



*Current and Future Markets for Washington's  
Hardwoods  
If Not Here, Then Where (and Why)*

Presented By:

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**Kelso, WA**

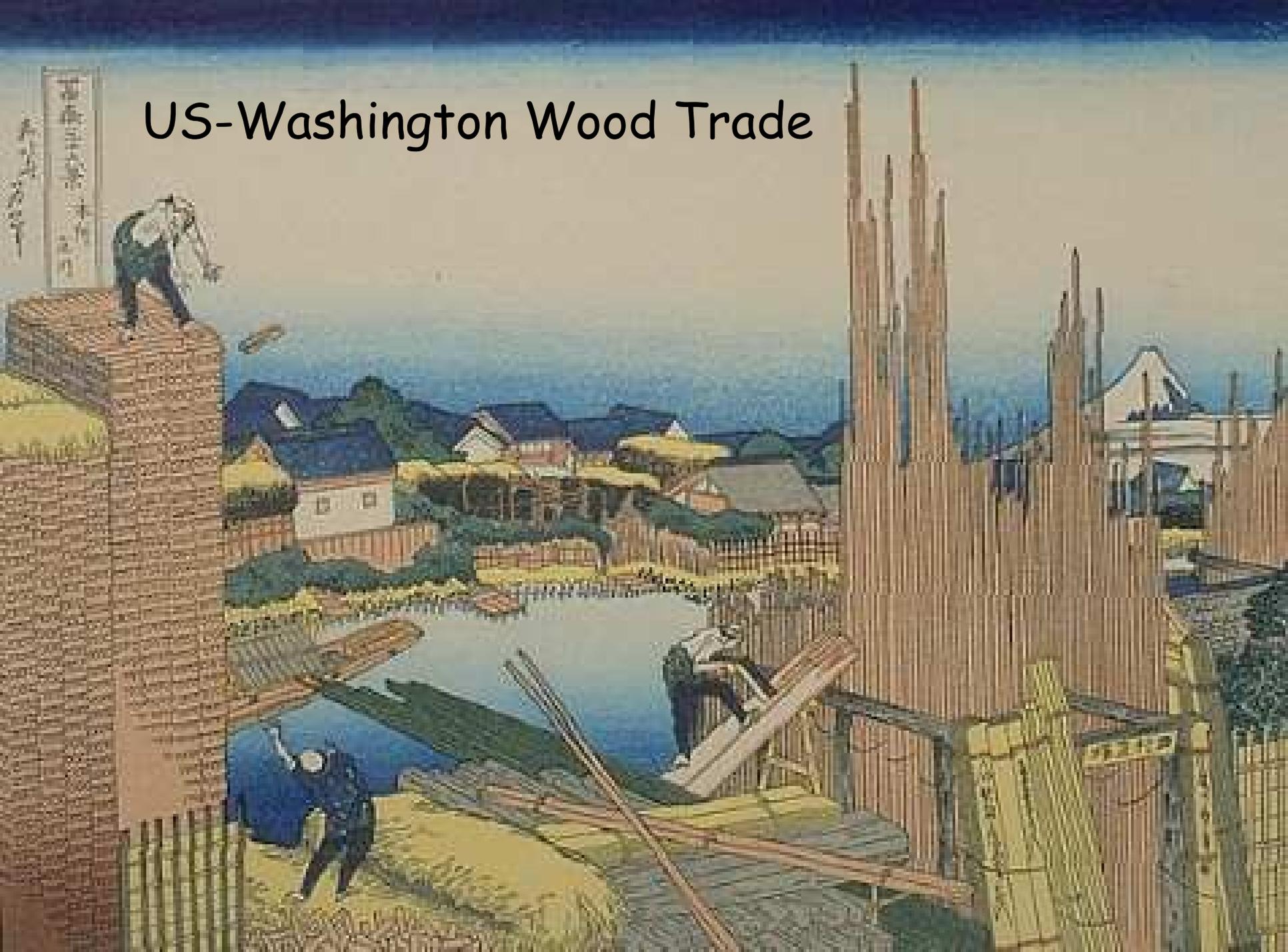
**13 June, 2012**

# Presentation Overview

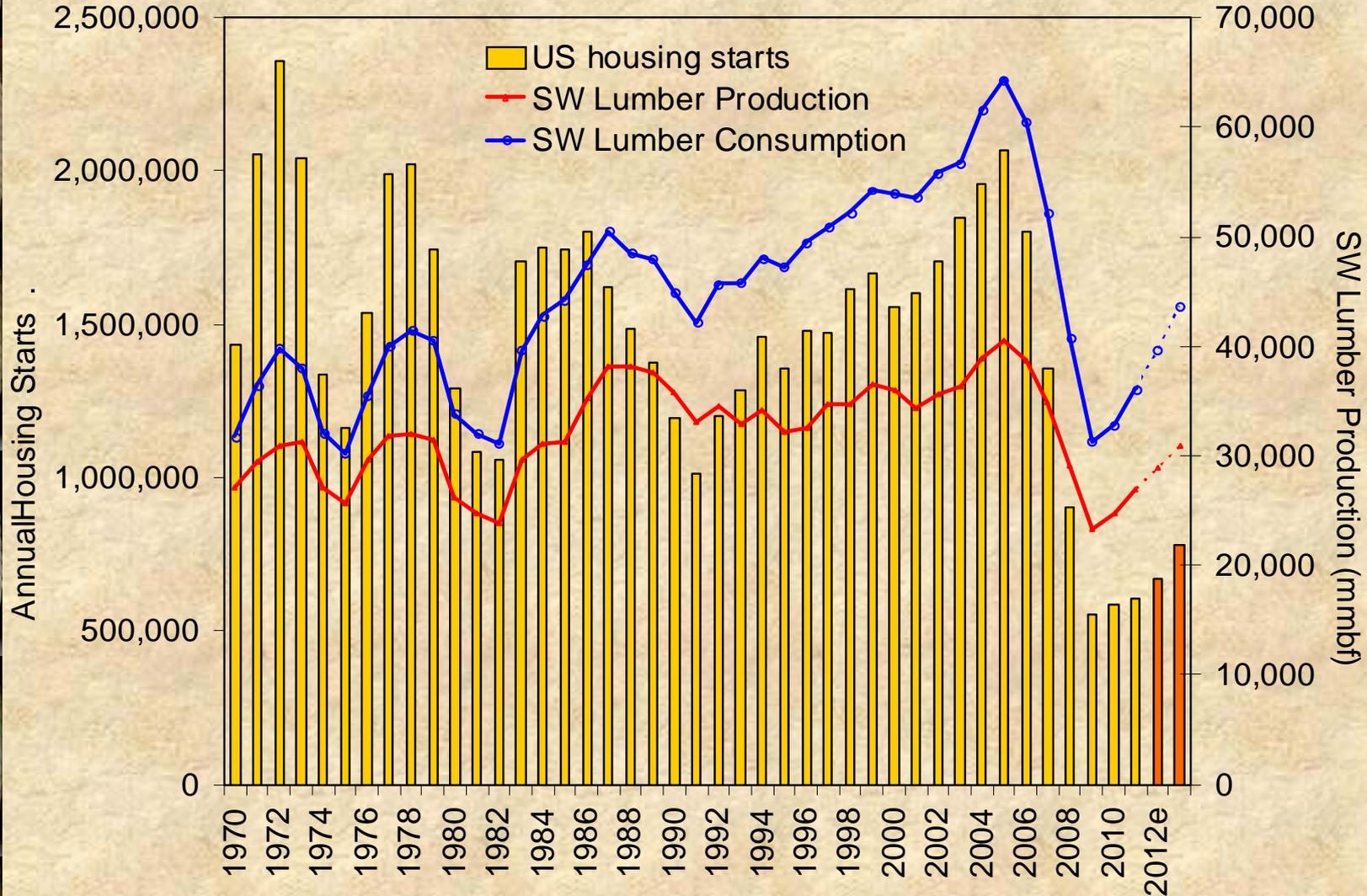
- ❖ US-Washington Wood Trade
- ❖ Strategic Market Factors-Japan
- ❖ Strategic Market Factors-China
- ❖ Timber Legality Legislation
- ❖ In Summary...



# US-Washington Wood Trade



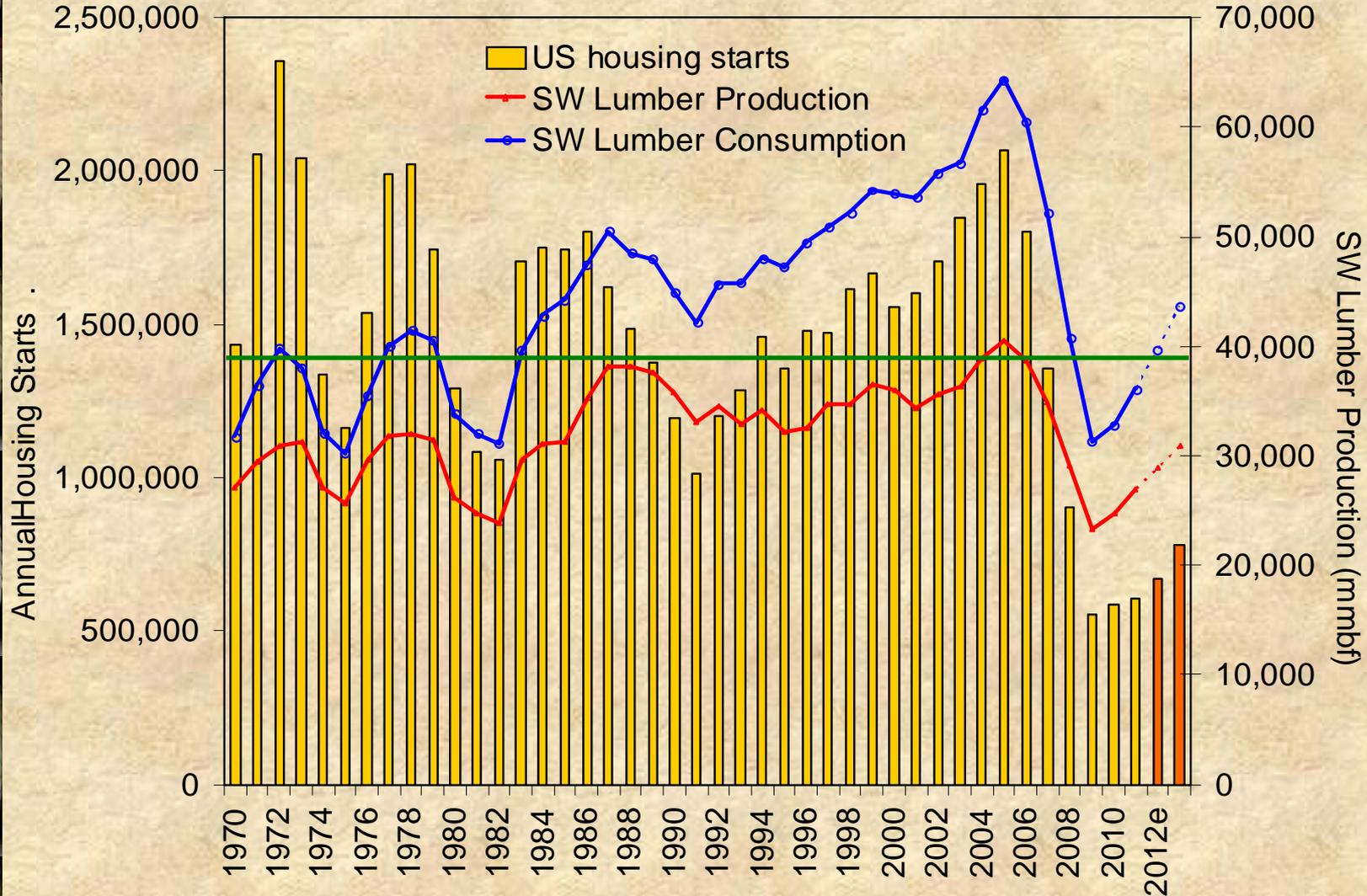
# Housing Starts and Lumber Consumption



Housing starts are expected to remain below one million until around 2014 or 2015

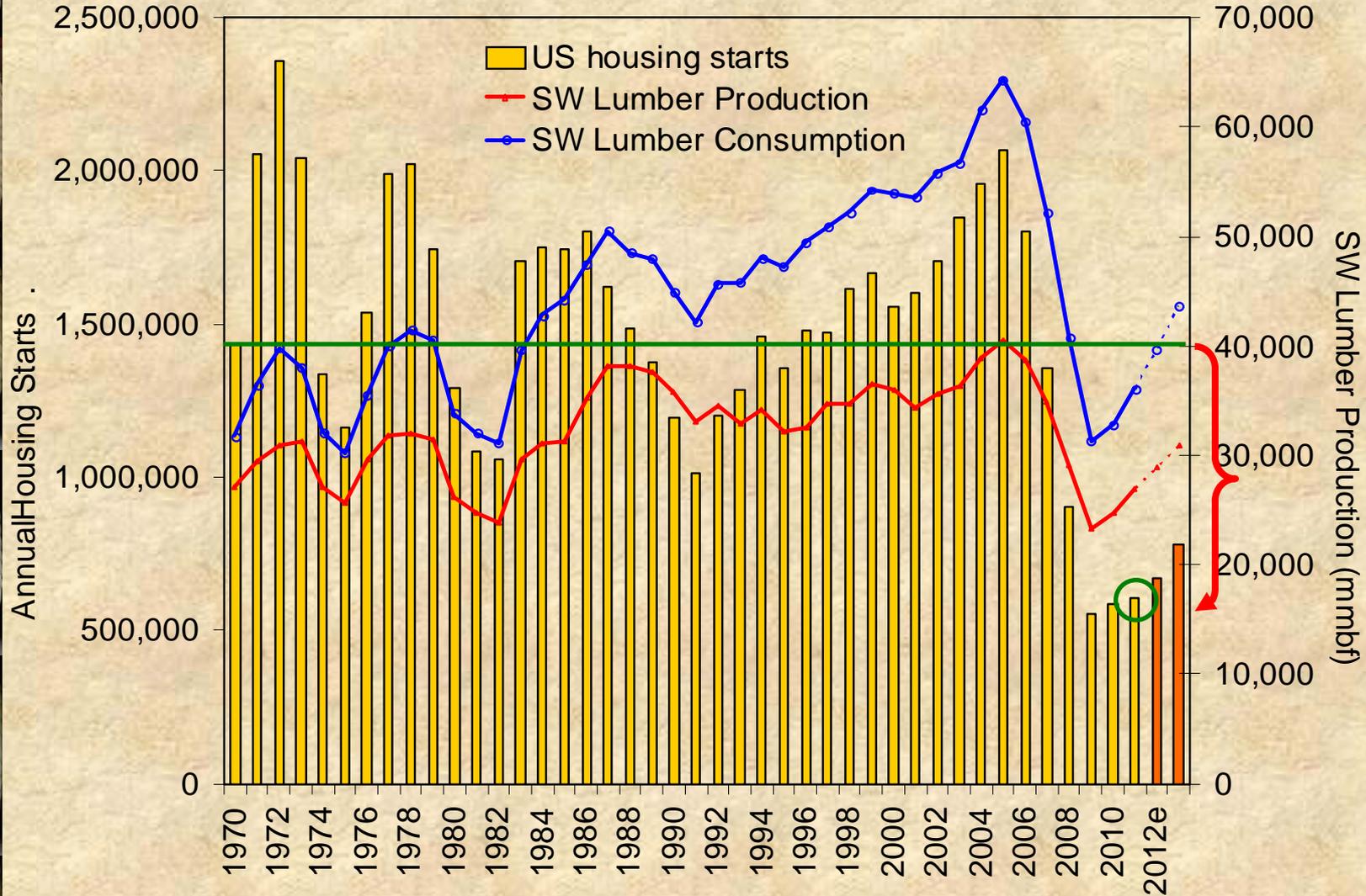
(Source: WWPA and NAHB 2012)

# Housing Starts and Lumber Consumption



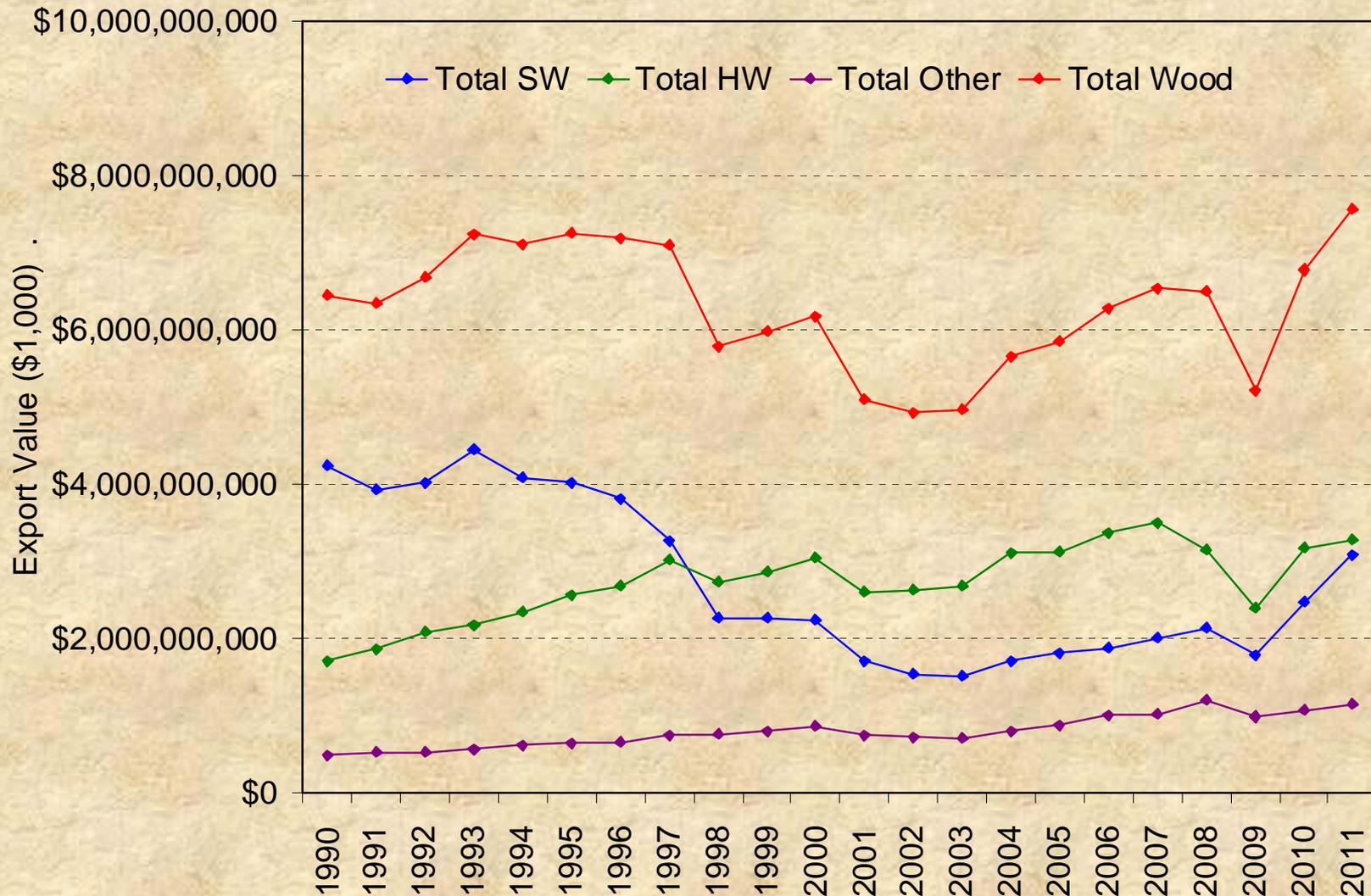
Post WWII average number of housing starts (1945-2006) has been 1,432,261;

# Housing Starts and Lumber Consumption



Number of housing starts in 2011: 608,800 or just 52.5% of the average.

# US Wood Exports

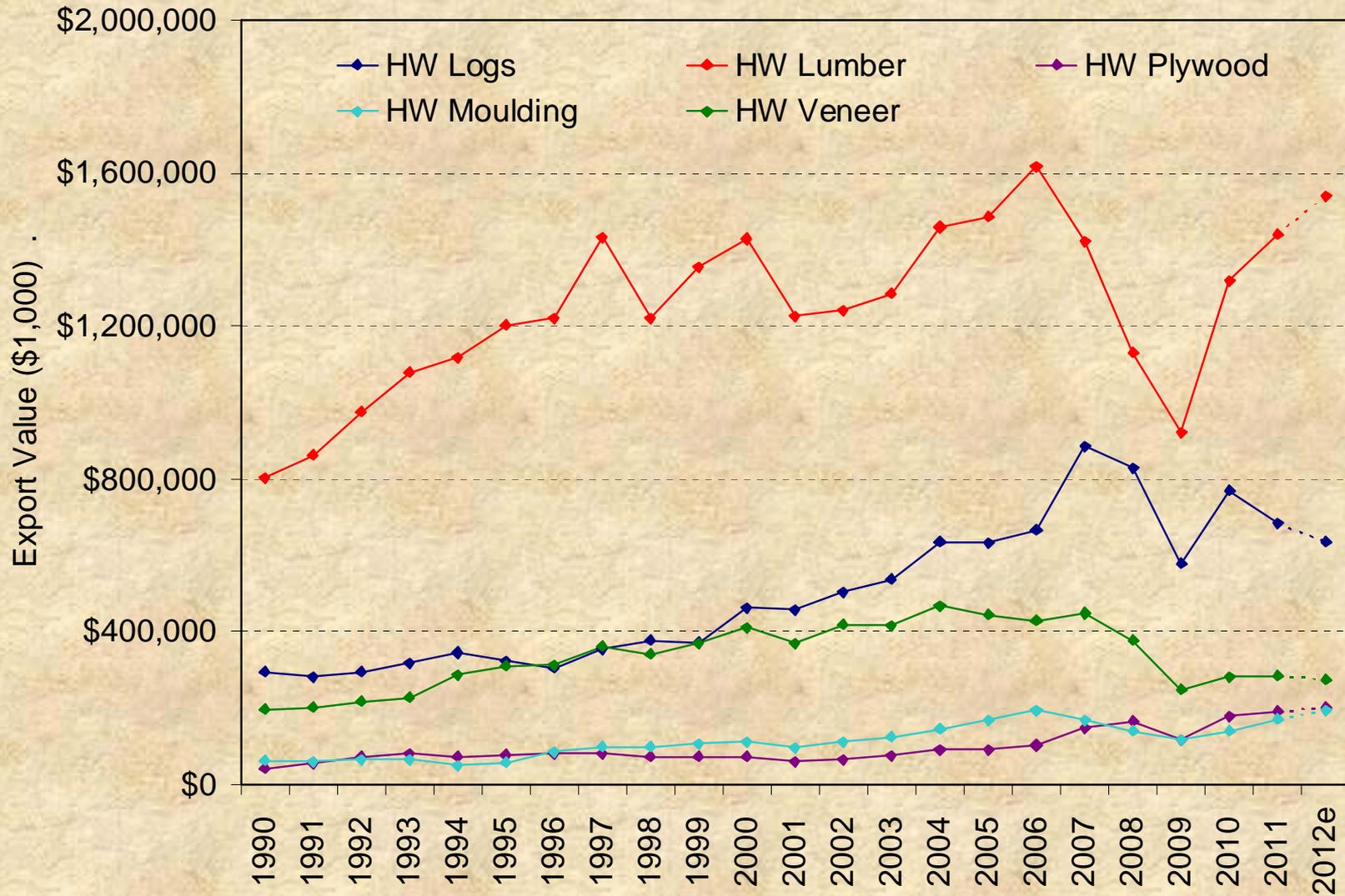


Q1:2012 (China:-22%; Japan:+2%; Vietnam:+49%; Thailand:+51%)

Bottom Line: Markets fluctuate, so focus on a balanced mix of markets

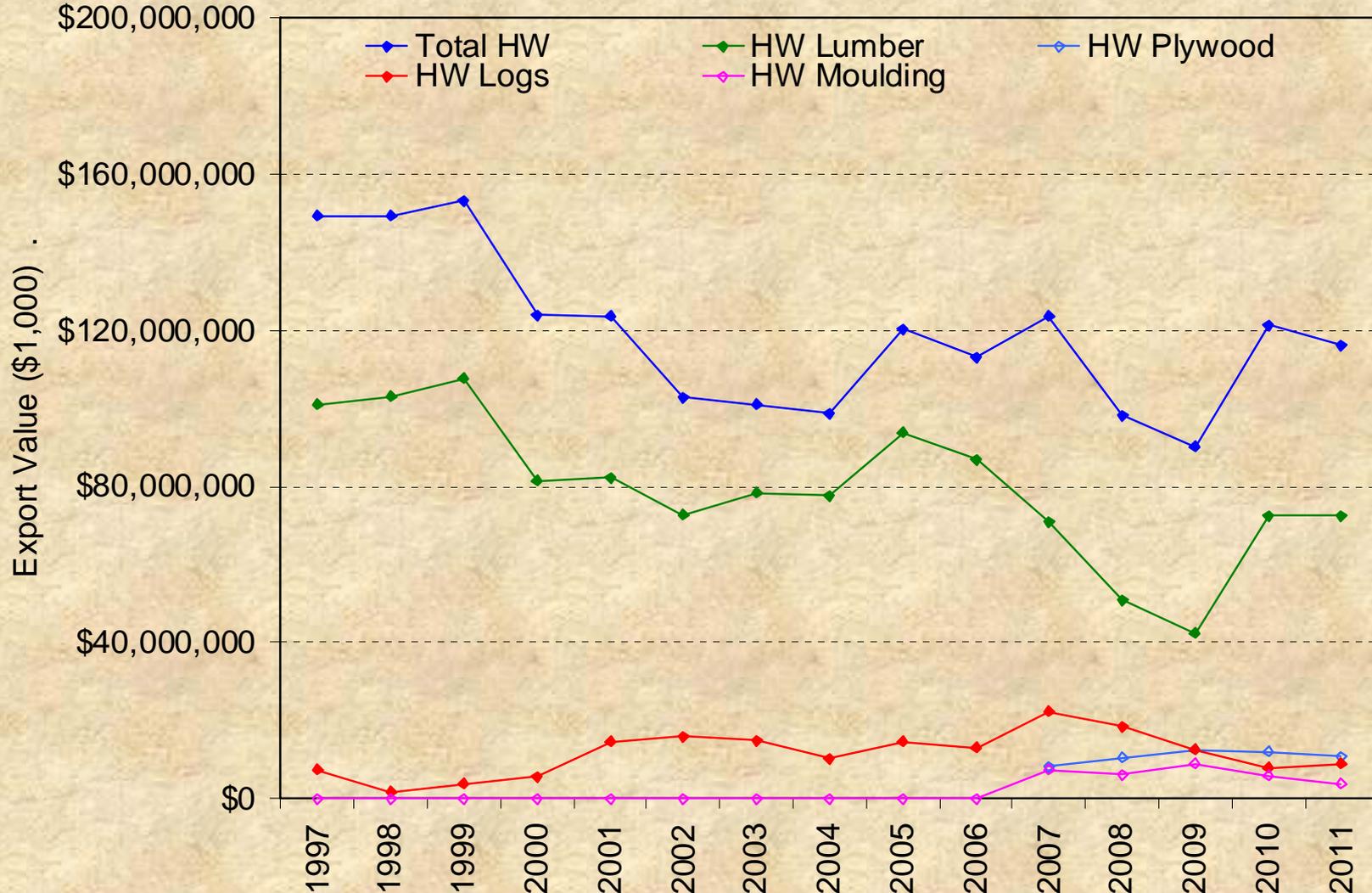


# US Hardwood Exports



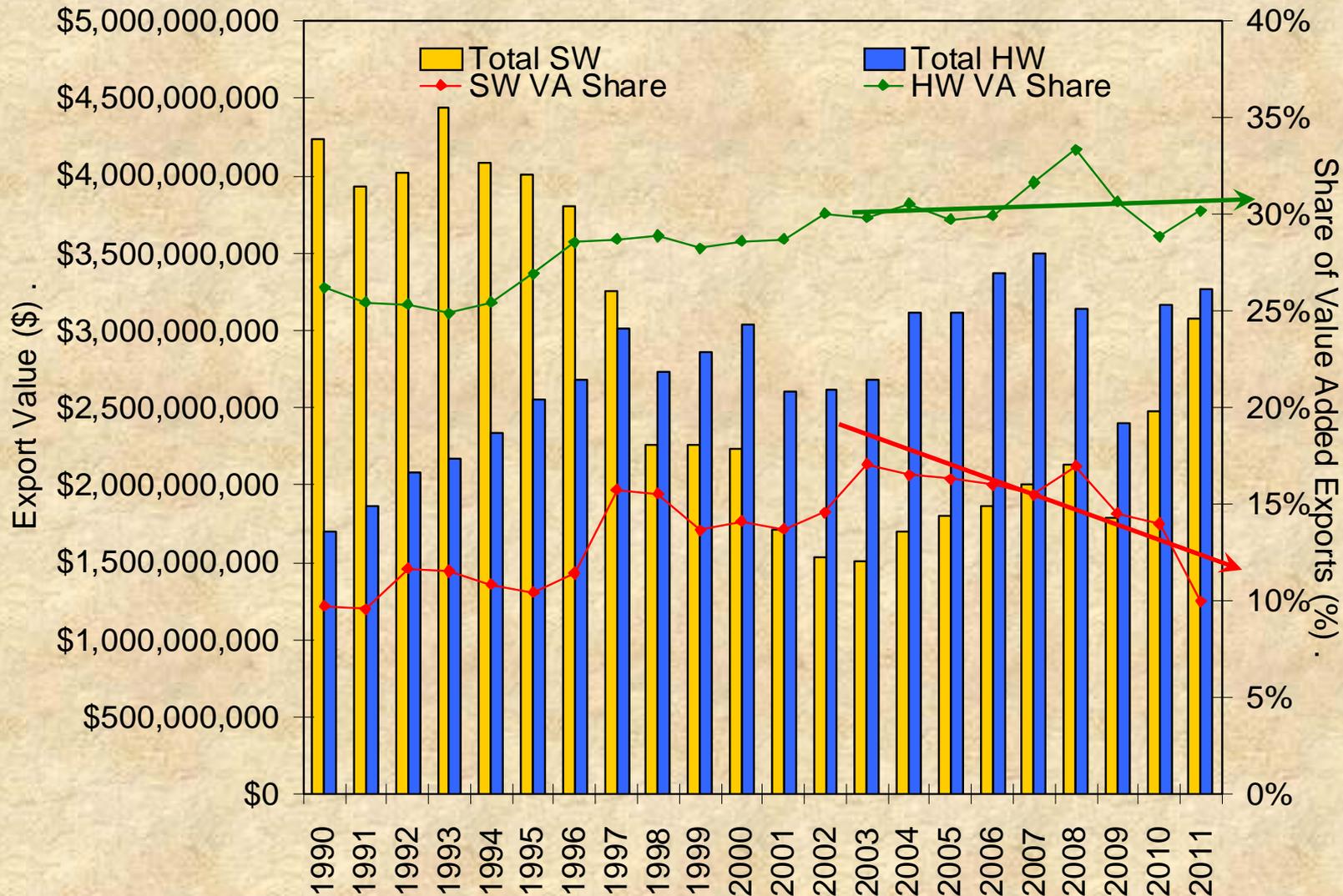
Growth for all HW products except logs (down in Canada, HK & UK)  
 Jan-April 2012: +.7%

# WA HW Exports



Washington HW exports generally down since 1997, although plywood and moulding have increased

# US HW and SW Exports



SW exports up 105% since 2003; VA down from 17.1% to 10%  
 HW exports up 22% since 2003; VA stable at about 30%



# Major Markets for US Hardwoods

Logs	China (30%), Canada (22%), Vietnam (8%), Thailand (2%)
HW Lumber	China (33%), Canada (14%), Vietnam (13%)
HW Veneer	Canada (36%), Germany (10%), Mexico (6%), China (6%), Italy (6%)
HW Moulding	Canada (62%), Mexico (26%)
HW Plywood	Canada (73%), Mexico (12%)

## Trade data problem

Total HW exports:

NES HW exports:

## Logs

\$684 million

\$ 415 million

## Lumber

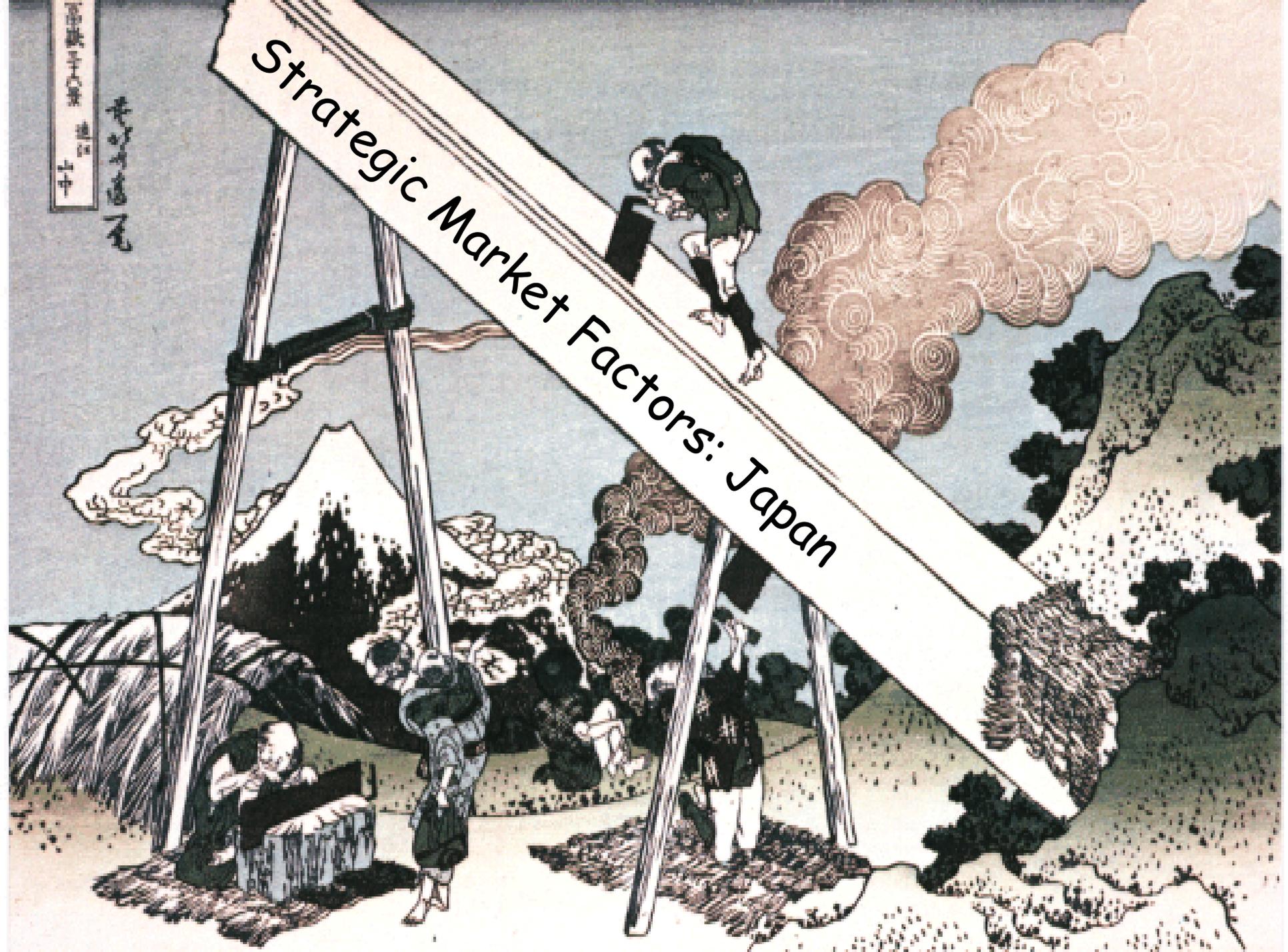
\$1.44 billion

\$535 million

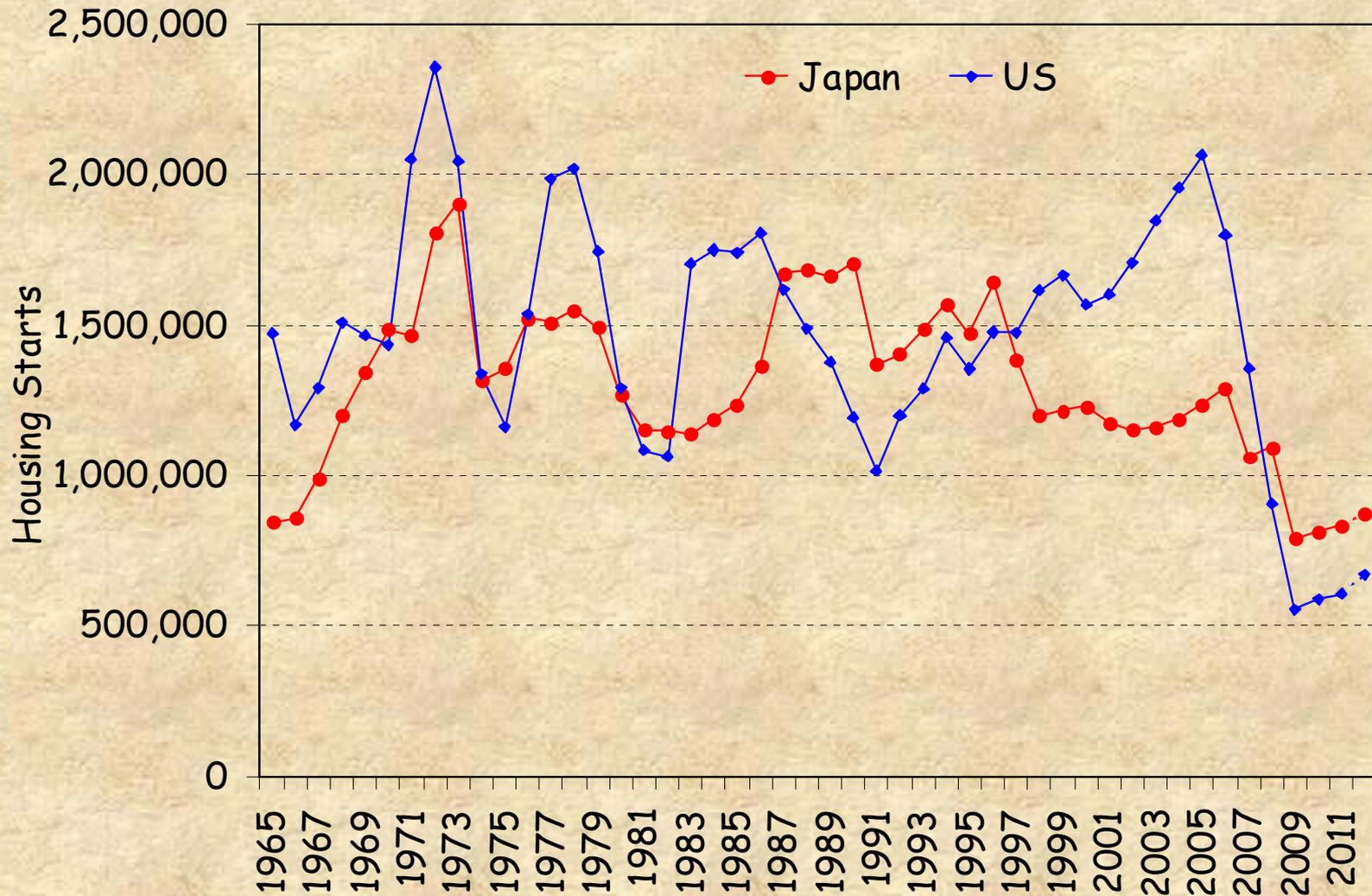
# Strategic Market Factors: Japan

日本市場の戦略的市場要因

第1章 日本市場の概観



# Housing Starts



Housing starts should remain stable or increase within the 800,000 to 850,000 range for the foreseeable future for several reasons...

# Rebuilding After the Earthquake



First, there will be a tremendous increase in construction following the Great Tohoku earthquake...

# After the Earthquake



# Cleaning Up After the Earthquake



# Rebuilding After the Earthquake



# Status After the Earthquake (April 2012)



# Status After the Earthquake (April 2012)

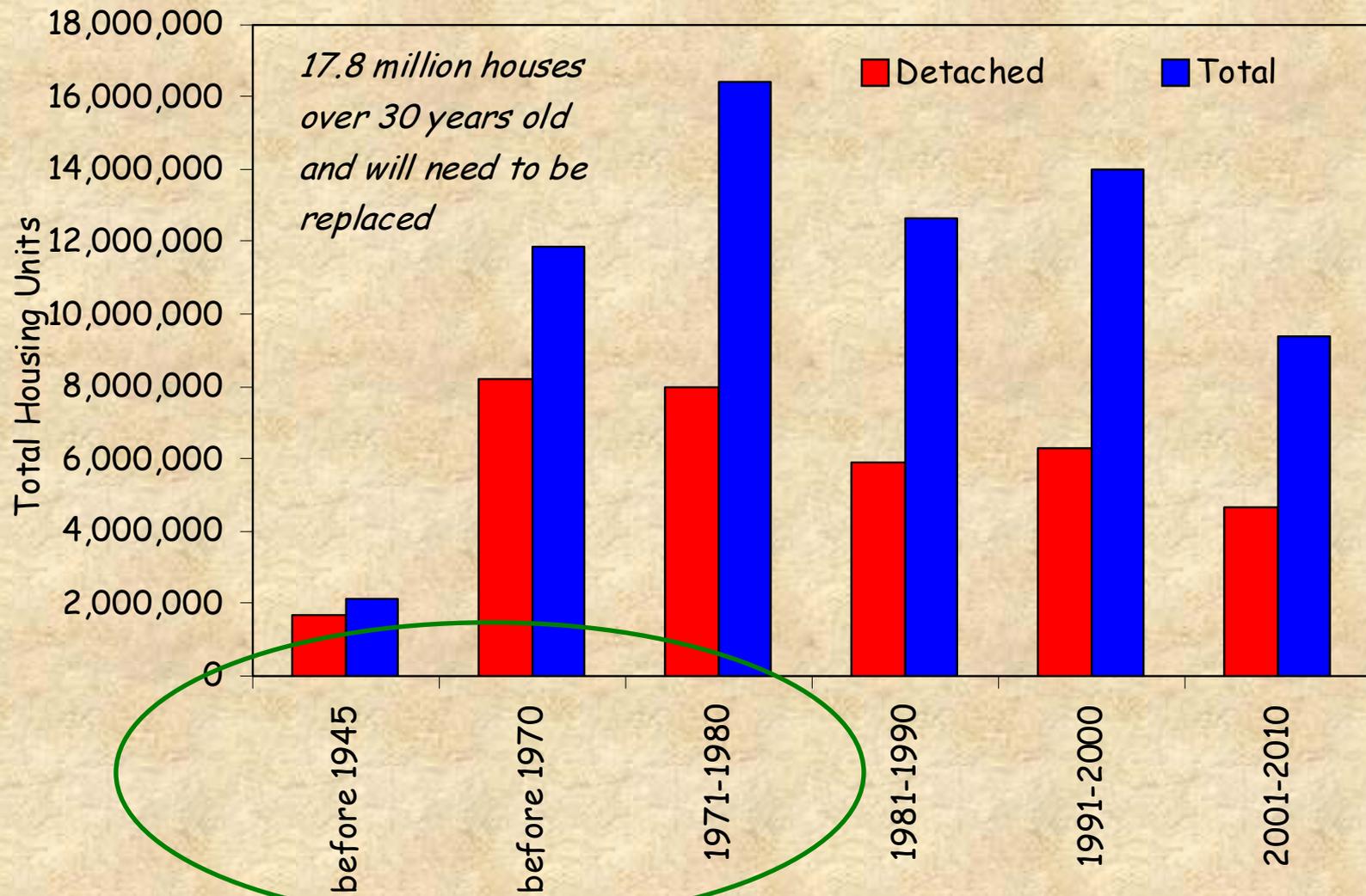


# Rebuilding After the Earthquake



Housing Starts in Japan (2010)	813,126
Estimate of Housing Units Destroyed:	128,629
Wood Housing Ratio in Miyagi Prefecture:	60%
Traditional Post and Beam Ratio:	68%
2x4 Ratio:	28%
Wooden Prefabricated Housing Ratio:	4%
Lumber use per P&B Home:	13.6m <sup>3</sup>
<b>Structural Lumber Estimate</b>	<b>1,189,561 m<sup>3</sup></b>
<b>Total Lumber Imports 2010</b>	<b>6,156,816 m<sup>3</sup></b>
<b>Additional Lumber Supply Required just to rebuild homes</b>	<b>19.3%</b>

# Rebuilding An Aging Housing Inventory



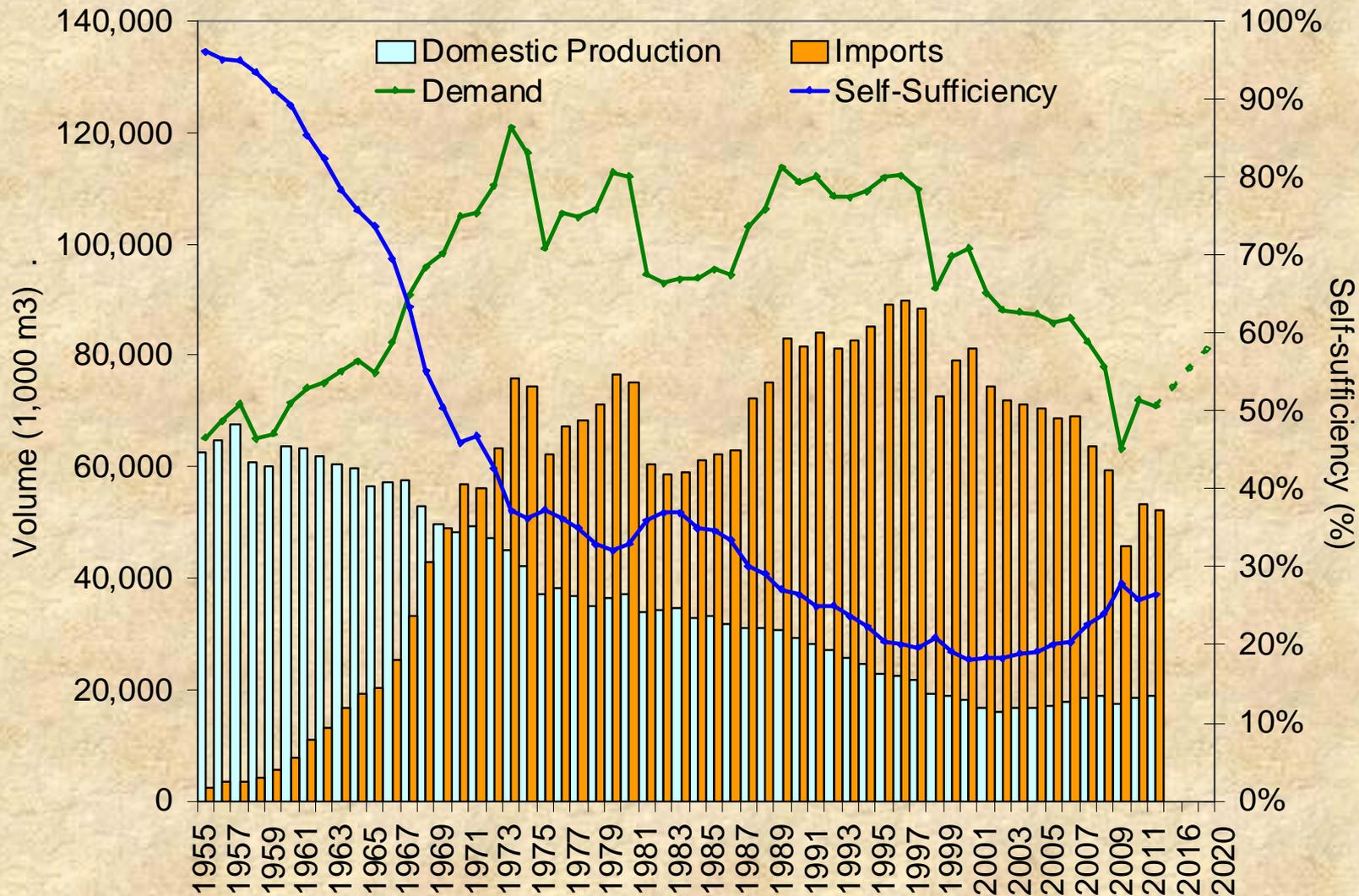
Second, there are almost 18 million homes that are over 30 years old and will need to be rebuilt

## Promotion for the Use of Wood in Public Buildings

Third, Japan's "Promotion for the Use of Wood in Public Buildings" act is an important change in the building and renovation policies of Japan's central government and municipalities. Implemented in October 2010, the act seeks to increase the use of Japanese domestic wood by requiring all central, prefectural and local government building projects (up to 3-story buildings with less than 3,000 square meters in floor area) to either be constructed with wood, or at least utilize wood materials, such as flooring, wall panels, cabinets, furniture and windows for building interiors.

Central government policy set in 2010, prefectural government policies set in 2011 and local governments now establishing their policies

# Japanese Wood Demand Projection



Combination of the three factors should increase demand for wood in Japan by 14.3% by 2020; to 81.1 million cubic meters

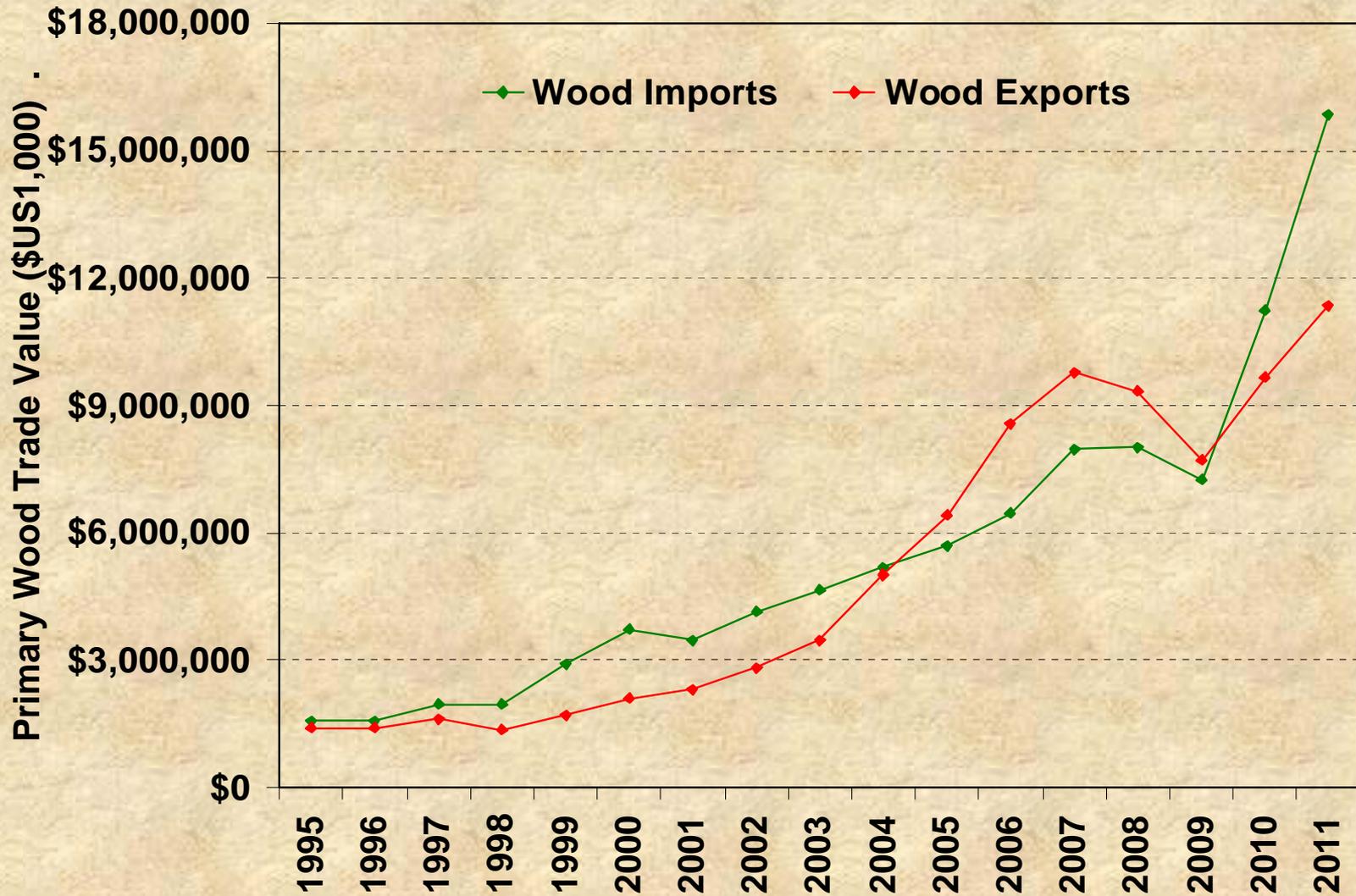


Vertical Chinese inscription in a rectangular frame.

Vertical Chinese inscription.

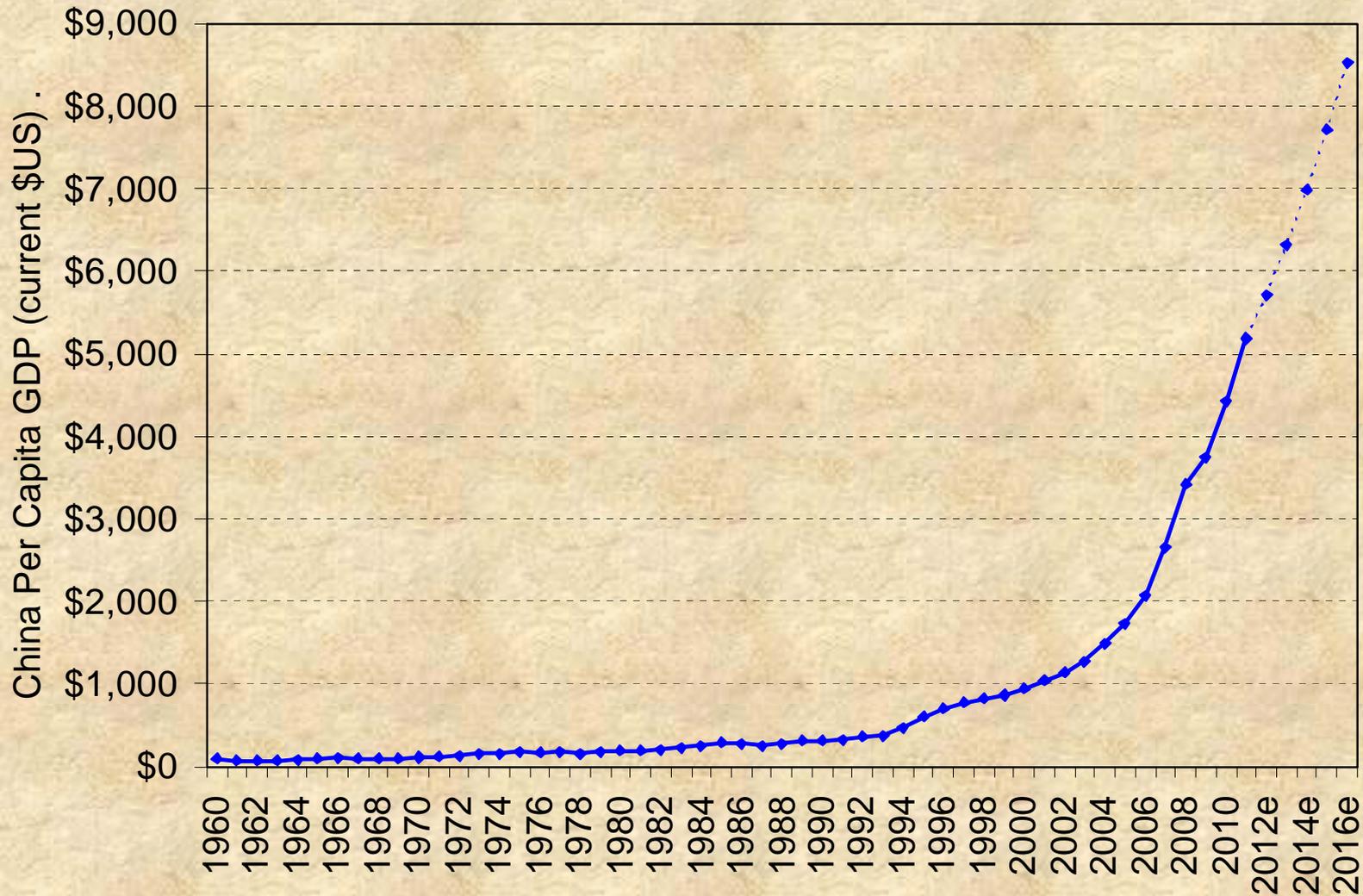
# Strategic Market Factors: China

# China Solid Wood Trade



China has registered a growing trade deficit in solid wood since 2010 and this is likely to continue for a few reasons...

# China GDP per Capita Growth

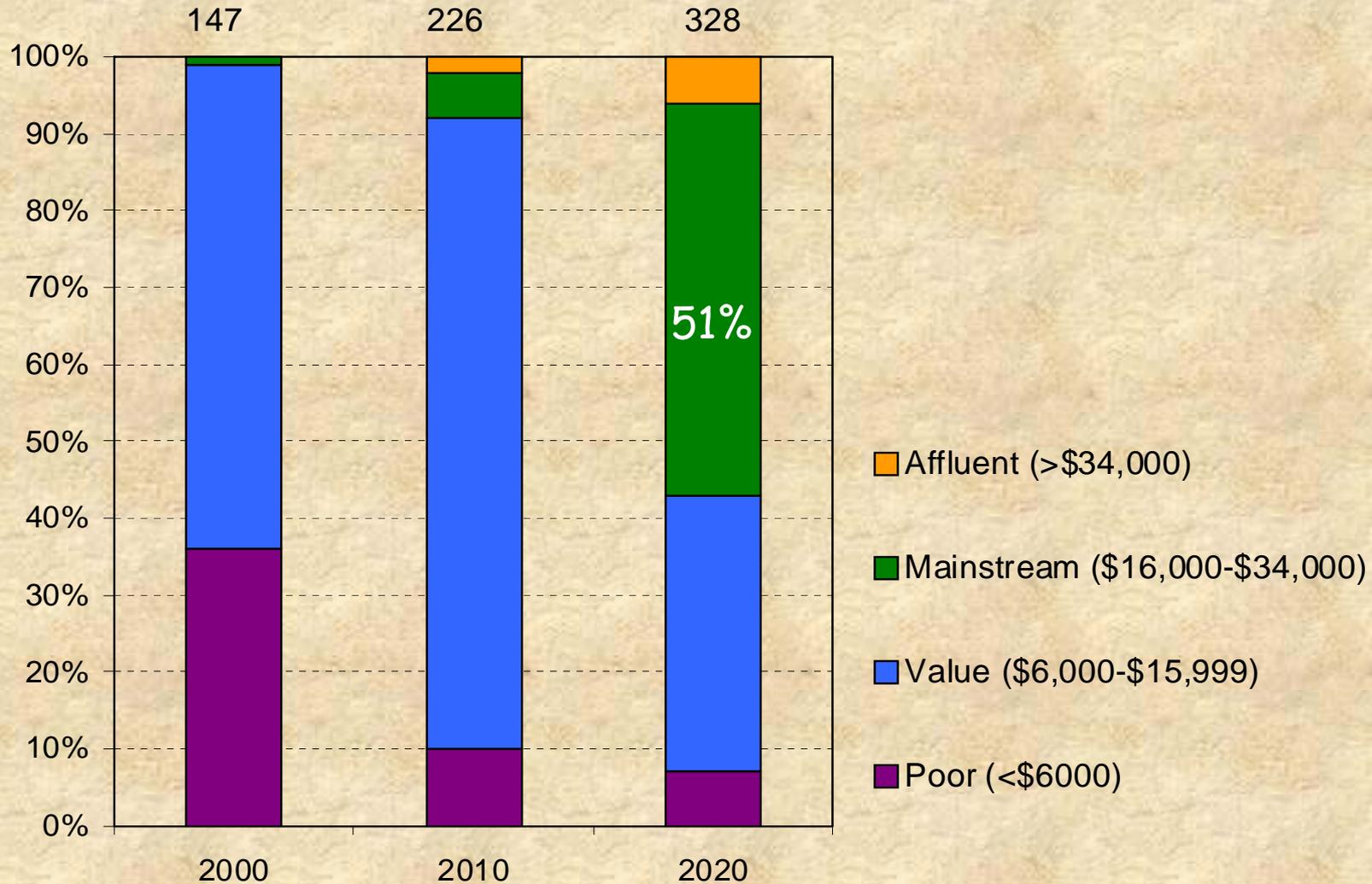


First, Chinese GDP growth has increased rapidly and the emergence of a huge middle is the largest in history...

(Source: World Bank 2012)

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# Growth of Chinese Consumer Groups

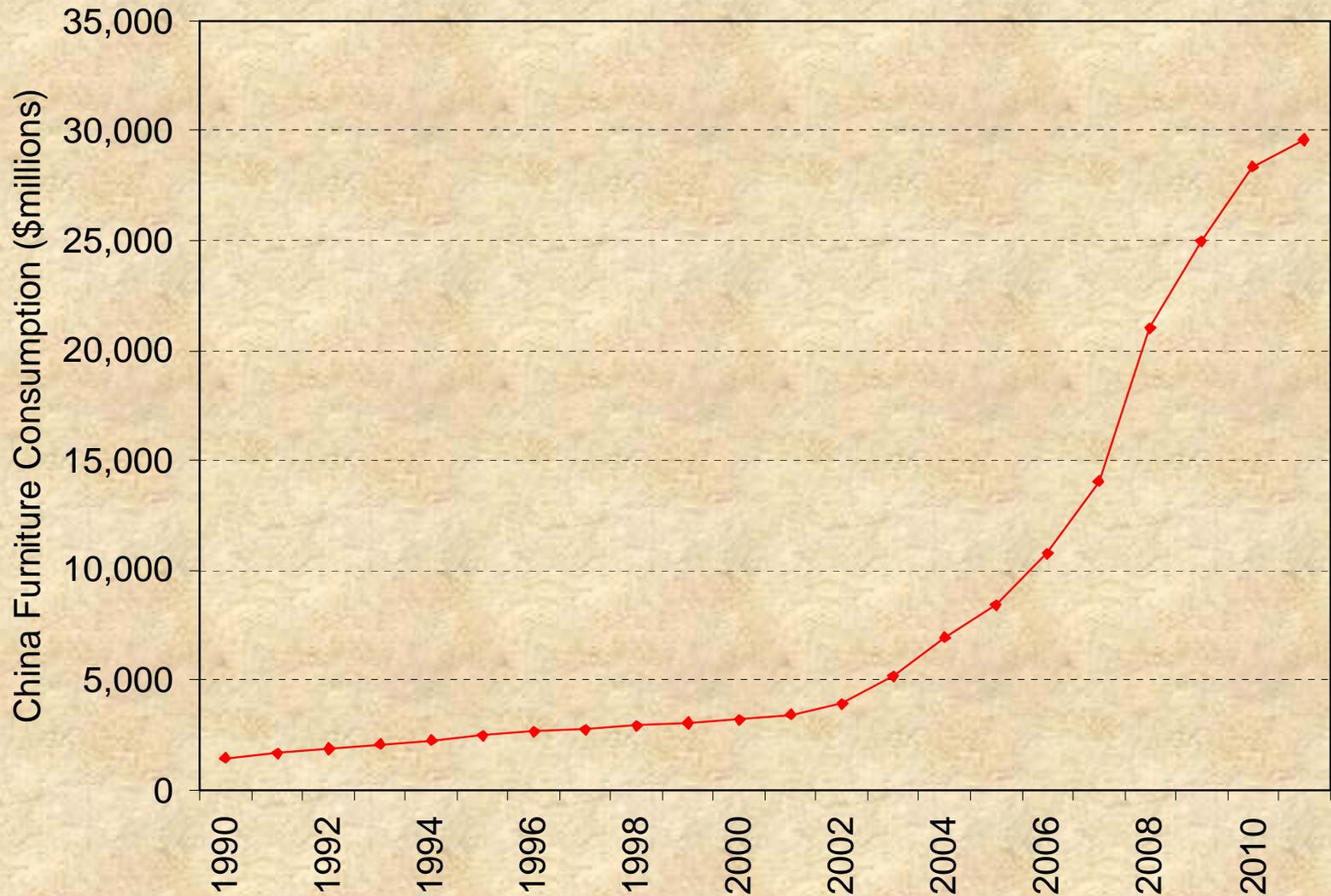


... with the growth of the mainstream and affluent income groups estimated at 26.6% and 20.4% per year, respectively.

(Source: McKinsey 2012)

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# China Domestic Furniture Consumption



Second, China's economic growth is finally beginning to influence domestic consumption.

(Source: CAF 2012)

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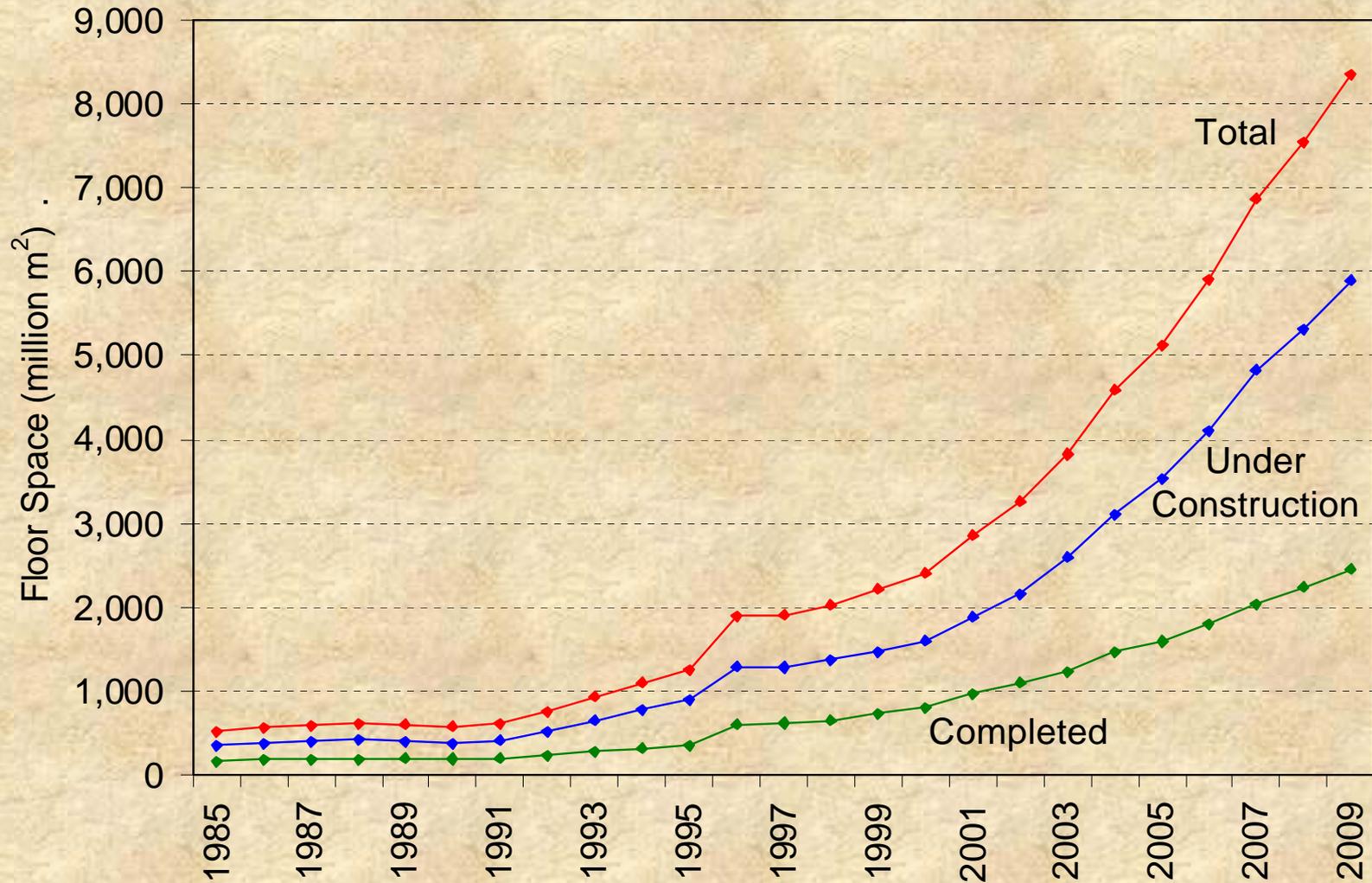


# China Construction Trend

Third, China's Five Year Plan calls for building 36 million affordable housing units between 2011 and 2016, something never before done in the history of the world. While housing units are generally multi story concrete and brick buildings, interior finishes (flooring, wall panels, cabinets, mouldings and trim) and furniture use a substantial volume of wood. Increasing personal wealth will support increasing consumption of wood products.



# Residential Construction Activity in China



(Source: Chinese Min. of Statistics 2012)

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富永子画  
三浦宗

沈舟船造り

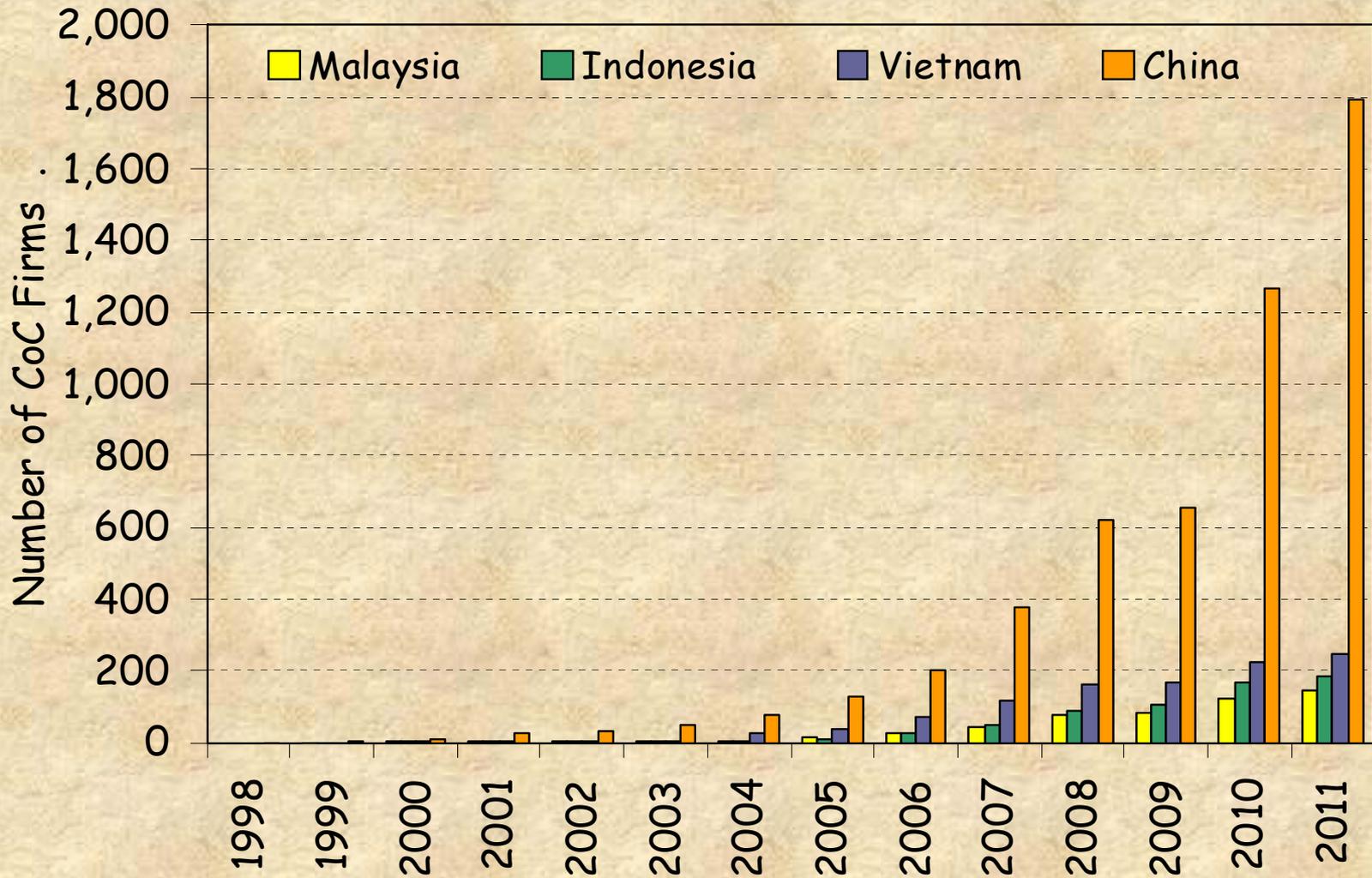
Timber Legality Legislation



The Lacey Act, which requires documentation of legality for imported wood products, is a big concern for manufacturers in China, Vietnam and Thailand and could help to boost exports of US wood products to these countries. It has already caused many Asian firms to acquire chain-of-custody certification in order to track their wood materials through the supply chain.



# Timber Legality Verification



Asian wood exporters are quickly adopting chain of custody certification to be able to document timber legality in their supply chain to avoid...

(Source: FSC & PEFC 2012)

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# Timber Legality Risks

## *Feds Raid Guitar Maker Looking for Illegal Wood*



# Timber Legality Verification

Many Asian firms are heavily dependent on the US and European markets for their wood product exports. Legality legislation could encourage some Asian manufacturers to begin sourcing wood materials from the US in order to more easily show compliance with timber legality legislation and reduce the risk of having a product shipment seized at the port. This is a good opportunity for Washington to develop legality documentation to support exporters. In addition to China, both Thailand and Vietnam are strong potential markets for US wood exports.

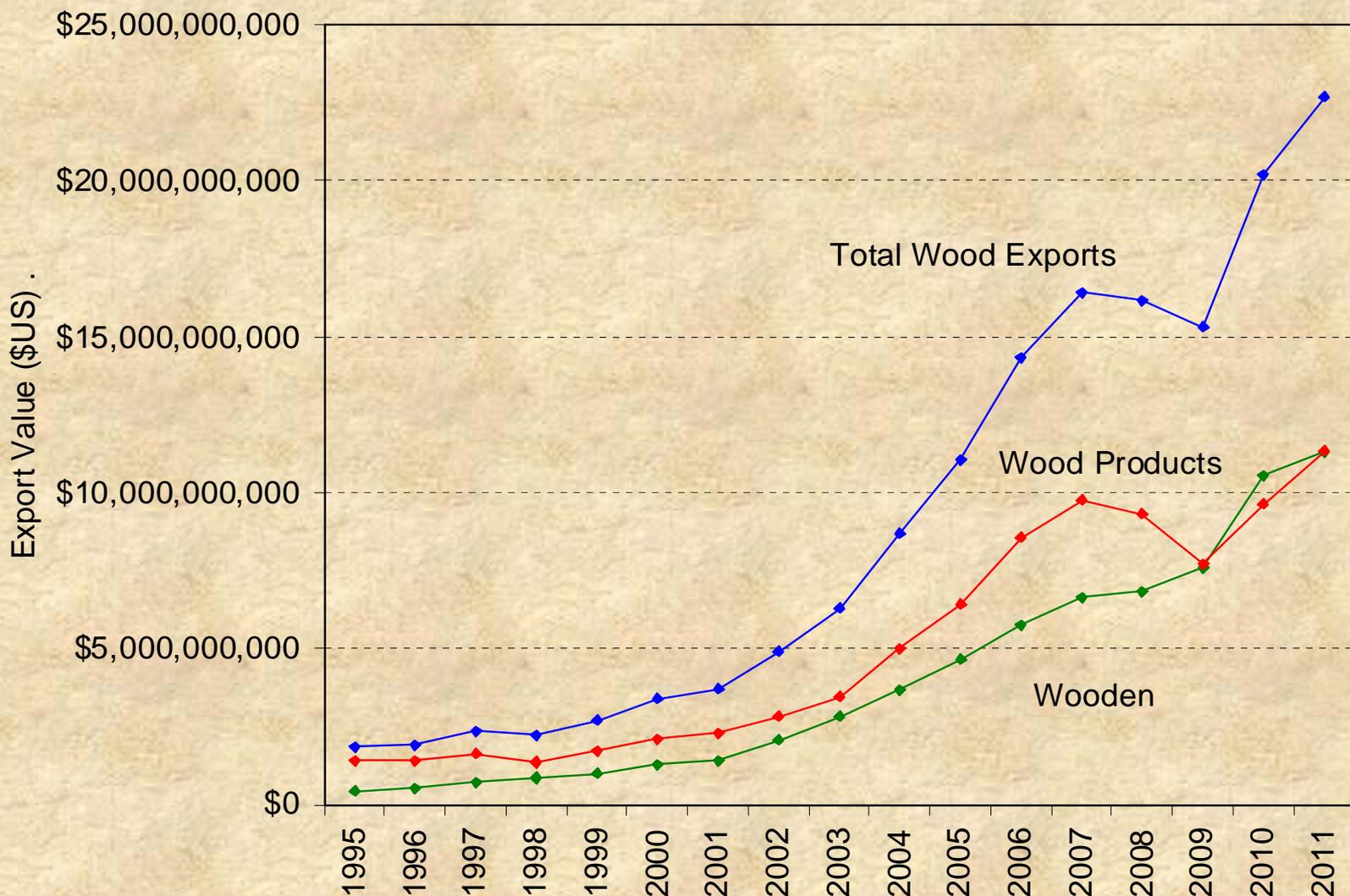


# Timber Legality Verification

	Value of Furniture Exports 2011 (\$millions)	Share of World Furniture Production (World Rank)	Share of Furniture Exports to US	Total Wood Imports, 2011 (\$million)	Wood Imports from US (US Share)
World	\$41,500				30.2%
China	\$11,322	27% (#1)	29%	\$7,253	\$2,031 (13%)
Vietnam	\$2,429	6% (#5)	56%	\$712	\$150 (21%)
Malaysia	\$1,680	4% (#6)	30%	\$545	\$27 (5%)
Indonesia	\$812	2% (#10)	39%	\$406	\$57 (14%)
Thailand	\$428	1% (#21)	34%	\$653	\$28 (4%)

Short term market opportunities: China, Vietnam and Thailand and each market has a different product mix

# Timber Legality Verification

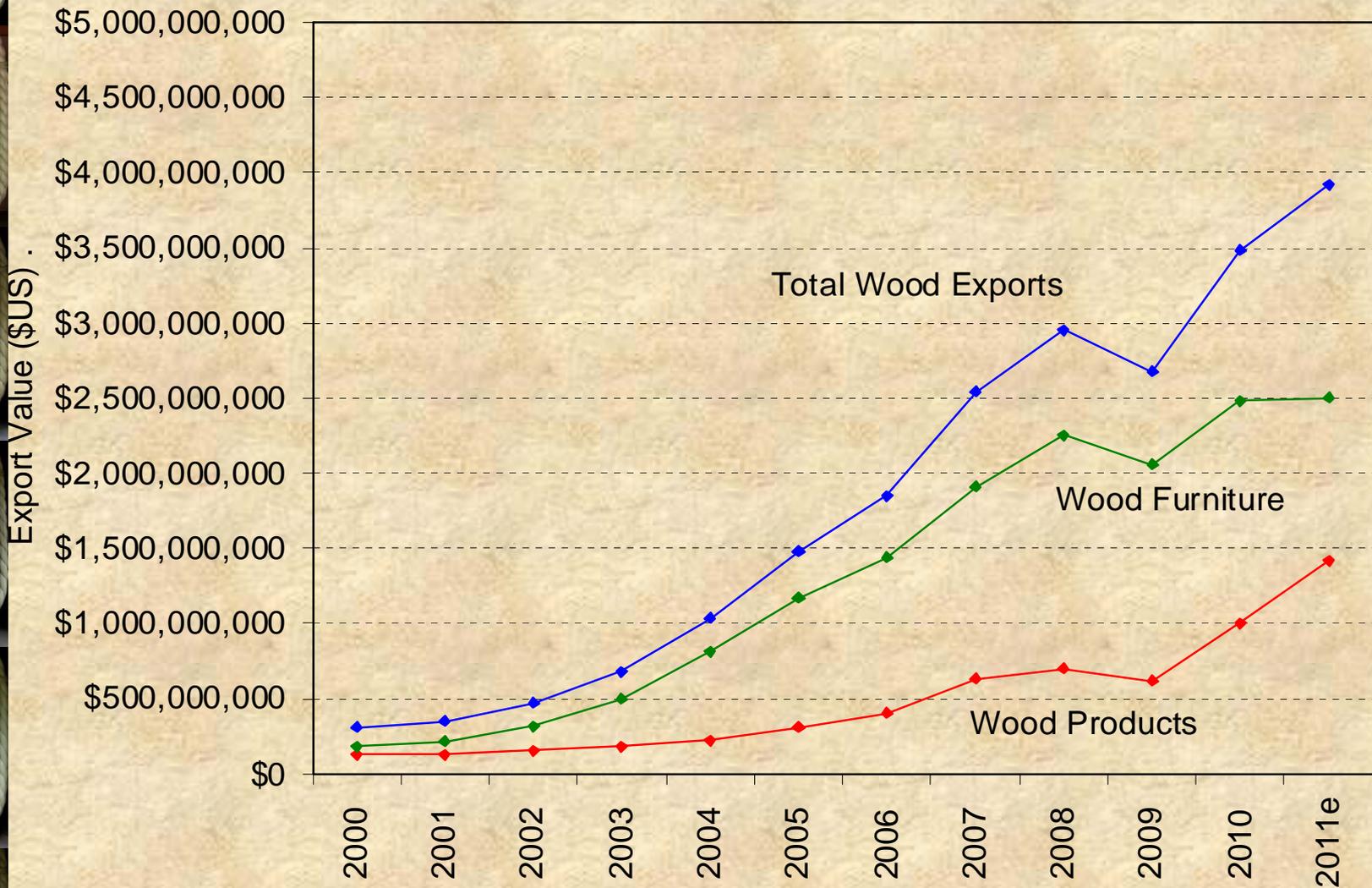


China is heavily focused on indoor furniture, with 29% being exported to the US (US wood exports: -22.1% thru 4/12)

(Source: GTA 2012)

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# Timber Legality Verification

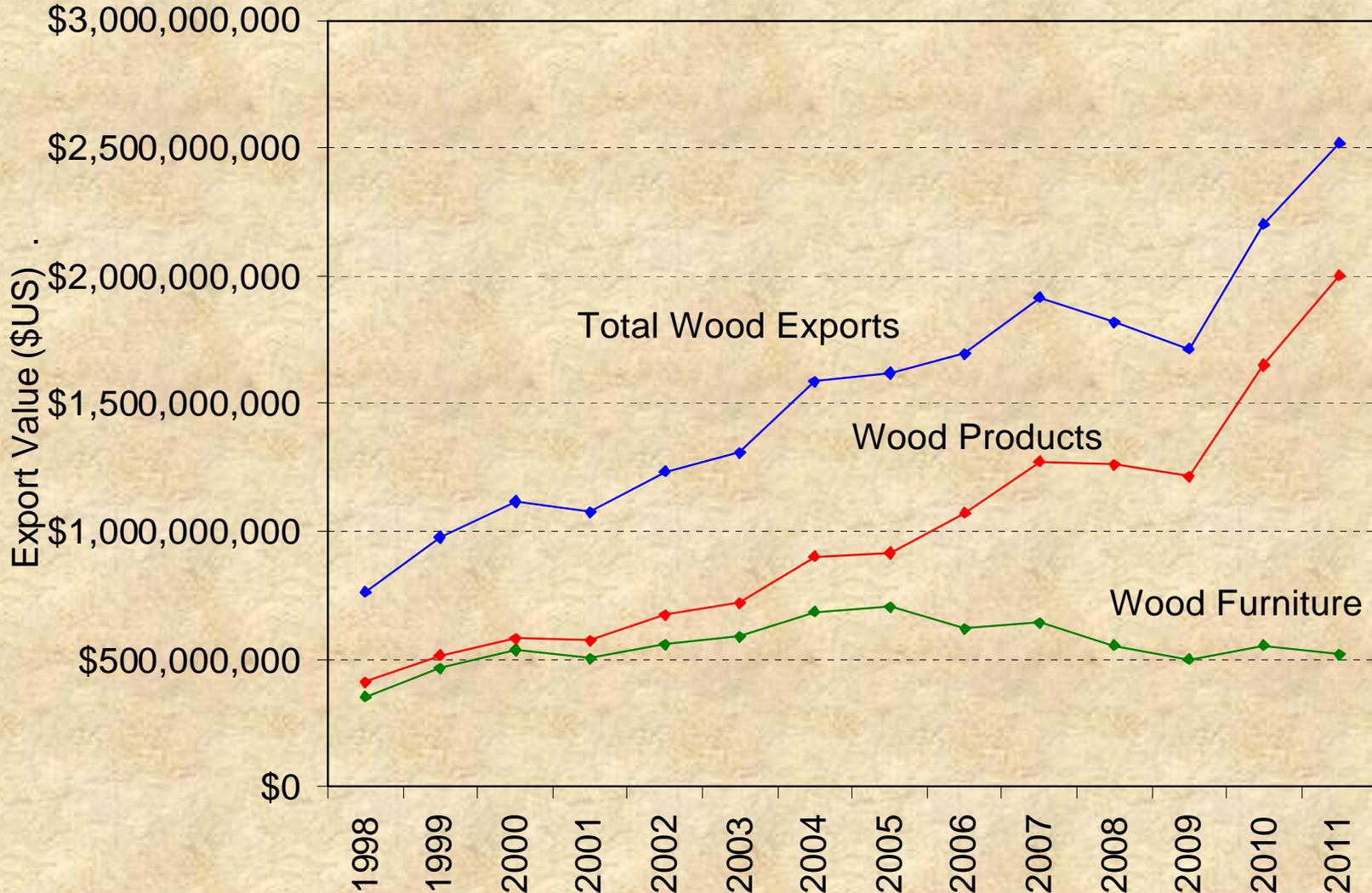


Vietnam is heavily focused on outdoor furniture, with 56% exported to the US (US wood exports: +48.5% thru 4/12)

(Source: GTA 2012)

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# Timber Legality Verification



Thailand is heavily focused on kitchen accessories with 34% being exported to the US (US wood exports: +51.7% thru 4/12).

(Source: GTA 2012)

Vertical Japanese text in a rectangular box, likely a title or inscription.

Vertical Japanese text to the right of the box.

Seeing the big picture



## To Succeed...

- Select your markets carefully
- Know how your wood will be used in each market
  - End-use applications
  - Technical specifications
- Get to know your customers
  - Develop a long-term relationship
- Market the Washington hardwood (alder) story
  - Stewardship based on sustainability
  - Legal timber
  - Versatility of red alder wood
  - **These could be enough to get your products in the door**



## In summary...

- The domestic market will remain weak
- but there will be strong growth in international markets
- where favorable trends in Japan, China, Vietnam and Thailand will support growth in demand for wood products.
- Legality legislation should also favor US timber in international markets.
- But in the end, you need to decide to take advantage of these market opportunities.

Remember, there is always light at the end of the tunnel...



Thank you  
質問か。