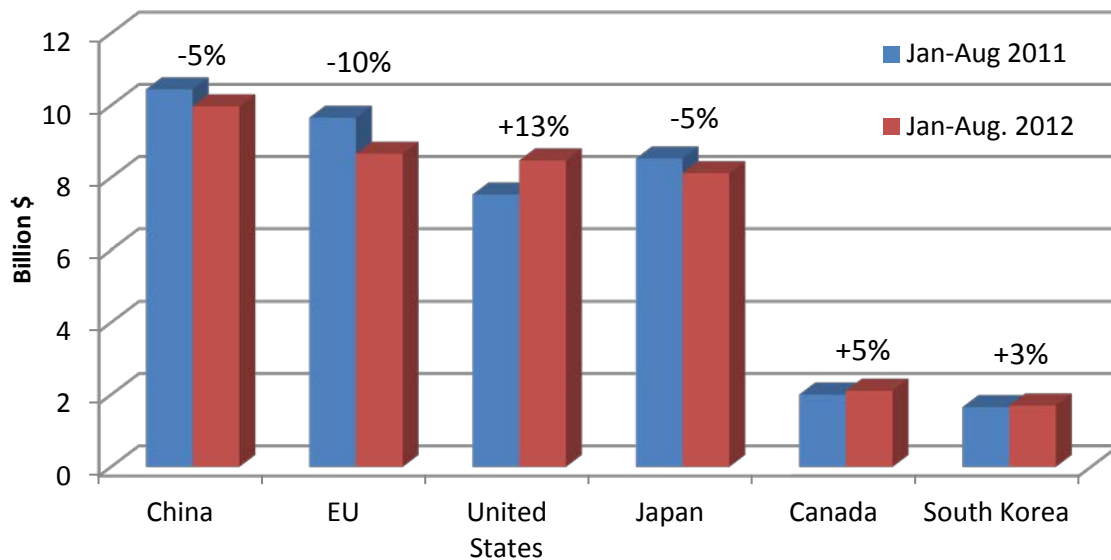


Global Forest Product Trade Slows On Weak Demand From China and the EU

Global Trade Stalls

Despite a slow global economy last year, trade in forest products increased by 15 percent over the 2010 total. However, in 2012, poor economic performance by the world’s top economies appears to be taking a toll on demand, with no growth in forest product trade for the first eight months of the year. Purchases by China, the top global importer, are down five percent in 2012, after imports in 2011 grew by 44 percent. Additionally, a sharp reduction in demand from the European Union (EU), along with lower purchases by Japan, are only partially offset by an increase in demand from the United States, Canada, and South Korea.

Wood & Wood Product Imports by Major Buyers



Source: GTA

EU Imports Fall Substantially

EU imports of all wood and wood products for the first eight months of 2012 are down by \$1 billion compared with the same period in 2011, significantly more than any other buyer. Much of the decrease is due to a fall in demand for plywood and sawn wood. The slow economy has led to a drop in demand for furniture, which has subsequently lowered wood article imports from China, the top supplier to the EU.

New EU regulations may also be contributing to the slowdown in overall EU forest product imports. In March, the EU began requiring that companies importing forest products supply

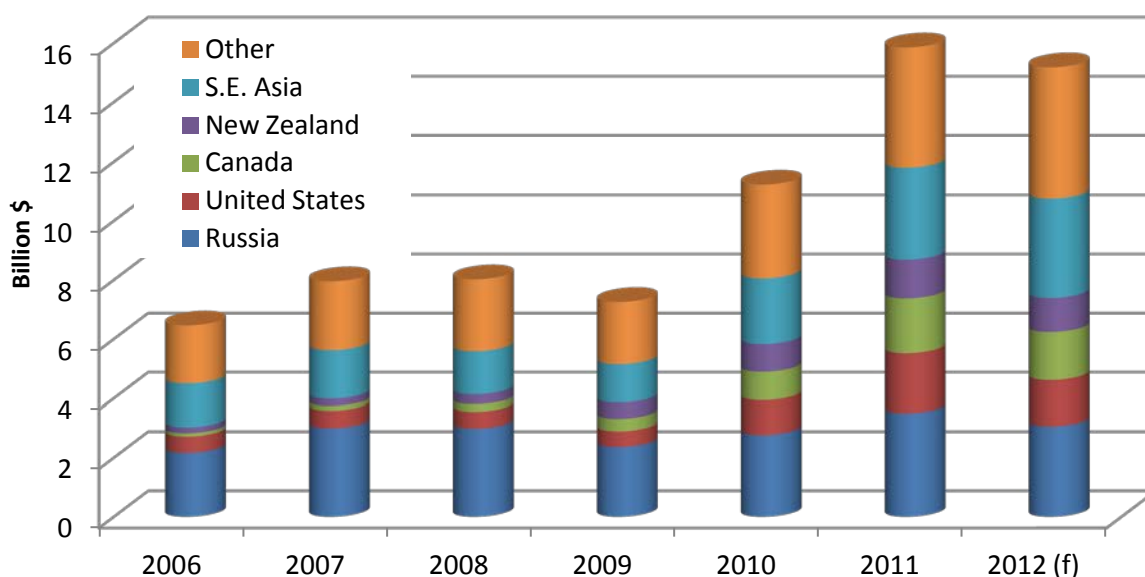
documentation on the supply chain for imported timber in an effort to crack down on purchases of illegal timber. The requirement only applies to those selling products in the EU. However, due to the complexity of the global supply chain, it can be difficult for an EU based importer to trace the paperwork back to the origin of the raw material, and the cost of compliance is generally borne by the forest product's raw material supplier. While poor economic conditions are a driving factor, the cost of complying with the sustainability regulations may be contributing to the sharp decrease in imports from Brazil, Indonesia, Malaysia, Russia and Ukraine.

The reduced EU demand has also impacted U.S. exports, as sawn wood shipments are down 23 percent from January to August as compared to last year. However, overall U.S. forest product exports to the EU are up three percent, mostly due to greater shipments of wood pellets for fuel. The EU target that 20 percent of all energy consumed in the EU by 2020 comes from renewable sources, including electricity and home heating and cooling, has increased demand for wood pellets with the United States capturing nearly 25 percent of the import market thus far this year. The United Kingdom, Sweden, and the Netherlands, in particular, are increasingly using wood pellets in home and industrial heating as well as electricity generation.

Chinese Purchases Fall on Slowing Economy

Along with the EU, Chinese imports of forest products are down, nearly \$500 million (five percent) so far this year, but are still on pace to be the second highest ever. The Chinese government's decision late last year to tighten credit for construction loans, combined with an over-built housing market, has dampened demand for softwood used in construction. Meanwhile, hardwood lumber demand has fallen with reduced furniture and interior applications. U.S. competitor exporters in China have suffered most from this reduced hardwood demand as U.S. hardwood lumber exports are up 13 percent for the January-August period. Nevertheless, according to U.S. export data, total U.S forest product exports to China are down nearly \$250 million, or 25 percent, mostly due to reduced shipments of softwood lumber and softwood logs.

Chinese Imports of Forest Products



Source: GTA Importer Reported Data

Restrained Global Trade Expected in Coming Months

Compared to trade in other agricultural goods, global trade in forest products is more correlated to economic growth. As economies slow, demand for high-value purchases like new-home construction, home remodels, furniture, and even wood based shipping material tends to fall quicker and more dramatically than the demand for food. This is particularly true in developed nations where food demand is relatively price inelastic. Therefore, the outlook for global economic growth is a key indicator of where forecast product trade may be headed in the near term. According to Global Insight, global GDP growth is expected to reach only 2.6 percent in 2012 with the EU at -0.5 percent, the United States at 2.1 percent and Japan at 2.3 percent. Though China is forecast to grow by 7.4 percent, this is down from 2011's growth of 9.2 percent. Looking ahead to 2013, global economic growth is expected to remain restrained at just 2.7 percent, mainly due to continued turmoil in the EU, which is forecast at -0.4 percent. Until a sustained economic recovery is mounted, global trade in forest products is likely to remain stagnate.

For more information contact OGA Oliver Flake oliver.flake@usda.gov 202-720-1226 , USDA-FAS, Office of Global Analysis