www.unece.org/forests/docs/tc-57/english/tc57mkt.html

OPTIMISM IN FOREST PRODUCTS MARKETS FOR THE START OF THE NEW MILLENNIUM

Following are highlights of the UN/ECE Timber Committee market statement, chosen by the secretariat:

ECE region countries expressed optimism for the new millennium as forest products consumption increases.
Production and consumption of many forest products in Europe and North America were at record levels in 1998 and some were forecast to increase in 1999 and 2000.
Housing markets in North America remain strong and are recovering in Europe thus increasing the demand for sawnwood and wood-based panels.
Harvests of roundwood are forecast to increase and recycled fibre is increasingly used too. (Work on forest resources, to be published shortly, shows that temperate and boreal forest resources are continuing to expand in most parts of the region)
In the Russian Federation considerable optimism was expressed for most forest products market sectors in 1999 and 2000.
Initial recovery of the Japanese imports following the 1998 Asian economic crisis have helped ECE region exporters.
Strengthening demand within the ECE region and further recovery of Asian demand could resolve the subregional oversupply of some panel products and pulpwood (including chips).

The Timber Committee continues to follow **market developments for certified forest products** which come from forests meeting recognized standards for sustainable management. Highlights in autumn 1999 are:

The area of certified forests is increasing and currently potential supply exceeds consumer demand.
A wide choice of certification systems is now in place.
Some governments have found certification a valuable means to inform the public about sustainable forest management and the environmental benefits of renewable forest products.
Some companies currently justify investment in systems for production and trade of certified forest products other than by direct financial benefits.

The official text adopted at the UN-ECE Timber Committee Session is attached and includes forecasts for production, consumption and trade of forest products at the regional level. The text will be combined with full statistics and forecasts for 1998-2000 in "Forest products markets in 1999 and prospects for 2000," number 6 of the Timber Bulletin.

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TIMBER COMMITTEE MARKET STATEMENT ON FOREST PRODUCTS MARKETS IN 1999 AND 2000

The official text below was adopted by the UN/ECE Timber Committee at its fifty-seventh session, Geneva, 27 September - 30 September 1999

Overview

Markets for most forest products have strengthened in 1999. Housing markets in North America remain strong, and those of Europe are recovering, leading to rises in consumption of sawnwood

and wood-based panels in both regions. The outlook is for continued moderate growth in consumption of forest products also in 2000.

The globalization of the forest and forest products sector continues strongly: forest products companies are becoming larger, and more multi-national, through mergers and acquisitions, so as to compete on a global scale. Significant volumes of wood raw material are traded internationally, often over very long distances and sometimes exerting downward pressure on roundwood prices in the importing country.

GDP growth in western Europe was 2.6% in 1998 and the economies of North America continued to grow at a fast rate (3.8%). The fears of a marked slowdown in growth, accompanied by financial turmoil, noted at the Timber Committee's session in September 1998, did not materialise, in part because of judicious monetary policy measures. The US boom continues, with growth in 1999 expected to be, at about 3 3/4%, only marginally less than in 1998, although signs of overheating are evident in many parts of the economy, and the possibility of a "hard landing" cannot be ruled out. In western Europe, growth was sluggish in the first half of 1999, but the leading indicators point to stronger growth in the second half of the year: GDP growth around 2% is expected for the year as a whole. This growth is expected to continue into 2000, at a rate between 2.5% and 2.7%.

In Japan, output growth was quite strong in the first quarter, but less so in the second. Current forecasts are for a small increase in GDP in 1999, between 0.5% and 1.0%.

For most countries in transition, however, there was a slowdown in growth in the second half of 1998, which deepened in the first half of 1999. There are wide differences between countries and regions, with persistent very weak performance in south-east Europe, exacerbated by the war in Kosovo. For central and eastern Europe, growth around 1.5% is expected for 1999, but for south-east Europe, drops in GDP are forecast for several countries.

For Russia, short-term prospects have improved somewhat in the second quarter and the official forecast for growth is 0.5% for 1999 as a whole, after a drop of 4.6% in 1998.

US housing starts continue at a high level, despite a rise in mortgage interest rates, at an annual rate around 1.7 million units, with corresponding strong expenditure on repairs and maintenance. In Europe, new residential construction, which fell by 1.8% in 1998, is expected, by EUROCONSTRUCT, to grow in 1999 by 1.6% and again, by a similar percentage in 2000. Renovation work is expected to continue to grow at rates between 2 and 3% in 1998, 1999 and 2000.

Softwoods

As sawn softwood markets enter the new millennium, consumption of sawn softwood was forecast by the Timber Committee to rise slightly in Europe in 1999, to 80.1 million m3. However production was forecast to increase more, to 87.0 million m3, with some of the extra volumes exported to the reviving Japanese market and smaller volumes shipped to the United States and other destinations. In 2000 the Committee forecast a 2% increase in both production and consumption as countries expressed optimism as regards the outlook for residential construction in both domestic and export markets. Now at their highest level ever, European exports were forecast to reach 37.5 million m3 in 2000. Imports have stagnated at approximately 30 million m3.

North American consumption of sawn softwood is forecast to advance slightly to a record 142.5 million m3 in 1999 due to the United States' formidable demand for new housing as well as a strong repair and remodelling market. With United States housing starts predicted to climb to 1.8 million units in 2000, the United States consumption of sawnwood is forecast to increase by a further 1% to reach 126.2 million m3.

Most of the sawnwood imported by the United States comes from Canada which forecast exports to reaccelerate in 1999, by 4% to hit 48.9 million m3, partly benefiting from the stronger Japanese demand. United States exports were also forecast to rise strongly in 1999, on lower volumes than Canada, also profiting from the recovering Japanese market. However in 2000 North American sawnwood exports could decline due to a forecast 2% drop in Canadian exports.

Russian sawn softwood markets were affected by the 1998 economic crisis and consumption of sawnwood was forecast to fall 13% in 1999 but then rebound by 19% in 2000. Despite a continued drop in production, by 4% in 1999 to a low of 14.6 million m3, Russian sawnwood exports were forecast to increase by 18% in 1999. Exports rose 37% during the first half of 1999. In 2000, Russian sawnwood consumption, production and exports are expected to start their recovery.

As demand for sawnwood advanced in North America, prices rose to near record levels in mid 1999 before weakening in the third quarter. In European countries where sawmill stocks had been

drawn lower, prices rose too, but not as steeply and not in all countries. Forest owners found rising sawlog prices satisfactory, but some sawmillers faced profitability problems. In Russia the average export price decreased by 37% during the first half of 1999.

In 1999 and 2000 the production of softwood logs was forecast to correspond directly to end product needs in Europe and the United States (Canada did not report log production). In Russia softwood log production was forecast to rise in 1999, by 8%, and rise again in 2000, by 13% to reach 38.5 million m3. Already in the first half of 1999 the Russian roundwood exports increased by 47% over the same period in 1998. Softwood log exports by the Baltic countries are also expected to rise. The larger sawmills built in some countries draw logs from a wide radius, often from other countries, thus influencing these countries' sawlog and sawnwood markets.

Increased substitution by non-wood products has inspired individual countries and associations to promote wood to maintain and hopefully regain market shares.

European sawn hardwood consumption was forecast to rise by 2% in 1999 to reach 16.7 million m3 and again by 1% in 2000, suggesting the end of a long decline. Furniture demand in Europe and export markets was partly responsible for the increase, as was the demand for hardwood flooring. Production was forecast to advance faster, by 4% in 1999 to reach 13.9 million m3. Sawn hardwood imports were forecast to be stable for 1999 and 2000, at 7.6 million m3 while exports were predicted to advance by 3% each year to reach a new record of 4.8 million m3 in 2000.

Part of the demand for sawn hardwood for furniture and flooring is being met by hardwood dimension and strips, i.e. intermediate, rough-sized components. The dynamic trade in value-added products is partly driven by the economics of larger furniture factories which outsource an increasing share of their component parts. Globalization of trade affects hardwood users who automate production which lends itself to the use of kiln-dried dimension and strips.

Light-coloured species are not only popular for European markets-considerable volumes of beech sawnwood and logs are exported to Asia, usually at prices superior to domestic markets. The hardwood log market was stable in the ECE region with the notable exception of a 5% increase in European log exports in 1999 to a level of 4.9 million m3.

Tropical timber imports by Europe were forecast to be relatively steady in 1999 and 2000, despite currency devaluations in Asia which may have rendered them more competitive. In some tropical countries a combination of log export restrictions and value-added processing combined with the reduction in demand from the world's largest tropical timber importer, Japan, has led to a structural change in the tropical trade. Now more value-added products, for example furniture, are being exported. Some tropical countries are developing certification systems to meet buyers' requests. The loss in market share to temperate species, partly due to deforestation concerns, seems to have been abated, but now other impediments, for example substitution by MDF and non-wood substitutes may be blocking further market growth.

After advancing to record levels, North American consumption and production of sawn hardwoods could level off in 1999 and 2000 at 31.5 million m3 and 32.9 million m3 respectively. In contrast the North American trade in sawn hardwoods was forecast to be active. Exports are forecast to rise by 10% in 1999 to 4.1 million m3, overcoming the drop in 1998 due to the Asian crisis. On half the volume, imports were forecast to move up by 6% in 1999 to reach 2.6 million m3. Sawnwood prices have been rising rapidly in the last two years but have slowed in 1999.

Wood-based panels

Consumption of wood-based panels (particle board, plywood and fibreboard)in Europe is expected to increase marginally in 1999, by 0.3% to 45.4 million m3, and to expand by 1.9% in 2000 to new record levels. Demand has been sluggish in the first semester of 1999. There has also been a building up of stocks for particle board leading to a drop in prices. Despite existing overcapacity, further capacity expansions are announced for MDF and particle board in the expectation of future increases in consumption.

In 1999 consumption of wood-based panels in North America driven by the high demand in end-use sectors is expected to rise by 1.2% to 52.6 million m3 following the significant expansion of 7.4% in 1998. However, a drop of 2.2% is foreseen for 2000.

In the Russian Federation consumption of wood-based panels is forecast to increase by 13.2% in 1999 and 18.2% in 2000 to 3.2 million m3, thus offsetting the steep fall of 1998. Exports are also expected to expand considerably by 11.7% and 13.5%, during the same period and reach a volume of 1.3 million m3 in 2000. Plywood is by far the major panel being exported.

Particle board production in Europe is forecast to rise by 1.8% and 3.7% in 1999 and 2000. Among

the major producing countries, Poland foresees continued increases through 2000 to reach 2.8 million m3; the United Kingdom, where mills were operating near full capacity, also expects an important rise in production as a new mill comes on stream in 1999; and France also expects higher production levels. Imports, on the contrary, are forecast to drop by 4.2% and 5.5% in 1999 and 2000. OSB is continuing to expand at a rapid pace and installed capacity reached 1.1 million m3. France is expecting a new mill start up in 2000.

European plywood production is forecast to remain at 1998 levels in 1999 and increase by 1.8% in 2000 to 3.8 million m3.

Overall fibreboard consumption in Europe is forecast to increase by 1.2% in 1999 and 1.6% in 2000 to 7.1 million m3, although it seems that some major producing countries may not be able to report all MDF production (this statistical problem will be resolved shortly). Despite the rapid increase in consumption, overcapacity represents a continued problem for the industry.

In North America production of particle board, excluding OSB, is expected to remain near 1998 levels in 1999 and to rise in 2000 by 4.7% to 10.7 million m3. In Canada capacity will increase by 1 million m3. OSB production in North America is forecast to reach new record levels in 1999 to reach 17.6 million m3 in 2000. Prices have fluctuated strongly: a steep rise in the first two quarters of 1999 was followed by fluctuations in prices in the third quarter. This type of movement is expected to continue in this rapid growing industry.

In North America softwood plywood has fallen to 49% of the structural panel market. Production is expected to stabilize in Canada at 1.8 million m3 in 1999 and 2000 and exports to expand by 25% in 1999 and a further 5% in 2000. In the United States production is forecast to drop by 1.3% in 1999 and 2.8% in 2000 to 16.8 million m3.

Fibreboard production in North America is forecast to increase by 3.7% in the two years to 2000 to 7.9 million m3. Hardboard and insulating board production are forecast to drop marginally and the rapid growth of MDF is expected to continue, by 6.5% in 1999 and a further 4% in 2000 to reach a level of 3.4 million m3.

Roundwood (pulpwood and energy wood) and wood pulp

The second half of 1998 saw world pulp prices fall quite sharply, due to weak demand and rising stocks. Producers reacted by limiting output, so that by early 1999, market balance had been recovered and prices started to rise. By September 1999, the benchmark price for Northern Bleached Sulfate Kraft (NBSK) pulp reached $560/ton, with further rises announced.

These developments on the pulp markets are reflected in the estimates for pulpwood consumption, which show an increase, for Europe, of 2 million m3 (1.1%) in 1999 to 185.8 million m3 and 2.7 million m3 (1.5%) in 2000. Increases are forecast in 1999 for coniferous round pulpwood and wood residues and chips, but a small drop for non-coniferous round pulpwood. In the USA, apparent consumption of pulpwood is estimated to have risen by 0.9% to 242.7 million m3 in 1999 and is expected to rise by a further 0.6% to 244 million m3 in 2000. Russian consumption of pulpwood is expected to rise by 1 million m3 in 1999 to 10.7 million m3 and to continue to increase in 2000.

European countries expected their imports of pulpwood to reach 34.2 million m3 in 1999, and then to rise again to 34.5 million m3 in 2000. In 1998, for Europe, imports accounted for 18% of apparent consumption and for a greater share in major importing countries. Increases in imports are forecast for 1999 for Sweden, Finland and France. The major exporters to Europe are the Czech Republic, Estonia, France, Germany, Latvia and the Russian Federation. Russia estimates it will export 12.8 million m3 of pulpwood in 1999, with a drop in 2000 to 12.4 million m3. North American pulpwood exports which include chips, mostly to Japan, are expected to fall slightly in 1999, but to recover in 2000 to about 13.2 million m3.

Despite the difficulties in monitoring the quantities of wood used for energy, it is clear that this remains a significant end-use for wood in many parts of the region. The rise in the oil price, and the discussion on climate change and implementing the Kyoto protocol may be expected in the medium term to further stimulate the use of wood for energy. The liberalisation of markets for some conventional energies e.g. electricity and gas may however make these energy forms more price competitive than before compared to wood.

Certified forest products

The Timber Committee continued to follow market developments for certified forest products (CFPs) which come from forests meeting recognized standards for sustainable management. In addition to existing certification systems, new ones have been developed. There is already a wide

choice of certification systems in place. Since the Committee's last discussion, the area of certified forest land has increased in Europe and North America. However, not all of the wood harvested from certified forests is sold as CFPs because of the weak consumer demand for these products.

The strongest demand in the ECE region for CFPs is from retail buyers' groups primarily in timber importing countries. In the United States there is a wide range as regards willingness to pay a price premium for CFPs from consumers (most willing), to architects, builders and home/DIY centres (least willing). In practice, however, it is not clear that any premium is actually being paid for CFPs. There is confusion in the United States marketplace and due to the lack of promotion, both retailers and consumers are left with many questions.

Discussions during the session also raised questions about future market demand, credibility and practicality of certification systems. Export-oriented countries are increasingly considering certification for some environmentally-oriented markets in countries such as the Netherlands and the United Kingdom.

While many companies offering CFPs are not benefiting from market premiums, they justify their investment in certification on the basis of accessing new niche markets, promoting an environmental image, building credibility with customers and developing strategic marketing networks. Some ECE region governments justified their involvement in certification as a means to inform the public about sustainable forest management and the use of wood.

North America Summary table of market forecasts for 1999 and 2000