

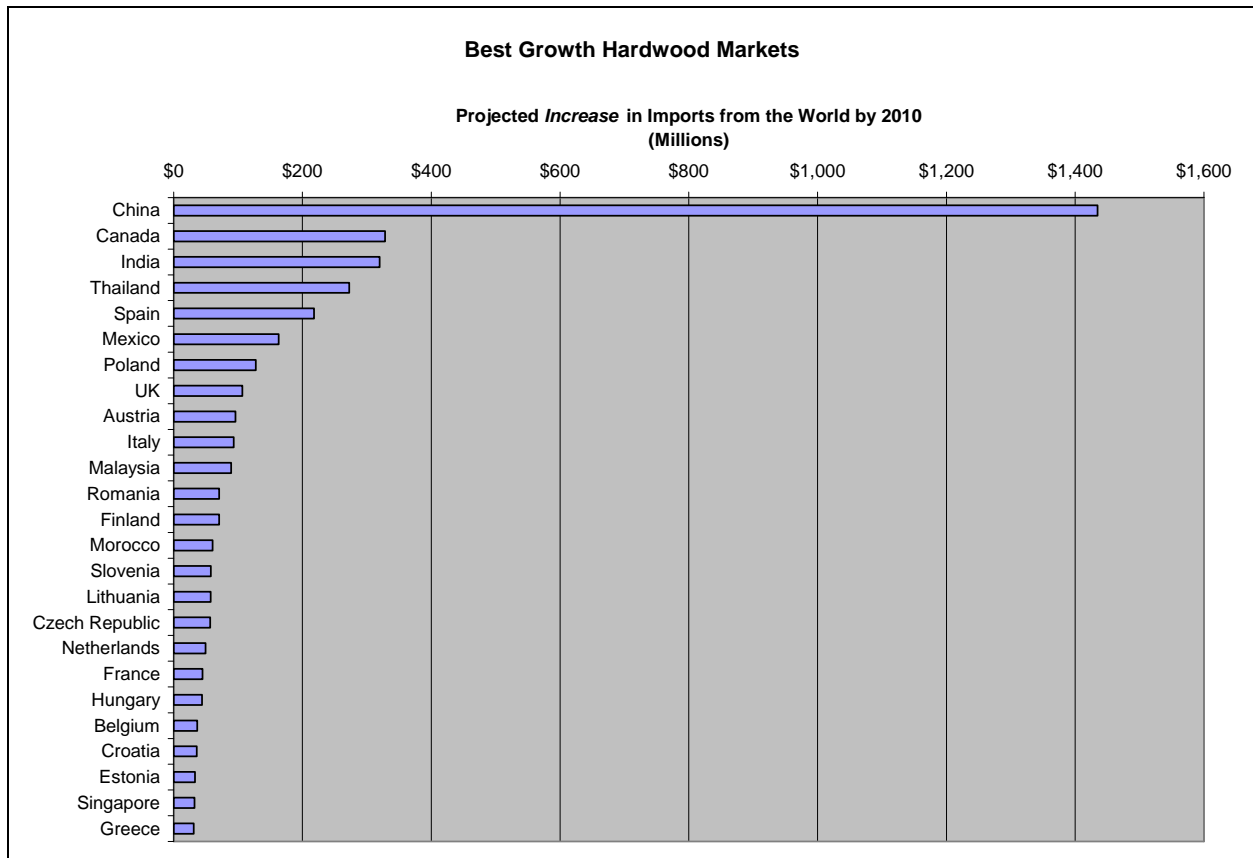
A QUICK LOOK AT THE BEST GROWTH HARDWOOD IMPORT MARKETS BASED ON CURRENT TRENDS

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The past is never a perfect predictor of the future. However, it does tell us something about what lies ahead. An examination of current trends offers insights to consider when developing policy, strategy, investment, and marketing decisions. Such an examination of the hardwood trade leads to several interesting observations and trends.

First of all, international trade in hardwoods is growing as economies become more intertwined. In 2005, global hardwood imports were nearly \$27.6 billion globally. However, by 2010, global hardwood imports will top \$31 billion. Excluding the United States, net hardwood imports will increase globally by some \$2.2 billion.

Growth in hardwood imports is spread over more than 40 countries. Foreign markets that may experience the greatest increase in import demand, if current trends continue, are China, Canada, India, Thailand, Spain, Mexico, and Poland. The following is a graph of the projected *increase* in hardwood imports by 2010, based on the last six years of data.



However, even a cursory look at the graph shows that although import demand is growing in many countries, China is dominant. Based on current trends, China is set to increase its hardwood imports by more than the next five countries combined. In 1999, China imported a staggering \$2 billion worth of hardwood logs, lumber, veneer, plywood and other products from around the world. Since 1999, China has nevertheless managed to increase its hardwood imports by an average of 9.1 percent annually to \$3.4 billion in 2005. Extending current trends out just a few more years, by 2010 China would be

importing between \$4.8 and \$5.2 billion of hardwoods annually. This represents an increase of at least \$1.4 billion over China's current import level.

Globally, the ongoing shift in furniture production from developed countries to countries with relatively lower labor costs has undoubtedly helped increase hardwood imports. China represents a case in point. Furniture companies in the United States, Europe, and even Mexico have complained about Chinese competition at a time when Chinese furniture production and exports have exploded. Chinese furniture exports, for example, have grown from \$5 billion in 1999 to more than \$22 billion in 2005. Chinese hardwood imports were and are needed to supply this industry.

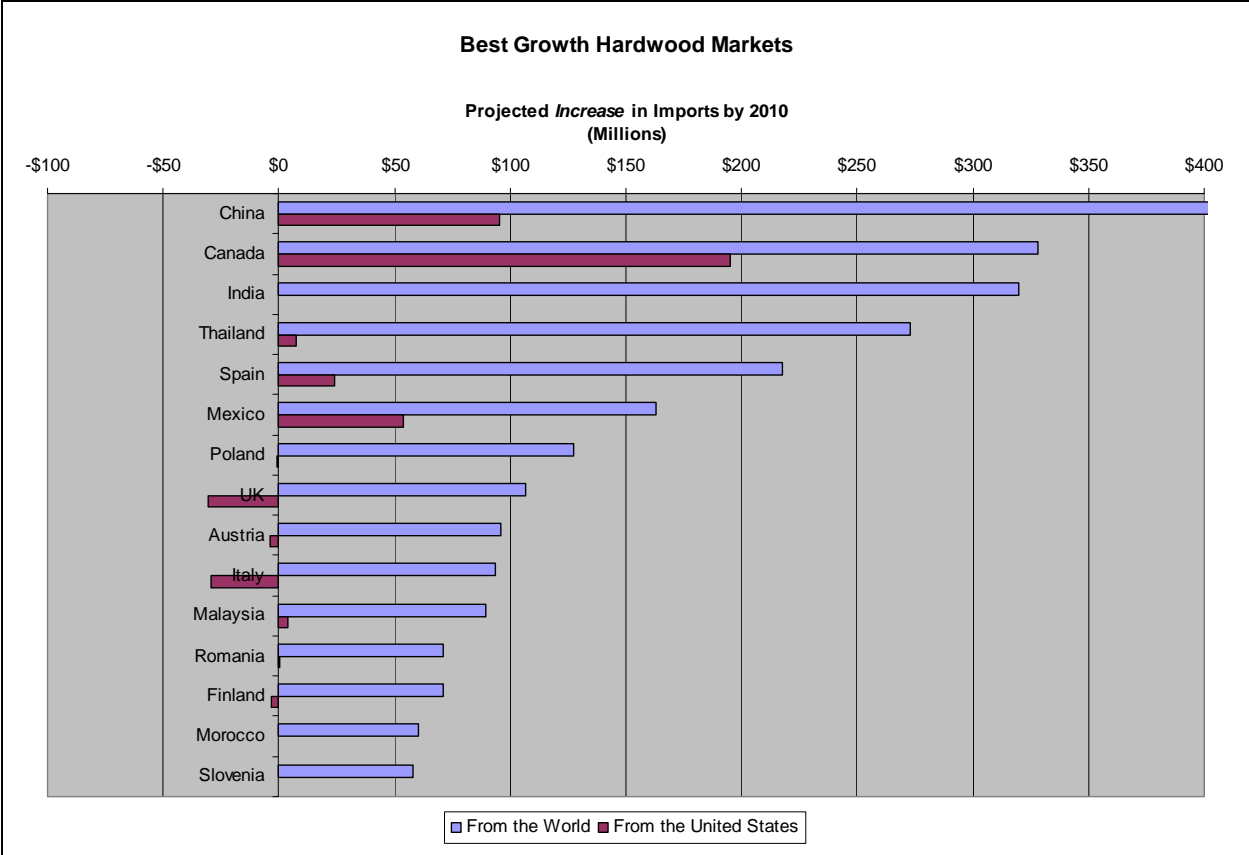
However, this is only part of the story for China as domestic demand has also been increasing. China's economy has been growing at a rate of just under ten percent every year. Whole new cities have been built, and in many existing Chinese cities, it is impossible to look into the horizon without seeing cranes and other evidence of massive construction. As a result, Chinese demand for hardwood inputs is massive and growing.

These same factors, to varying degrees, are likely behind the import growth of several other countries, as well. Thailand, for example, has also benefited from its relatively low labor costs and a growing domestic economy. Despite its own domestic hardwood resources, Thai hardwood import growth has averaged 13.7 percent per year over the past six years. Thailand imported \$641 million of hardwoods in 2005, and based on current trends, is set to be importing \$913 million annually by 2010.

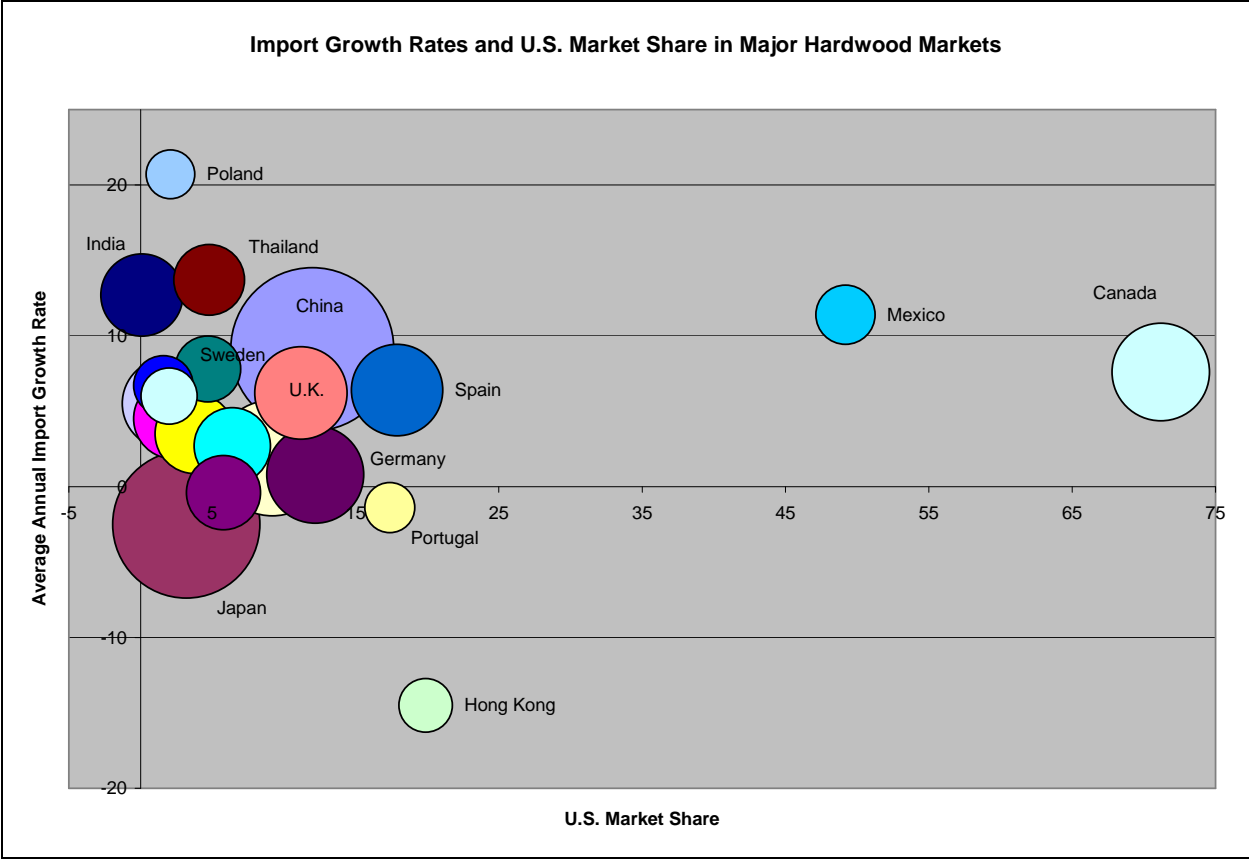
Similarly, Poland, although a relatively smaller importer by global standards, has enjoyed a labor rate advantage compared with many of its EU neighbors. In 2005, Poland imported \$304 million of hardwood logs, lumber, veneer, and plywood. If the past six years predict the future, Polish hardwood imports would grow by another \$127 million to \$432 million annually by 2010.

Another of the major factors impacting demand for hardwoods is the strong housing market in many key countries. It has long been established that new housing construction leads to increased hardwood usage in flooring, molding, and other interior applications and serves as a major driver of new furniture purchases. Housing demand has been notably strong in countries such as Canada, the United Kingdom, and Spain, helping to drive increasing hardwood imports in each of these countries. Additionally, record housing construction in the United States has further fueled hardwood demand in Canada and Mexico, as these economies are particularly sensitive to U.S. demand. Excluding the United States, Canada was the second largest importer of hardwoods in 2005, importing over \$1.2 billion from the rest of the world. If Canada could count on a continuation of current trends, by 2010, Canadian hardwood imports would top \$1.5 billion annually. Likewise, annual Mexican hardwood imports would grow by \$163 million to \$615 million annually in 2010.

Finally, while U.S. hardwood exports are growing, U.S. market share is falling. Growth in hardwood imports from the United States is not distributed in the same proportions as hardwood import growth more generally. (See graph below). Thus, while current trends suggest the United States may capitalize on opportunities for increased U.S. hardwood sales to Canada and China, the United States would appear to be missing out on the growth in countries such as India and Thailand. More surprising, current trends suggest that the United States will miss out on increased import demand from European countries such as Spain, Poland, Italy, the United Kingdom, and others.



Current U.S. market share is small in all but a couple of countries. The following is a graph of the largest hardwood import markets in 2005 (represented by the size of each circle), plotted against average annual import growth rate and U.S. market share. While this is only a snapshot, it is interesting (if not surprising) to note that Canada and Mexico have had strong import growth rates. It is not clear how long this will continue. However, the next major market where the United States enjoys a relatively high market share is Hong Kong, whose hardwood imports are actually falling. Additionally, while the United States accounts for only a small share of hardwood sales to Thailand and none to India, these are two of the fastest growing markets in the world.



What conclusions, if any, can one make of all this? Global demand for hardwood products will likely continue to increase. U.S. hardwood producers should benefit from this increase. However, U.S. export growth appears to be relatively dependent on a handful of markets. It may be difficult for U.S. exporters to increase their market share unless they can capitalize on growth opportunities in additional markets. Of course, projections based on the past are not destined to occur. Key underlying conditions may change, and in fact, some of the key underlying conditions will change. More importantly, however, policymakers, company decision-makers, and others developing business & marketing strategies have an opportunity to adjust their approaches.