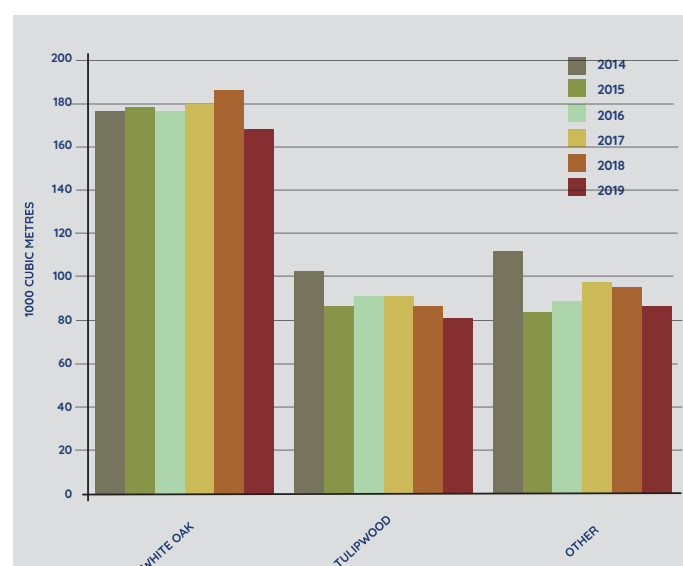
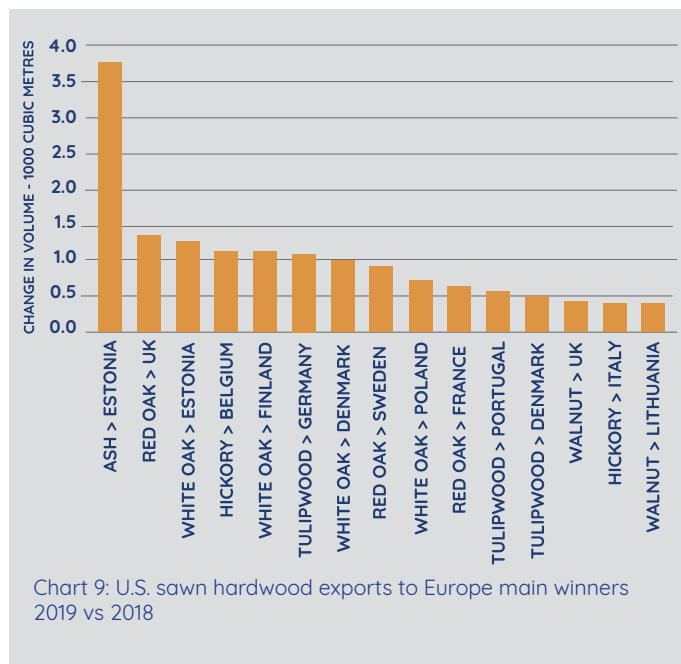
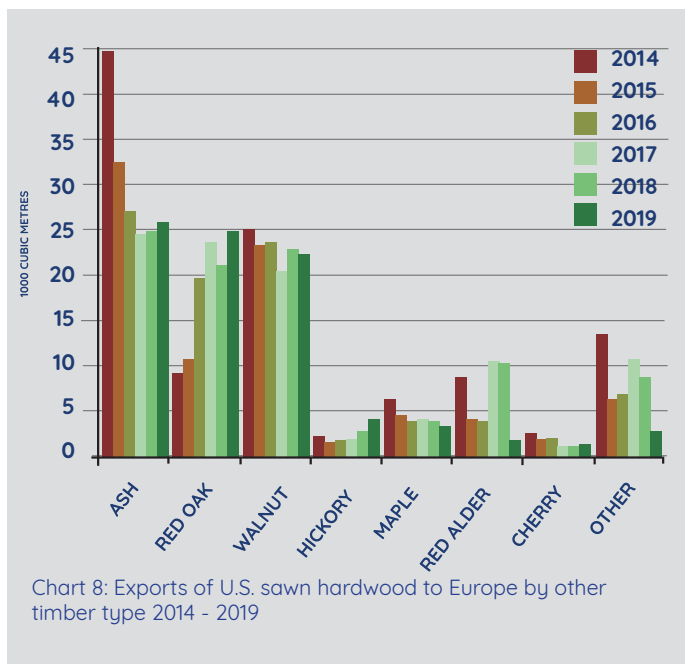


Chart 7: Exports of U.S. sawn hardwood to Europe by main timber type 2014 - 2019.





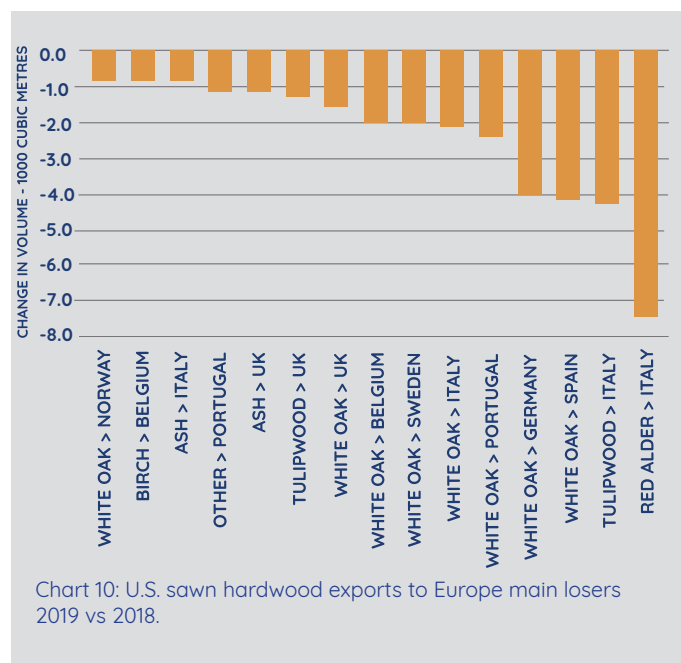
The rise in exports of ash in 2019 was driven mainly by Estonia where ash is thermally treated and redistributed across the continent (Chart 9). Estonia, together with Finland, another country with a lot of thermal treatment capacity, were amongst the few European countries to register any growth in U.S. white oak imports last year. Red oak market growth was concentrated in the UK, Sweden and France. The rise in exports of hickory was destined for Belgium and, to a lesser extent, Italy.

On the debit side (Chart 10), the decline in red alder and tulipwood exports to Europe was concentrated in Italy, while white oak exports were down to most of the main markets including Spain, Germany, Portugal, Italy, Sweden, Belgium, and the UK.

SLOW ECONOMIC GROWTH EXPECTED TO CONTINUE IN THE EU

Looking to the future, the EU’s Winter Forecast released in February 2020 suggests that the “external environment remains challenging” but that “continued employment creation, robust wage growth, and a supportive policy mix should help the European economy maintain a path of moderate growth”. In a positive note for the wider timber sector, the Forecast also suggested that “private consumption and investment,

particularly in the construction sector, will continue to fuel economic growth”. It was also noted that “the European economy could benefit from more expansionary and growth-friendly fiscal policies and enjoy positive spillovers from more benign financing conditions in some euro area Member States”. However, the Forecast also suggests that “overall the balance of risks continues to remain tilted to the downside. The ‘Phase One’ trade deal between the US and China has helped to reduce downside risks to some extent, but the high degree of uncertainty surrounding U.S.



trade policy remains a barrier to a more widespread recovery in business sentiment.” The outbreak of the ‘2019-nCoV’ coronavirus, with its implications for public health, economic activity and trade, especially in China, is identified in the Forecast as a new downside risk. “The baseline assumption is that the outbreak peaks in the first quarter, with relatively limited global spillovers. The longer it lasts, however, the higher the likelihood of knock-on effects on economic sentiment and global financing conditions”.

Recent spread of the virus does not bode well for U.S. hardwood exports in the first half of 2020. Italy has been particularly hard hit leading to paralysis in the country’s northern industrial heartland and the postponement of the Milan Furniture Fair. Economists expect the crisis to tip Italy’s already struggling economy into recession by the end of the first quarter, with knock-on effects likely to last for months.

On Brexit, the EU Winter Forecast notes that “While there is now clarity on trading relations between the EU and the United Kingdom during the transition period, there remains considerable uncertainty over the future partnership with the UK”.

As a forward-looking report, the EU Winter 2020 Forecast excludes the UK which ceased to be an EU member on 31st January 2020 (although the UK is still subject to EU regulations until the end of the transition period on 31st December 2020). For data on the UK, it is now necessary to look to the UK Office of National Statistics (ONS), which reports that the UK economy saw no growth in the final three months of 2019, as manufacturing contracted for the third quarter in a row and the service sector slowed around the time of the election. The ONS figures showed the UK economy grew by 1.4% in 2019, marginally higher than the 1.3% rate in 2018. More positively, ONS data shows that the UK economy expanded 0.3% in December compared with the previous month, better than expectations. This, combined with recent sentiment indicators, suggests the UK economy has picked up since the general election on 12th

December.

Also on a positive note, more signs are emerging of European environmental policy becoming more favorable to the wood sector. The Green Deal, published on 11 December 2019 by the new European Commission and adopted by the European Parliament on 15 January 2020, sets out a three-decade effort to upend just about every policy area in the EU to make the bloc climate neutral by 2050.

The strategy includes 50 specific policy measures of which the flagship is a climate law, to be presented by the Commission before the end of March, which will commit the bloc to slash emissions to net zero by 2050, and a plan to increase the 2030 emissions reduction target to at least 50 percent and “towards” 55 percent from the current 40 percent goal.

The Annex to the Green Deal indicates the Commission will put forward an EU Industrial Strategy in March, as well as a new Circular Economy Action Plan. The latter will include a sustainable product policy with “prescriptions on how we make things” in order to use less materials and ensure products can be reused and recycled.

On trade, the Green Deal pledges to make respect of the Paris Agreement “an essential element for all future comprehensive trade agreements.” Another measure likely to attract attention – and controversy – is a proposal for a carbon border tax. There is also a commitment to building renovation to improve insulation and reduce energy efficiency. The key objective there is to “at least double or even triple” the renovation rate of buildings, which currently stands at around 1%.

On forests, there is a specific objective to promote products that do not involve deforestation and forest degradation, to be encouraged through new labelling rules. There is also recognition that the “EU’s forested area needs to improve, both in quality and quantity, for the EU to reach climate neutrality and a healthy environment”.

