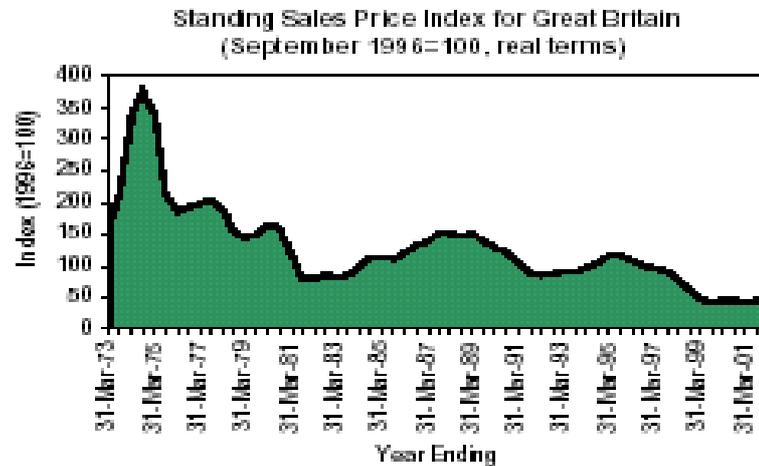


UK TIMBER MARKET STATEMENT – SEPTEMBER 2002

General Economic Trends affecting the Forest and Forest Industries Sector

1. There has been low growth in GDP in the last year, although a significant pick-up in GDP growth took place in the second quarter of 2002. On the output side, this low growth has been driven by recession in the manufacturing sector and weaker growth in the service sector. On the demand side, low GDP growth has been driven by falling investment and falling trade set against reasonably robust household demand and an acceleration in the pace of government demand. Service sector output grew by 2.1% on a year earlier, but the manufacturing sector was in recession during 2001, falling by 4.4% compared to a year earlier. Manufacturing output returned to growth between March and May 2002, helped by a growth in UK exports of 4.6% (by volume) in May 2002. Major uncertainties persist, however, over a possible global economic recovery. GDP is forecast to grow by 1.7% in 2002. For selected economic indicators see Annex A.
2. The ILO unemployment level was 1,572,000 in the three months to May, and represents 5.2% of the workforce, up 0.3% on a year earlier. Average earnings have continued to increase, growing by 3.8% in the three months to May 2002.
3. The sustained period of low inflation in the UK continues, with further falls over the past year. Retail price inflation (RPI) excluding mortgage interest payments was 1.5% in the year to June 2002, well below the Government's 2.5% target. RPI for all items was 1.0% over the same period. It is expected that inflation will remain close to its target of 2.5%.
4. Interest rates are set by the Bank of England through the Monetary Policy Committee and have fallen further since mid-2001 and remain at their lowest level for nearly 40 years. The current base rate is 4.0% and long-term interest rates are currently at 4.87%.
5. Quarterly averages show that Sterling was fairly stable against the Euro between the second quarter of 2001 and the first quarter of 2002, varying between 1.61 and 1.63. It dropped slightly in the second quarter of 2002 to 1.59. The Sterling Exchange Rate index rose to 106.9 in July 2002, 0.3% higher than a year earlier.
6. The housing sector has continued to demonstrate strong demand. House prices have grown by approximately 19% over the twelve months to June 2002. The number of private sector housing starts in the UK in 2001 was 162,800, up 3.2% on the previous year.
7. The market for timber and timber products in the UK remains difficult, with global market effects compounded by the strength of Sterling. Even where demand is good the timber prices remain stubbornly low. During this difficult period there has been considerable investment by the softwood industry in order to improve product value and competitiveness - a sign of confidence in the longer term. However there has been a significant number of permanent sawmill closures among less well placed companies and those who have decided to concentrate activity in parts of their business where the opportunity to generate profit is more certain.

8. Coniferous standing sales prices in Great Britain were 7.7 per cent lower in real terms in the year to March 2001 compared with 2000. In the year to March 2002 prices were 12 percent lower in real terms than 2001, an increase in the decline in timber prices. The average price per cubic metre overbark standing was £7.34 in nominal terms (£6.38 in 1996 prices) in the year to March 2002.



	Percentage change	
	Nominal terms	Real terms (1996=100)
Year to March 2002	-9.5%	-12.0%
Year to March 2001	-4.0%	-7.7%

Standing sales timber from state forest sales. The Index is expressed in real terms (1996 prices), and is adjusted for timber size mix

Value-added forest products and engineered wood products

9. The market for engineered wood products in the UK has been increasing generally, and with investment for UK based manufacture of I-beams. In response to this and to competitive forces sawn softwood producers have begun to react to potential loss of traditional markets through improved drying, preparation and marketing of products designed for specific applications. Timber frame manufacturers are increasingly moving towards higher levels of prefabrication, and this uses the more expensive engineered components more efficiently. Traditional construction (of all types) continues to suffer from a lack of skilled on-site trades and this trend is expected to continue. The introduction of engineered products is often associated with training initiatives.

Certified forest products

10. In addition to the woodland owned by the state forest services in Great Britain and Northern Ireland large areas of private sector woodland are also now certified or in the process of certification. The total area of woodland now under certification is approximately 40% of all types of woodland yielding approximately 60% of the annual volume harvested. The stakeholder organisations represented in the UK Woodland Assurance Standard are now working together to improve the participation of small woodlands in certification by development of a more appropriate version of the Standard, and consideration of simplified certification procedures. A number of sawmilling and wood-processing companies have achieved or are going through the process of FSC certification for Chain of Custody.

11. The market requirement for certified material continues to develop and in some instances softwood sawmills and merchants are reported to be offering a modest premium to stimulate supply. It is becoming more difficult to sell uncertified softwood because certified mills are having some difficulty in achieving the percentage intake they need to meet the chain of custody requirements for percentage based claims.

12. Almost all certified woodland is under the FSC scheme, the preferred scheme for most UK processors and retailers. However the PEFC UK governing body has successfully applied for PEFC membership, and has adopted the UKWAS standard.

13. The UK Government has adopted a policy that its departments and agencies must procure recycled or legally and sustainably grown wood products. Guidance and monitoring schemes are now being prepared to implement this policy. It is clear that the major issue – common to both certified and other legal and sustainable sources – is the maintenance of documentary proof as products pass through the wood chain. This issue of proving chain of custody will undoubtedly be a limiting factor on environmental claims for some time to come regardless of the quality of forest management at source. With the increasing number of organisations adopting sustainable wood product procurement policies, there is a clear danger that the simplicity of buying alternative materials will prove more attractive to designers and buyers than buying wood products.

Sawn Softwood

14. A review of conditions within the UK sawn softwood sector in 2001 presents a varied picture, largely dependent upon the particular products being considered.

15. Within the construction sector, demand for sawn timber was good. Price, availability and quality of service being the key factors in achieving sales. Within the fencing and garden products sector conditions were mixed, although there was the usual seasonal upturn through the Spring and Summer. Demand for timber decking does not appear to have lived up to some expectations. There was a significant reduction in demand from the agricultural sector due to the Foot & Mouth disease outbreak in 2001, although some mills were able to clear low grade stocks to assist the large fires used to burn carcasses in the early part of the control strategy. The fencing markets in 2002 have shown some improvement and were buoyant in the early part of the year, probably due to work deferred during the Foot and Mouth outbreak.

16. Demand for sawn softwood remained relatively static during the first half of 2002 and although the construction market is holding up despite the recession it seems unlikely that the situation will change during the remainder of the year. Sawmill closures are, at present, thought to be more than compensated by the ability of others to increase throughput. However the closures have caused some significant regional marketing problems and extra haulage cost.

17. Competition from lower priced imported softwood, most notably from Sweden, and to a lesser extent the Baltic States and Ireland, remains a key feature of the market place and continues to have a very negative impact on the profitability of the entire UK wood supply chain.

18. The market for bark, an important sawmill co-product, has been variable. The marketplace for bark as a peat substitute is somewhat mixed. Although some retailers state that they support the use of peat substitutes and promote alternatives, many continue to sell peat, leaving consumers to make the choice. Local authority inspired recycling of 'Green Waste' as compost also presents a threat to bark based composts and mulches.

Sawn Hardwood (temperate and tropical)

19. So far 2002 shows only a further decline in the market conditions in 2001. Price and availability dictate that many former customers for UK logs and sawn timber have turned to imports or purchase ready sawn from other larger UK producers. However, there is still a demand for good quality UK grown hardwood. Interest in the pale coloured hardwoods continues, with Ash and birch being popular for furniture, trim and shop fitting. UK-grown production is being displaced by European and North American imports. The fashion for hardwood flooring in the UK continues to benefit those UK producers able to find a market appropriate to their scale of production and to compete with laminates.

20. Active companies report reasonably good trading conditions in 2002, although as reported above, UK hardwood merchants continue to complement their stocks with imported stock, to maintain product quality and competitiveness. In addition, there has been interest in value added processing and products. We can expect further reductions in the number of UK hardwood sawmills this year.

21. The scale of tropical imports is largely unchanged but the main trade association and many companies have taken action to address the issue of responsible sourcing.

Wood-based panels (particleboard including fibreboard including MDF, OSB, plywood)

22. For the UK wood based panel product sector, 2001 was largely a continuation of the extremely difficult trading conditions experienced in 2000. For many products, sales prices deteriorated further from the already historically low levels, and UK volume demand remained more or less static. The main cause for such difficult trading conditions are the dramatic increases in both UK and European based wood panel board production over the last few years. This has resulted in a structural change in the UK market with domestic demand being met by UK production. The exchange rate situation makes for extremely competitively priced imports particularly on MDF and OSB, and limited export potential. Some producers made price reductions on both small roundwood and sawmill co-products as the trend for increasing substitution of virgin fibre for lower cost recycled wood fibre continued.

23. Conditions within the market for wood based panel products in the UK have remained largely unchanged over the first part of 2002. The market remains extremely difficult, both in terms of price and volume. However, order levels are reported to be good, with mills operating at near capacity and prospects looking relatively bright. The market remains volatile.

24. UK Government policy on sustainable development is steadily increasing the volume of wood diverted from landfill or burnt as waste. While the outlook remains difficult throughout 2002, the availability of recycled wood fibre as a feedstock for the panel products sector continues to assist its competitiveness.

Pulp and paper

25. UK wood demand from domestic paper and board mills remained steady during the first few months of 2001, although supply was frustrated on occasion through bad winter and the Foot and Mouth disease outbreak. Stocks remained in balance until the end of August 2001, when rising stocks necessitated supply restrictions at most mill gates. The paper sector was affected by the effects of the September 11 attack with a reduction in demand for advertising in newspapers and magazines being reflected in reduced demand for paper. This placed pressure on manufacturers to reduce stock levels. Since then the UK mills have seen paper and paper board production and demand in line with mainland European demand, although the weakness of the Euro to Sterling continues to suppress UK sales prices and profit margins. As with the economy, the short term outlook for pulp and paper in 2002 remains uncertain, although the sector is optimistic in its outlook for the remainder of 2002.

Roundwood including pulpwood

26. Conditions in 2002 are only a little different from 2001. Continued heavy rain across the softwood growing areas of the UK in 2002 has been hampering harvesting operations. Wood supply to softwood pulp mills - as sawmill chips and roundwood - has been in balance or in excess of production for all mills during recent months. This has resulted in some mills reducing intake or closing gates for 2-3 weeks during the summer sawmill holiday period in an attempt to reduce high stock levels. There has been a further reduction in hardwood felling from the already low level compared with potential. Unfortunately there is nothing to encourage marketing by private owners and few log parcels are being offered for sale. There has been an increased interest from private growers in marketing schemes. Both softwood and hardwood thinnings are severely restricted as a result of the very low price of small roundwood. In the hardwood growing areas in the south of England reliable and competent harvesting contractors are becoming a scarce resource.

27. The problem of how to utilise small roundwood and lower quality logs in an economically viable way remains a problem to be resolved and it undoubtedly represents a significant challenge. Energy pricing policy in the UK has not yet begun to make wood attractive as a source of renewable energy. However there are an increasing number of small woodfuel heating schemes that could begin to benefit the small roundwood and low quality log market.

28. The UK Government's policy for sustainable development has given a major boost to investment for recycling. As a consequence one of the four UK integrated pulp and paper mills has announced a switch to 100% recycled fibre (newspapers and magazines etc) in 2004. This has added to the worries of the suppliers and so the establishment of a softwood pulpwood export market at the end of 2001 provided a welcome, if temporary, alternative at just the right time.

29. There are mounting concerns in some parts of the country that the imposition of weight restrictions, or other restraints, by local authorities on some rural roads may result in areas of forest becoming 'landlocked'. The underlying problem is that of insufficient funding by local authorities for rural road maintenance and improvements. This is an important issue for timber growers and the industrial wood processing industry alike. A network of Timber Transport Groups has been established, which bring together representatives from timber growers, the processing industry and local authority roads engineers, to identify 'agreed routes' and to minimise problems. However, the underlying problem is funding for maintenance and improvement of roads and it is feared that rural road issues will intensify.

**UK Forestry Commission
10 September 2002**

Selected economic indicators, UK (% unless otherwise indicated)

	2000	2001	2002*
GDP growth (market prices)	3.1	1.9	1.7
Interest rate (base rate at year end)	6.0	4.0	n/a
Whole economy productivity (year-on-year growth)	2.7	0.6	n/a
Retail (consumer) price index	3.0	1.8	circa 2.5
Unemployment (ILO)	5.7	4.9	5.2
Private sector housing starts (000s)	157.8	162.8	n/a
Production in wood-using industries (compared to year earlier)			
Sawmill	2.3	-2.0	n/a
Wood-pulp	-8.3	3.8	n/a
Paper and paperboard	0.4	-6.1	n/a

* forecast