www.unece.org/forests/mis/market/market-57/uk.html

1. General Economic Trends Affecting the Forest and Forestry Industries Sector

1.1 Economic Growth

The UK economy is now in its eighth year of growth although the economy has remained generally weak for the first half of 1999. The first quarter of 1999 saw Gross Domestic Product grow by around 1.2% over the same period in 1998. The output of the service sector remains robust up by 2.3% in the first quarter of 1999 compared to a year earlier. In June, industrial production was down slightly on a year earlier, showing a fall of 0.9% compared to June 1998. Manufacturing output growth was also weak compared to a year earlier, showing a fall of 1.2%.

Economic growth has therefore continued to slow over the past year, as expected, with the overall economy avoiding recession. Growth in 1999 is expected to be between 1% and 1.5%, with continued, stronger growth of 2.25% to 2.75% in 2000 as the effects of lower interest rates continue to feed through.

1.2 Labour Market

Employment in the service sector has continued to grow albeit slowly, throughout 1999, at a slower pace than in 1998. The manufacturing sector has seen continuing job losses as the general weakness in the domestic economy, has held back domestic demand and the continuing strength of sterling has affected exports. The rate of unemployment has remained broadly constant over the past year to stand at 6.0% in June.

Wages and earnings growth has slowed over the past 12 months falling to 4.3% in the year to May compared to 4.5% for the year in 1998.

1.3 Prices

Underlying inflation (i.e. excluding mortgage interest payments) stands at 2.2% for the year to June 1999 slightly under the Government's 2.5% target. The inclusion of mortgage interest payments reduces the rate to 1.3% over the same period, reflecting the reduction in interest rates that has continued over the past 12 months.

1.4 Interest Rates

The Public Sector Net Borrowing requirement in 1998/99 is estimated to be in surplus by about £3.6 billion, and it is anticipated that this will remain in surplus in 1999/2000.

1.5 Public Expenditure

Since June 1998, the Government has lowered interest rates seven times in response to weak general economic conditions. Presently they stand at 5.0% and are now at their lowest level for over 30 years.

1.6 Exchange Rates

Over the past 12 months, Sterling has remained persistently strong compared to other currencies. Against the Euro, Sterling has strengthened more or less consistently, since its launch, although recently, Sterling has weakened slightly against the Dollar.

1.7 Housing Starts and Completions

In terms of housing starts, nearly 180,000 new dwellings were started in 1998. This represented a fall of 4.3 % over 1997. This decline was mainly caused by a decline in private sector housing starts. Housing completions were also lower in 1998 compared to 1997, with an overall reduction in activity of 5.3%. The reduction in public sector completions was proportionately greater than that of the private sector.

1999 is currently seeing more transactions in the housing market which may represent a recovery in starts and completions.

2. Developments In Forest Products Market Sectors

2.1 Pulp and Paper

After a slow start to 1999 for most paper and board grades demand has now started to

increase. There is some early evidence of additional demand associated with the Millenium celebrations and storage precautions against computer failures. In Europe demand for paper products is expected to show only a small increase, but economic growth in the United States has been better than expected so far this year, and if maintained will assist in mitigating any European supply/demand imbalance. Pulp markets are moving back into balance and this, coupled with recent price rises and increased activity in waste paper sales to Asia, should improve prospects for raising paper prices in some markets as demand improves.

The weakening of demand for Magazine Paper that began towards the end of last year, notably for coated magazine papers, continued during the first quarter of 1999, and prices have fallen at least until recently. The situation for uncoated magazine paper has been more stable. Average prices at the end of the first quarter were 4% lower for Lightweight Coated Paper and around 1% lower for Semicalendered Paper compared with the first quarter of last year.

The European Newsprint market has been relatively stable despite over-supply in North America and Southeast Asia. However prices remain under pressure and on average were about 3% lower at the end of the first quarter than at the same time in 1998. The UK is under particular pressure due to the high value of Sterling attracting imports.

Demand for Uncoated Fine paper in Western Europe rose by almost 2% in 1998. At the same time, deliveries by West European manufacturers to this market fell by 2%. Demand for Coated Fine paper declined by an estimated 2% on last year, when demand was good. On average European Fine paper fell by 8% on last year. During the first quarter of 1999 the price of long-fibre market pulp was around US$ 460/t but could reach US$ 600/t by the end of 1999 as demand intensifies.

The combined effects of pressure from the currency exchange rates and recycled fibre have reduced the potential total output of the four integrated Pulp and Paper mills so far this year, and further curtailment of production may occur in some cases.

2.2 Roundwood Including Pulpwood

1998 was a very bad year for UK timber growers with prices for logs falling by between 15% and 35%. Sale values of standing crops fell (in real terms) to a level not seen for 30 years. The situation was worse for lower grade material. As a result of the worsening market conditions many growers withdrew from the market and stopped thinning operations, particularly the early thinnings critical for later quality timber production.

The impact in 1998 of one of the UK's 4 integrated pulp and paper mills reducing roundwood intake by 350 000 tonnes in favour of recycled paper has been serious for growers and a further reason for low prices at the panelboard mills which benefited with the displaced roundwood availability. The availability of recycled wood and increasing availability of chips from the rising UK forest harvest has reduced roundwood prices in 1999. All this is creatiing problems for forest managers in covering operational costs. This has a serious impact on essential thinning operations, and in felling mature crops in remote areas where the margin on the small roundwood content can be critical.

While the demand for paper from UK mills remained strong, roundwood prices reflected the world situation. Consequently there was nothing to encourage roundwood suppliers in compensation for the falling sawlog prices.

2.3 Softwood Sawnwood and Logs

While there was demand for good quality logs the price continued to fall for both logs and sawn product throughout 1998. The principal causes were the high relative value of Sterling, the availability of low priced softwood from the Baltic, and the impact of the recession in the Far East on international timber trade. There were signs of stabilisation in the construction and pallet markets only at the end of the year. The market conditions forced the closure of some sawmills while other roundwood mills increased their imports of lower cost material for further conversion. Some mills were able to carry out investment programmes to increase efficiency and add value in their product range.

In 1999 the continuing effect of the strength of Sterling on the volume of imports and the depressed prices for Scandinavian timber are keeping sawnwood prices down. This is despite generally increasing demand for construction timber and considerable interest from the public in wooden decking. Falling prices for woodchips for use by the panelboard industries are putting sawmilling margins under pressure even though

demand remains good. There are signs of consolidation in the sawn timber supply chain with the large companies taking a closer interest in increasing their control in purchasing supplies.

Timber decking is the bright spot in the UK market and has led to a good deal of new investment in manufacture and marketing by the timber trade in the UK. Quality and service in this market will be of key importance to its reputation and continuing success.

Pallet and packaging demand is steady but very sensitive to price, with acute competition between the many suppliers. While the fencing market seems to have improved this year there is again considerable competition with imported material which is keeping prices low.

2.4 Hardwood Sawnwood and Logs

Supply and demand for hardwood logs was quite good throughout 1998, at least for the higher quality material The situation is unchanged in 1999 with reasonable prospects for construction grades, dimension stock and fencing. In general hardwood sawmillers are buying for known customers rather than holding speculative stock. Oak, beech and sycamore seem to benefit from the fashion for light coloured timbers, while oak prices remain good despite competitively priced availability of European and North American timber, perhaps indicating a buyer preference for local sources. The UK export market for the best qualities of veneer and defect-free hardwoods remained strong in spite of the high value of Sterling.

2.5 Wood-based Panels

While panel board mills operated at near capacity levels in 1998, prices for both roundwood and sawmill chips were reduced for the same reasons as sawlogs and because of the continuing substitution by recycled wood. UK consumption of Particleboard was steady during 1998, and a new mill started production. Another panel mill start-up is expected in 1999.

Markets for panel products seem set remain strong, particularly for UK produced Medium Density Fibreboard and Oriented Strand Board which benefit from proximity of production to the house construction and refurbishment markets.

The UK's only hardboard factory is planning to concentrate on specialised products which will reduce its demand for roundwood and recycled wood.

Increasing production resulting from the new investments in panel board manufacture will result in UK capacity being largely equivalent to total UK demand in terms of total volume, thus increasing competition in an already highly competitive sector.

2.6 Certified Forest Products

The forestry and forest products sectors in the UK are making rapid progress towards the certification of major commercial woodlands and are helping to define the basis of chain of custody and percentage based claims for the content of forest products.

In June 1999 the wide range of industry and environmentalists who had worked on the UK Woodland Assurance Scheme (UKWAS) project formally agreed all the forest management requirements for the UKWAS Standard. This can now be adopted by any approved independent certification body. The same group of organisations is now proceeding with the arrangements for formally establishing and taking forward the Scheme.

Work in the UK continues on making certification realistically affordable to smaller woodland owners, and UK forest management companies have already independently taken some commercial initiatives to encourage such owners

At present the area of independently certified woodland remains small in the UK but preparations are under way in the publicly owned Forestry Commission forests as well as in major commercial holdings in the private sector. It is likely that a very substantial area will be certified within the next 12 months.

In future it should be relatively easy to produce area statistics for certified forests through information from the accredited certifying companies. However volume statistics for the actual production of certified forest wood and its appearance as

processed volume will be a far greater challenge. This will depend, among other things, on a solution to the difficulties of establishing chain of custody, particularly in products comprising both certified and uncertified material. There are special difficulties where a variable percentage is of recycled wood. In UK it seems likely that by no means all certified sawlogs will be bought and processed as such by sawmillers, which means there will be an imbalance between certified forest production and certified sawmill sales.

No mechanism currently exists in the UK for the compilation of authoritative statistics on either the area certified or the volume of products marketed.

Forestry Commission

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