

2013
Jan-Jun



Notes

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US hardwood lumber exports to Europe fall 4% but market is poised for growth

Total US hardwood lumber exports to Europe in the first six months of 2013 were 178,800 m³, down 4% compared to the same period in 2012. In value terms, year-on-year exports were down 3% at \$128.8 million. The decline is mainly due to lower exports to Germany during the first quarter of 2013. More recent quarterly data reveals US hardwood lumber exports to Europe were rising in the 12 months to June 2013 (see Charts 3-4). This aligns with emerging signs that the European economy may have hit bottom in the opening weeks of 2013 and is on the road to recovery.

In addition to Germany, year-on-year exports in 2013 have also declined slightly to the Benelux countries, Sweden, Estonia, Norway, Denmark and Lithuania. However, exports remained robust to the UK and have begun to recover to France, Italy, Spain, Portugal, and Greece (see Table 1 and Charts 1-2).

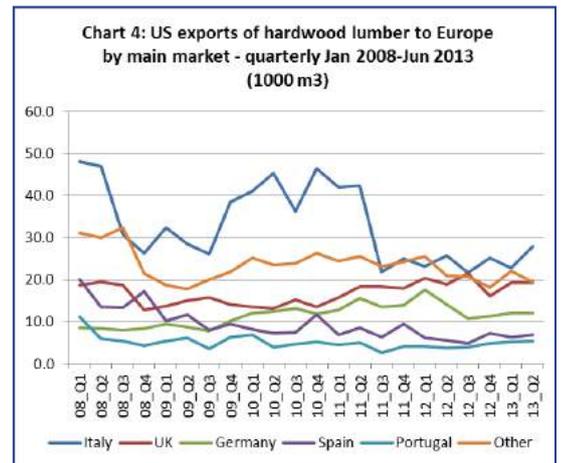
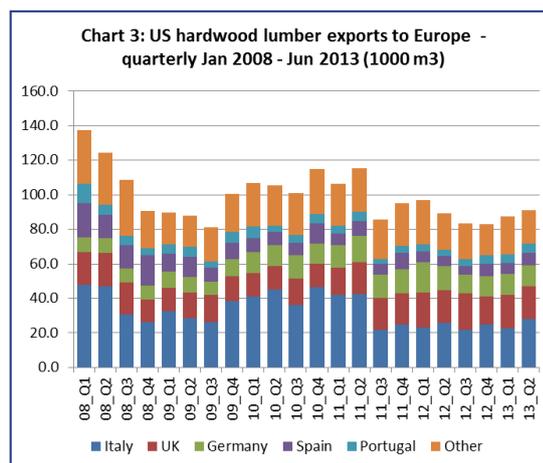
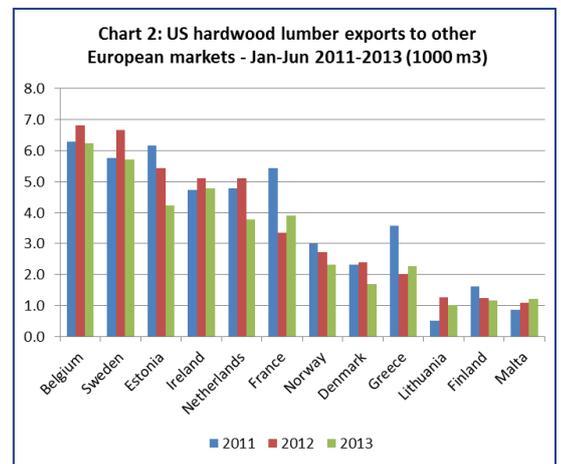
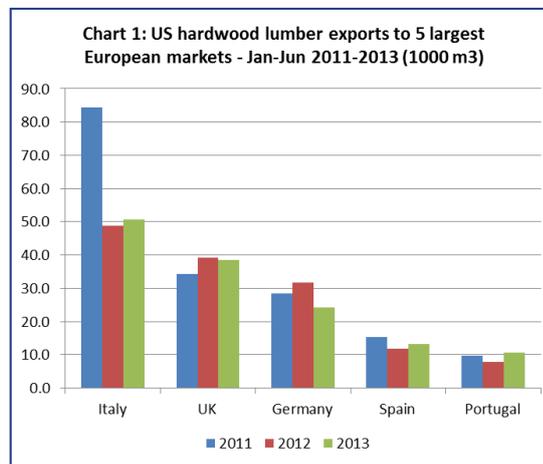
Italy heading in the right direction

US hardwood lumber exports to Italy were 50,700 m³ valued at \$30.3 million in the first six months of 2013, up 4% and 6% respectively in volume and value terms on the same period last year. Imports are still well down on the level of two years ago before Italy's most recent political and financial crises. However, the Italian market seems now to be heading in the right direction. Over the summer months, reports from Italy have remained cautiously optimistic - but it's not always certain how much demand is being created

in Italy itself or is due to the increased role of Italian importers in supply of hardwood to other European countries.

Robust exports to the UK

Exports of US hardwood lumber to the UK in the first six months of 2013 were 38,600 m³, just 1.8% down on the robust level of the previous year. Export value to the UK actually increased slightly, up 1% to \$29.7 million in the first half of 2013, not far short of export value to Italy during the same period. Strong exports to the UK are being maintained despite evidence that the country's joinery sector passed through a bumpy patch in the first half of 2013. Respondents to the latest British Woodworking Federation (BWF) quarterly survey of joinery companies in the UK reported lower sales in the 2nd quarter of 2013 compared to the 1st quarter despite



2013 Jan-Jun



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Table 1: Exports of US hardwood lumber to the European region by destination, Jan-Jun 2012-13

Partner	Volume (000 m3)				Value (\$ million)				% change	
	2011 Year	2012 Year	2012 Jan-Jun	2013 Jan-Jun	2011 Year	2012 Year	2012 Jan-Jun	2013 Jan-Jun	Volume	Value
Italy	131.1	95.6	48.9	50.7	75.7	55.5	28.6	30.3	3.8	5.8
UK	70.5	76.9	39.3	38.6	53.5	57.7	29.3	29.7	-1.8	1.4
Germany	55.9	54.0	31.8	24.2	43.4	39.9	23.1	17.8	-24.0	-23.0
Spain	31.2	23.9	11.8	13.2	24.5	19.3	9.3	9.7	11.9	4.3
Portugal	16.5	16.7	7.9	10.6	12.3	11.5	5.5	7.3	35.3	34.4
Belgium	13.9	12.3	6.8	6.2	11.4	9.2	5.2	4.8	-8.3	-8.1
Sweden	12.2	12.0	6.7	5.7	11.2	10.6	5.9	5.1	-14.5	-13.4
Estonia	9.9	8.1	5.4	4.2	8.2	6.5	4.3	3.5	-22.3	-18.6
Ireland	10.3	11.3	5.1	4.8	7.4	7.8	3.6	3.6	-6.7	1.6
Netherlands	10.5	8.3	5.1	3.8	9.5	7.3	4.5	3.4	-25.8	-23.0
France	8.9	5.9	3.3	3.9	6.3	4.5	2.5	2.7	16.4	8.1
Denmark	4.6	4.4	2.4	1.7	4.6	4.2	2.1	1.8	-29.6	-17.4
Greece	6.3	4.4	2.0	2.3	4.6	3.0	1.4	1.5	12.7	2.8
Lithuania	2.0	2.6	1.3	1.0	2.1	2.2	1.2	1.0	-20.2	-17.4
Finland	3.0	2.1	1.2	1.2	3.2	1.9	1.1	1.1	-6.8	-4.7
Malta	1.9	2.5	1.1	1.2	1.4	1.7	0.8	0.8	11.4	7.4
Poland	3.4	2.5	1.1	0.9	2.6	2.3	1.0	1.0	-20.4	-6.4
Other EU	2.6	1.7	1.0	1.2	2.9	1.4	0.7	1.1	25.6	42.5
EU28	394.7	345.2	182.2	175.4	284.8	246.5	130.1	126.1	-3.8	-3.1
Norway	5.8	5.2	2.7	2.3	4.5	3.9	2.1	1.7	-14.7	-18.0
Russia	1.4	1.7	1.0	1.0	1.1	1.3	0.7	0.8	-6.0	14.5
Albania	0.1	0.3	0.1	0.1	0.1	0.2	0.1	0.0	-52.5	-45.2
Iceland	0.5	0.2	0.1	0.1	0.3	0.1	0.1	0.1	-3.7	-13.0
Other Europe	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Total	402.7	352.6	186.2	178.8	290.9	252.0	133.1	128.8	-3.9	-3.3



improving weather conditions. A majority of respondents said that they had been using less than 70% of their production capacity for the past year. However, most expected a significant increase in production in the second half of 2013.

BWF conclude that *"anecdotal evidence and industry predictions suggest that we could be looking at better fortunes for joinery manufacturers in the third quarter, as the housing recovery, a general uplift in construction work and fair weather are all likely to boost activity. But the second quarter results serve as a reminder that growth shouldn't be taken for granted in what remains an exceptionally competitive marketplace."*

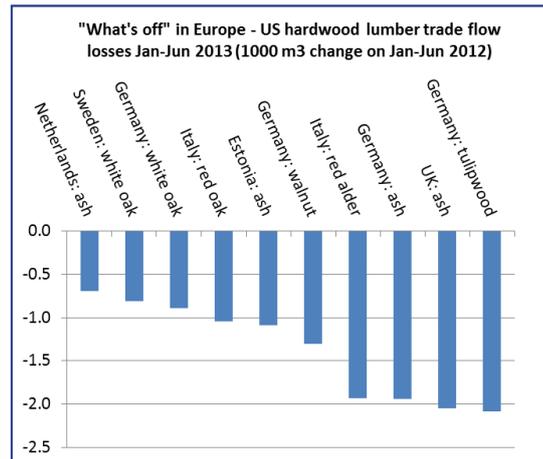
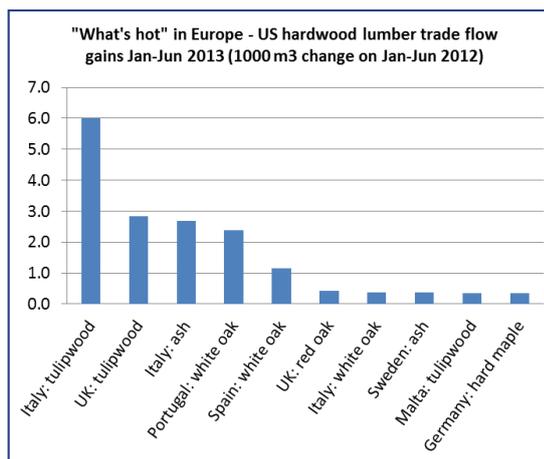
Stop-start in Germany

US hardwood exports to Germany in the first 6 months of 2013 were 24,200 m³, 24% down on the same period in 2013. This is a significant drop, but it's worth noting that exports to Germany during the first half of 2012 were

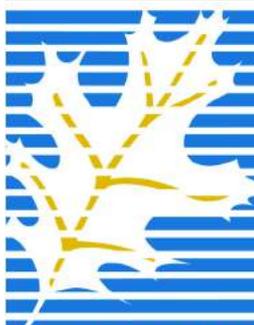
particularly strong at a time when the nation's economy appeared to be rebounding rapidly. This recovery proved temporary and Germany's economy cooled significantly in the second half 2012. However, there are indications that Germany may now be staging another recovery, a trend which has gained momentum since spring 2013.

Early signs of recovery in Iberia

This year has seen the first tentative signs of recovery in demand for US hardwood in the Iberian Peninsula. In the first six months of 2013, exports to Spain were 13,200 m³, up 11.9% compared to the same period of 2012. Exports to Portugal were up 35% at 7,300 m³ during the same period. Underlying economic conditions and construction sector activity in both countries remains at a low ebb during 2013. Most buyers and seller remain gloomy about prospects in this region for the rest of the year. However improved exports of US hardwood lumber to these markets in the first



2013 Jan-Jun



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Table 2: Exports of US hardwood lumber to the European region by species, Jan-Jun 2012-13

Species	Volume (000 m ³)				Value (\$ million)				% change	
	2011	2012	2012	2013	2011	2012	2012	2013	Volume	Value
	Year	Year	Jan-Jun	Jan-Jun	Year	Year	Jan-Jun	Jan-Jun		
White oak	172.4	143.4	76.3	77.4	133.9	111.0	58.4	59.0	1.5	0.9
Tulipwood	78.0	88.3	42.0	48.5	37.6	44.2	20.8	24.7	15.5	18.8
Ash	45.4	46.0	24.9	22.0	30.9	32.1	17.7	15.3	-11.4	-13.3
Red Alder	8.8	10.0	6.0	3.5	4.2	3.8	2.0	1.6	-41.0	-21.7
Walnut	25.1	22.6	12.6	11.2	37.3	32.2	17.8	16.7	-11.1	-5.8
Red oak	13.3	9.2	5.1	4.5	9.8	6.6	3.6	3.5	-11.6	-4.0
Maple	7.1	5.8	3.6	2.6	5.9	4.9	3.1	2.3	-28.1	-25.6
Cherry	5.3	3.0	1.5	1.1	5.6	3.2	1.6	1.3	-26.1	-22.4
Hickory	4.0	2.3	1.1	1.2	2.5	1.6	0.8	0.7	14.6	-2.9
Other	43.4	22.0	13.1	6.6	23.1	12.5	7.4	3.8	-49.3	-49.0
Total	402.7	352.6	186.2	178.8	290.9	252.0	133.1	128.8	-3.9	-3.3

◀ The first half of 2013 may indicate that Iberian manufacturers are finding new outlets for their products in other international markets.

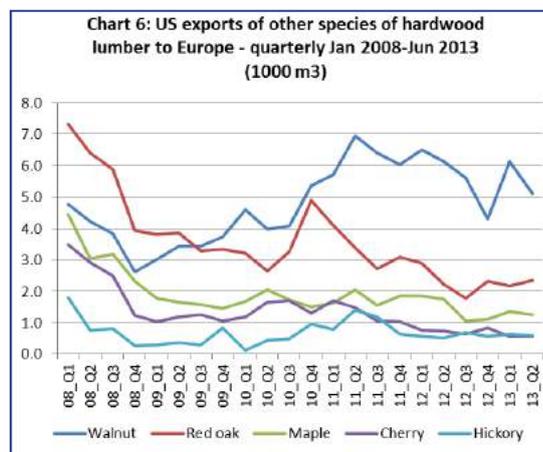
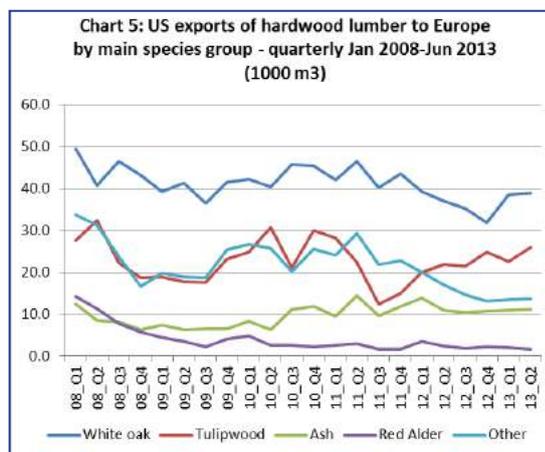
White oak stable & tulipwood recovers

Considering species trends (Table 2 and Charts 5 & 6), overall exports of white oak lumber to Europe during the first six months of 2013 were 77,400 m³ with value of \$59 million, a very similar level to the previous year. A fall in white oak exports to Sweden and Germany was offset by rising exports to Portugal, Spain and Italy.

Comparing the first 6 months of 2013 to the same period in 2012, US exports of tulipwood lumber to Europe were 16% higher at 48,500 m³. Significant recovery in tulipwood exports

to Italy and strong exports to the UK offset a decline in exports to Germany.

Exports of ash to Europe were 22,000 m³ with value of \$15.3 million during the first half of 2013, down 11% and 13% respectively compared to the same period in 2012. Falling exports to the UK, Germany, and Estonia were partly offset by a rise in exports to Italy. Walnut exports to Europe were 11,200 m³ with value of \$16.7 million in the first six months of 2013. Export volume and value have fallen 11% and 13% respectively from the high levels achieved during the first 6 months of 2012, mainly due to slower buying in Germany this year. Exports of red oak, maple, cherry and hickory to Europe have remained flat at low levels during 2013.



Shifting fortunes for the EU's sawn hardwood suppliers during the economic downturn

After a big fall in 2008 and 2009, EU sawn hardwood imports stabilised at around 2.5 million m³ in 2010 and 2011. Imports then declined a further 12% to only 2.32 million m³ in 2012 (Chart 7). During that year, EU imports of sawn temperate hardwood were 1.32 million m³, 11% down on the previous year and around 32% less than 2008 at the onset of recession. In 2012, EU imports declined from all three of the leading external suppliers of temperate hardwood: the US (-20%), Croatia (-11%) and Ukraine (-12%).

US share of total EU sawn hardwood import volume fell slightly between 2011 and 2012 from 17.8% to 16.3% (Chart 8). This was

mainly due to a 40% decline in Italian imports of U.S. sawn hardwood in 2012, from 138,000m³ to 83,000m³. During the same period, there was a slower decline in the EU's sawn hardwood imports from Croatia and Ukraine, both of which slightly increased share of total EU import volume during 2012.

Precarious position of tropical wood

Meanwhile, the position of tropical hardwoods in the European market has become more precarious. For the first time in living memory, EU annual imports of sawn tropical hardwood fell below 1 million m³ in 2012. Imports were

2013 Jan-Jun



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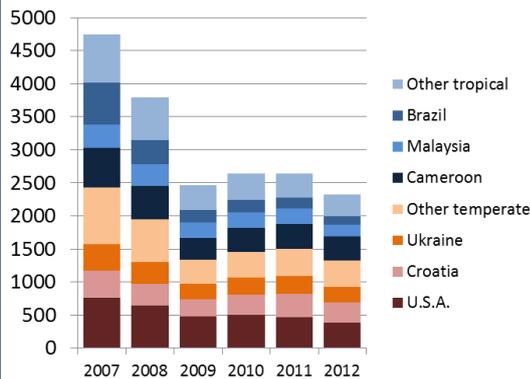
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Chart 7: EU27 sawn hardwood imports by supply country - Annual 2007 to 2012 (1000 m³)



996,000 m³, 13% down to the previous year and only around half the volume of five years before at the onset of the recession and one third of the volume typical 25 years ago. The share of tropical wood in EU sawn hardwood imports fell progressively from 48.6% in 2007 to 42.9% in 2012 (Chart 8).

Step change in trade in mid-2012

Considering more recent quarterly data, there was a clear step change in EU sawn hardwood import trends in mid-2012 (Chart 9). At this point, Croatian and Ukrainian exports slowed dramatically, partly a delayed reaction to the Italian downturn and partly due to mounting uncertainty in the wider European economy. In contrast, EU imports from the U.S. remained quite stable throughout the course of last year and the US began to recover market share in the second half of 2012 (Chart 10).

Total EU sawn hardwood imports during the first half of 2013 were 1.11 million m³, down 11% compared to the same period of 2012. However, the U.S. share of total imports during the first half of this year was 18%, up from 16% during the same period in 2012. This gain in import share has been largely at the expense of tropical wood which saw share fall from 43% to 41% during this period. The share of tropical wood fell particularly sharply in the second quarter of 2013, possibly an early indication of the effects of the EU Timber Regulation implemented in March 2013.

Chart 9: EU27 sawn hardwood imports by supply country - Quarterly Jan 2011 to Jun 2013 (1000 m³)

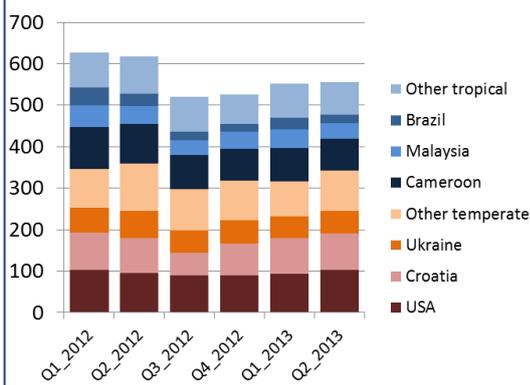
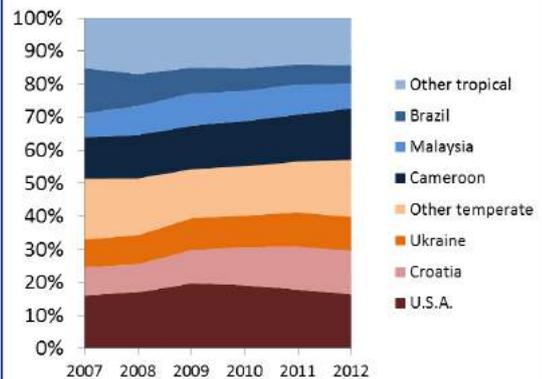


Chart 8: supply country share of EU27 sawn hardwood import volume - Annual 2007 to 2012



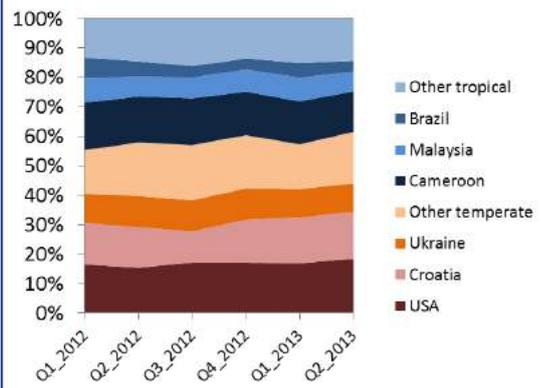
Of course, US share of the overall EU market cannot be considered only in the light of imports. The EU's domestic producers account for around 70% of all sawn hardwood supply in the region. Data published by the European Organization of Sawmillers (EOS) suggests that production of sawn hardwood in European countries was rising in 2012 at a time when European imports of this commodity were falling. According to EOS, European sawn hardwood production increased 8.2% to 6.22 million m³ in 2012. Production increased strongly in Romania, with other lesser gains in Austria, Belgium, France and Italy. EOS forecast a further increase in production in 2013, but at a slower rate of 1.2%.

Imports lose out to domestic wood

This suggests that all imported hardwood has been losing market share in Europe relative to domestically harvested wood.

Despite production growth in 2012, Europe's hardwood sawmilling sector still faces major challenges. Exports of hardwood logs to countries outside Europe are impacting on the sector, especially in France, Belgium and Germany. Production in 2012 was 20% less than peak levels of 7.7 million m³ in 2006 and 2007. Seven hardwood processing businesses with a combined cutting capacity of 300,000 m³ per year were forced to close or file for insolvency in Germany and France between 2011 and June 2013. These closures in central Europe are being partially offset by rising production capacity in Eastern Europe.

Chart 10: supply country share of EU27 sawn hardwood import volume - Quarterly Jan 2011 to Jun 2013





Challenging times for hardwood veneer

Recent declines in US hardwood veneer exports to Europe are linked to larger market trends both within and outside the region

In the first six months of 2013, the US exported to Europe 26.8 million m² of hardwood veneer with a value of \$38 million, down 9% and 12% respectively compared to the same period in 2012 (Table 3). The decline was driven by a big fall in exports to the two largest markets, Germany and Italy, and continuing slide in exports to Spain, the third largest market. These losses could not be offset by gains in several smaller markets for US hardwood veneer, including Belgium, Poland, Portugal and France (Chart 11).

Weak furniture and flooring market

Several factors have contributed to slow European demand for veneer including: weak furniture and flooring consumption; very low levels of activity in the southern European door sector - formerly a major market; and intense competition from artificial surfaces. Another factor for US hardwood veneers has been rising competition from veneer manu-

facturers in Eastern Europe which has seen significant investment by large western European manufacturers. For example, according to UN data, veneer production in the Ukraine doubled from 56,000 m³ in 2009 to 110,000 m³ in 2012. Ukraine is now exporting a wide range of sliced, rotary and reconstituted (fine-line) veneers into the EU.

Long-term decline in consumption

A recent analysis by the European veneer marketing campaign, the Initiative Furnier + Natur (IFN), highlights that the latest fall in US hardwood veneer exports to Europe forms part of a long term decline in European veneer consumption. IFN show that in the 15 years prior to 2011, there was a dramatic fall in veneer consumption in nearly every major European market. Consumption in Germany fell from over €300 million in 1995, to €200 million by the end of the 1990s, before

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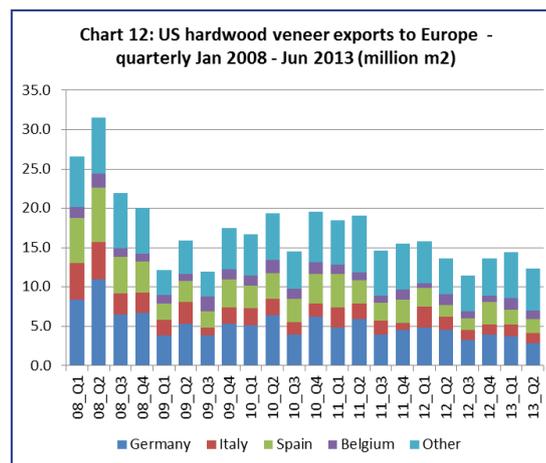
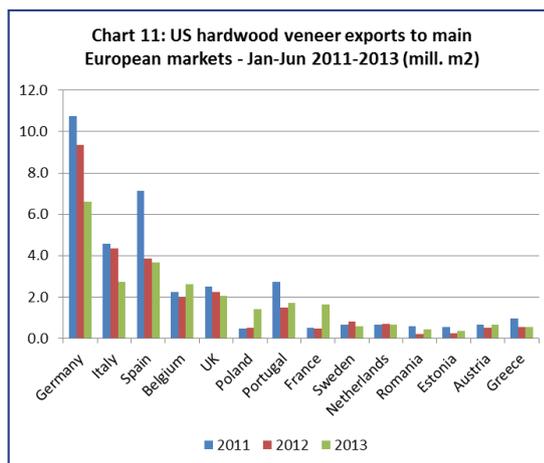


Table 3: Exports of US hardwood veneer to Europe by main destination, Jan-Jun 2012-13

Partner	Quantity (million m ²)				Value (\$ million)				% change	
	2011 Year	2012 Year	2012 Jan-Jun	2013 Jan-Jun	2011 Year	2012 Year	2012 Jan-Jun	2013 Jan-Jun	Volume	Value
Germany	19.1	16.5	9.3	6.6	26.9	23.8	13.4	9.6	-29.3	-28.6
Italy	7.4	7.0	4.3	2.7	11.8	10.6	6.5	4.0	-37.4	-38.4
Spain	12.4	8.2	3.9	3.7	19.1	12.6	6.0	5.5	-4.8	-9.2
Belgium	4.4	3.5	2.0	2.6	6.2	5.1	2.9	3.3	31.4	13.1
UK	5.3	4.5	2.2	2.1	8.0	6.4	3.3	2.9	-8.0	-13.8
Poland	1.9	1.0	0.5	1.4	2.6	1.4	0.7	1.9	178.7	171.7
Portugal	4.2	3.0	1.5	1.7	6.6	4.5	2.3	2.4	12.9	4.5
France	0.9	1.1	0.5	1.6	1.1	1.5	0.7	2.4	239.8	226.9
Sweden	1.2	1.2	0.8	0.6	1.7	1.7	1.2	0.7	-29.7	-44.3
Netherlands	1.2	1.6	0.7	0.7	2.0	2.3	0.9	0.9	-2.9	5.2
Romania	0.8	0.5	0.2	0.4	1.1	0.7	0.4	0.6	95.2	48.9
Estonia	0.9	0.8	0.2	0.3	1.4	1.2	0.4	0.5	41.4	31.0
Austria	1.2	1.1	0.5	0.7	2.0	1.8	0.8	1.0	27.9	26.8
Greece	1.6	1.1	0.5	0.6	2.1	1.3	0.7	0.7	0.7	1.8
Ireland	0.9	0.5	0.4	0.4	1.1	0.7	0.5	0.5	-8.4	0.4
Denmark	0.5	0.4	0.2	0.3	0.7	0.7	0.3	0.4	10.7	15.0
Finland	0.6	0.3	0.3	0.1	1.1	0.5	0.5	0.2	-60.8	-61.2
Other EU	2.9	1.7	1.2	0.3	3.9	2.3	1.5	0.5	-73.8	-67.7
EU-27	67.3	54.2	29.3	26.6	99.3	79.0	43.0	37.8	-9.2	-12.1
Russia	0.2	0.2	0.1	0.1	0.4	0.4	0.2	0.2	27.0	-8.4
Other Europe	0.1	0.2	0.1	0.0	0.2	0.5	0.1	0.1	-29.8	-34.4
Total	67.6	54.5	29.5	26.8	99.9	79.9	43.3	38.0	-9.2	-12.2



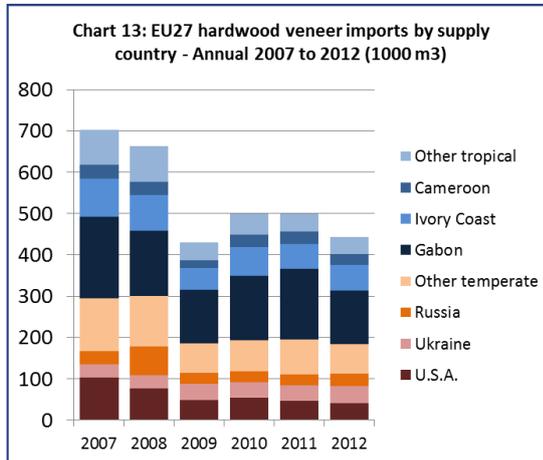
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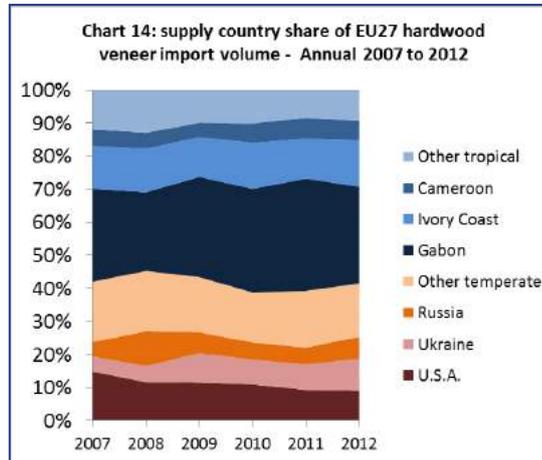
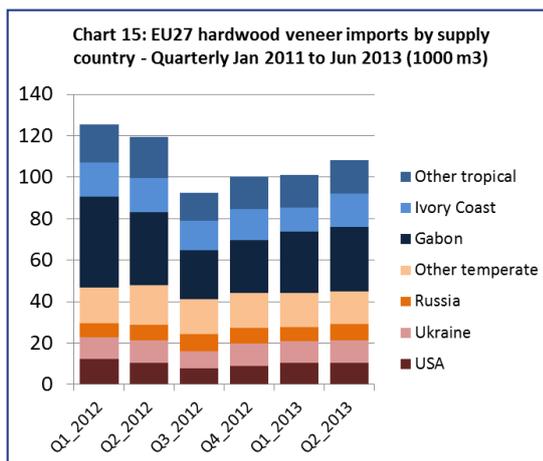


slipping below €100 million in 2002. Since then, German consumption has remained at around €50-60 million per year. Veneer consumption in Italy fell from €450 million in 2004 to €187 million in 2011. Spanish consumption fell from €260 million to €124 million over the same period. Of all the large European markets, only France has maintained veneer consumption at reasonably consistent levels – at around €100 million over the last decade.

Large fall in all EU veneer imports

Chart 13 shows the annual trend in imports of hardwood veneer into the EU from outside the region between 2007 and 2012. It highlights the large drop in imports during the financial crises in 2009. Imports of temperate hardwood veneer have remained flat since then at slightly under 200,000 m³ per year between 2010 and 2012. Imports of tropical hardwood veneers rebounded sharply from around 250,000 m³ in 2009 to 300,000 m³ in 2010. However, this was entirely due to rising exports of rotary okoume veneers from Gabon to supply the European (mainly French) plywood manufacturing sector after Gabon imposed a total log export ban in May 2010. The market for sliced tropical hardwood veneers also remained flat at a low level between 2010 and 2012.

Between 2007 and 2012 US share of EU hardwood veneer imports fell from 14% to 10% (Chart 14). Over this period, the loss of US share has been due to rising EU imports from both Gabon and Ukraine.

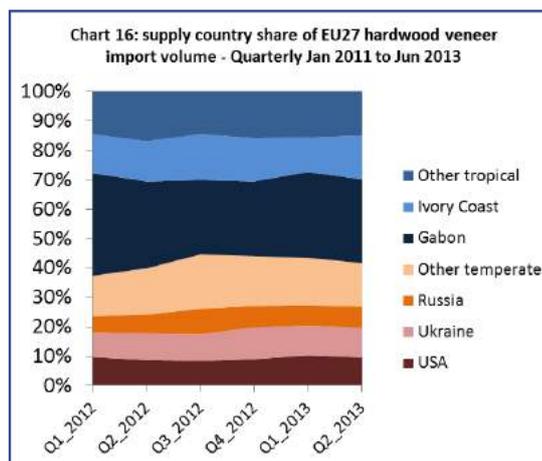


Recently a more positive trend has emerged in EU veneer imports which increased between June 2012 and June 2013 (Chart 15). Although this was partly driven by another surge in imports of tropical veneer from Gabon, there were also slow gains in imports from the US and other temperate countries. US share of total EU hardwood veneer imports has remained quite stable at around 10% over this period (Chart 16).

Europe's domestic veneer manufacturers have continued to suffer from weak markets in 2013. For example, the GD Holz annual survey of veneer manufacturers in Germany published in July 2013 suggests that "the positive market outlook predicted for the second half of 2012 (in the previous survey) failed to materialise". Most companies described the market as "satisfactory to unsatisfactory". The survey concludes "prospects for the remainder of 2013 are also muted".

More direct sales to small joiners

The GD Holz survey showed that European veneer manufacturers are responding to slow demand from furniture and flooring manufacturers by selling more product directly to smaller joinery and interior design companies. It also showed that German veneer manufacturers have increased their dependence on domestic hardwoods from 58% to 64% over the last year, mainly at the expense of tropical hardwoods, for which share dropped from 16% to 10%. The share of US hardwoods used by German manufacturers remained stable at 23%.



2013
Jan-Jun



Notes

■ The European region includes all countries covered by the AHEC European office including the EU-28 together with Albania, Bosnia and Herzegovina, Croatia, Iceland, Montenegro, Norway, Russia, Serbia and Kosovo, and Switzerland

■ Unless otherwise stated, all export data derived from USDA FAS GATS database drawing on Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics. All EU import data derived from FII Ltd analysis of Eurostat.

■ Prepared by the European office of the American Hardwood Export Council

■ Data last accessed on 30 September 2013

Early signs of economic improvement

There are early signs that the EU may be at last emerging from recession. The 27 countries' combined gross domestic product grew 0.4% in the second quarter of 2013 compared to the previous three-month period, when it shrank 0.1%, according to Eurostat. A rise in household spending underpinned the economic momentum in many countries. During the second quarter of 2013, there was robust GDP growth in Germany (+0.7%), the UK (+0.7%) and France (+0.5%). Although GDP continued to shrink in Italy (-0.2%) and Spain (-0.1%), the rate of decline was much slower than during previous quarter.

Economic sentiment rises sharply

The rise in GDP was mirrored in a significant improvement in the Eurostat Economic Sentiment Indicator between April and August 2013. This indicator, which draws on a regular monthly survey of perceptions and expectations in five sectors (industry, services, retail trade, construction and consumers) improved across a wide range of EU countries (see Chart 17).

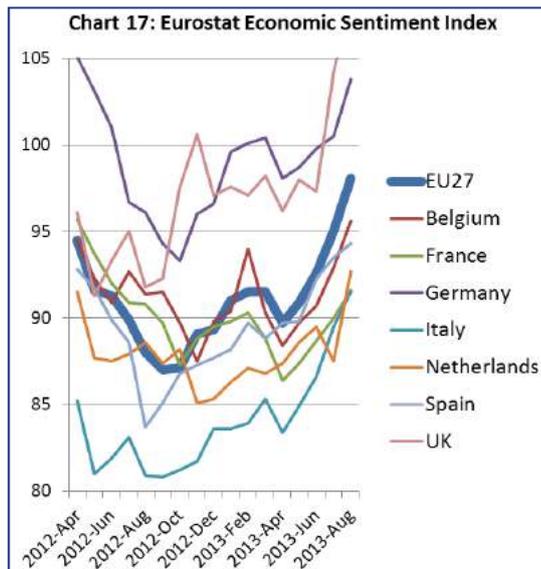
While economic conditions are improving, several factors are likely to limit the pace of recovery. Particularly notable amongst these are the high level of consumer and government debt and the weakness of the labour market. Europe's unemployment rate remains stubbornly high at 12.1%. In some countries hardest-hit by Europe's debt crisis, such as Greece and Spain, more than one in four people don't have a job. Analysts say more dynamic growth will be needed to spur investment and job creation there.

Slow recovery in construction

Short-term prospects for the European wood industry also continue to be dampened by the slow pace of recovery in the construction sector. The Eurozone Construction Confidence Index has remained flat at a low level

Less volatility in exchange rates

After the volatility of recent years, currency movements have been less of a factor influencing US hardwood demand in Europe during 2013. The euro-dollar rate fluctuated within a fairly narrow band around 1.32 US\$/€ during the first half of the year. The GBP-dollar rate fell from 1.60 to 1.50 US\$/GBP in the opening weeks of 2013 but then recovered slightly and remained relatively stable at around 1.53 until June 2013. Both the euro and GBP has since strengthened on the back of better economic prospects in Europe and this may be another factor encouraging increased enquiries during the third quarter of the year.



of around minus-30 since the beginning of 2013. This means that construction companies across the EU have declining order books and low employment expectations for the coming months. However, construction confidence has remained comparatively high in Germany and improved rapidly in the UK in recent months.

The Eurostat Building Permits Index, which provides a forward indicator of future construction activity, also suggests good prospects in Germany but flat or declining prospects elsewhere in the EU. Building permits are currently at around 85% of the 2010 level across the EU as a whole. However permits issued in Germany this year are nearly 40% up on the level prevailing in 2010. In France and the UK, building permits are at a similar level to 2010. However permit levels have continued to fall sharply in a few countries this year, notably Netherlands and Spain.

Wood joinery 15% down on 2010

The Eurostat Index of Wood Joinery Production (which covers all joinery products except flooring) indicates that joinery activity across the EU in 2013 has remained flat at around 85% of the level prevailing in 2010. Joinery production in Germany has remained stable at around the same level for the last 3 years. However production declined sharply in Spain, France and Italy between 2010 and 2012 before levelling out at a low level this year.

Still, the signs are more positive overall and even meagre growth in Europe has potential to generate a lot of demand for wood products. The EU, which now totals 28 nations following Croatia's accession in July, has a population of some 500 million, and its annual gross domestic product stands at around \$17.3 trillion, more than double that of China (GDP of \$8.2 trillion).