

AUGUST 8, 2019



AHEC JAN-JUNE 2019
HARDWOOD EXPORT REPORT
MID-YEAR UPDATE ON INTERNATIONAL MARKETS

Statistics are from the Global Agricultural Trade System (GATS) run by the USDA's Foreign Agricultural Service, and the Global Trade Atlas. Excel versions are sent to AHEC members quarterly and are available to members upon request. If you would like to know more about AHEC or international markets for American hardwoods, please visit www.ahec.org

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Executive Summary

- Globally, exports of all US hardwood products (lumber, logs, veneer, siding, plywood, flooring, chips, & molding) are down by \$494 million in 2019 compared to the same time period last year
 - Lumber exports are down by \$351 million and a volume of 214 million board feet (500k m³) for the first half of 2019 (-22% in volume)
 - Log exports are down \$118 million and a volume of 278,450 m³ (-22%)
 - Veneer exports are down \$18 million and 15 million m² (-15%)
- The Chinese market has continued to decline in the face of commercial and political barriers to trade, as well as the weakening Chinese economy and currency
- For all hardwood products the Greater China market has dropped by over \$450 million (-39%) in the first half of 2019 compared to the same period last year
- In the 12 months since tariffs on US hardwood were announced (July '18 – June '19), lumber exports to China are down \$615 million and log exports are down \$179 million compared to the previous 12 months (July '17 – June '18)
 - This is an average loss of \$198 million per quarter
 - This only includes one month of data (June '19) at the full tariff rate
- Trade volume of US hardwood lumber to China for the month of June 2019, the first month with full tariffs, was halved in comparison to June 2018
- US Lumber market share in China drops to 18% in 2019 (from 31% in 2017)
- Vietnam increases by a steady 14%, but any hopes of this market replacing losses in China are limited by the country's scale
- Only 7 of top 20 markets showed growth in consumption
- Encouraging growth in long-term markets, red oak growth in Europe (+30%)

Trouble in China

The American hardwood industry is facing a watershed moment in China. As political and commercial ties between our two countries continue to deteriorate, our industry is caught in the middle of a fight with a country who has been our largest market for a decade.

It's a well-known and often cited statistic that half of all exports of US hardwood grade lumber were destined for China. Considering roughly half of all grade production is exported, we are now seeing the extreme ripple effects when a trade war is started with a market that consumes roughly 25% of all grade production. The numbers are ugly: a decrease of **\$451,830,756** for all hardwood products through the first half of this year in comparison to the same period last year. That's a drop of 39%, and only includes one month of trade at the full tariff rate.

The graph below shows the volume of US hardwood lumber exports to China over the last three years. The line changes to **gold** as tariffs on hardwood products were announced in Summer of 2018, then changes to **red** as tariffs go into full effect in June 2019.

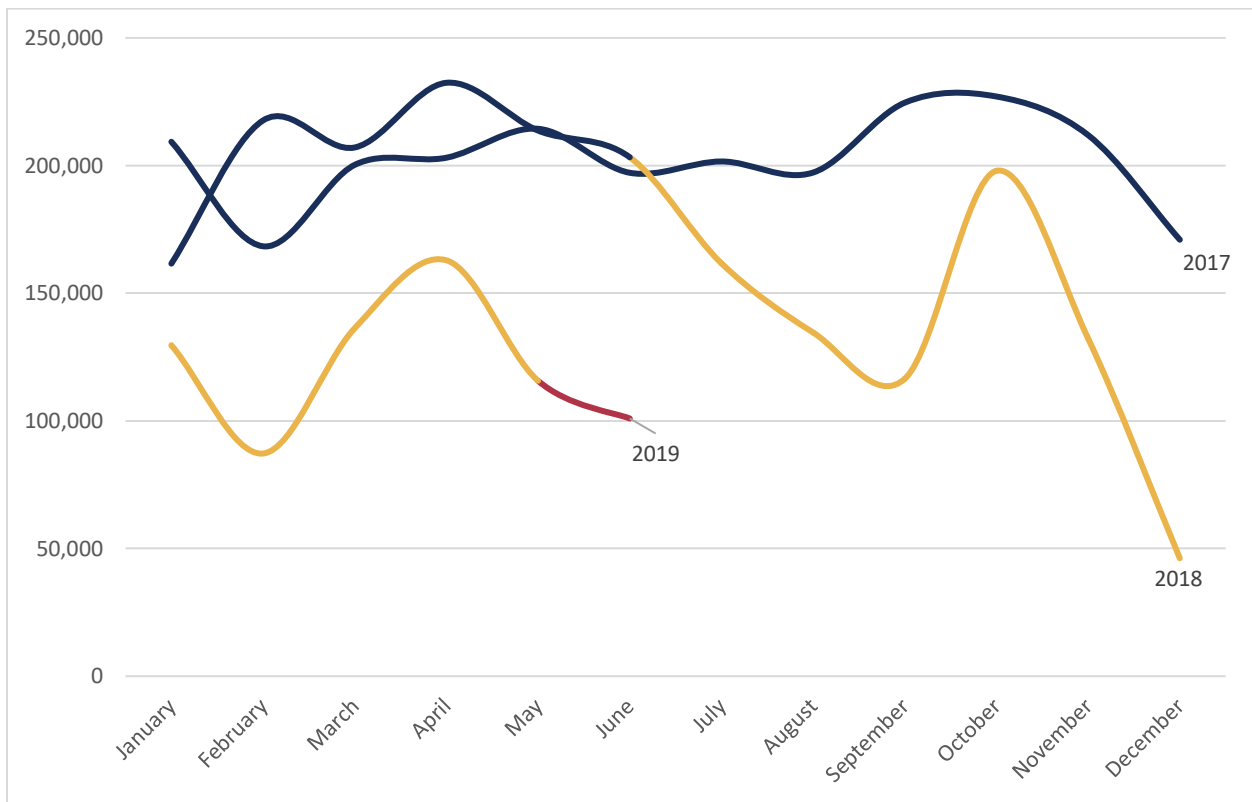


Fig. 1: US Hardwood Lumber Exports to China (m³)

2018 started off at a record pace, +10% over 2017, but as an additional round of tariffs targeting the Chinese woodworking and furniture industry were announced, markets began to tighten and hardwood exports dropped sharply. President Trump announced via tweet on September 17th, 2018 that tariffs would go into effect at 10% and would increase to up to 25%

on Jan 1st, 2019. This led to a brief rush of purchases in October 2018 to try and beat the planned tariff increases, and then exports to China dropped to historic lows in November and December. On December 2nd a “90-day extension” on tariff increases was announced, and on February 24th, 2019 tariff increases were delayed indefinitely.

Low purchase levels continued into Spring '19, but reports seemed hopeful that an agreement would be made regarding the Trade War. That is, until May 5th when Trump announced that tariffs would increase to the full level just 5 days later. China matched the tariff increases starting June 1st, which, among other factors, led to a June market for hardwood lumber in China that was **50%** less by volume than in the previous year.

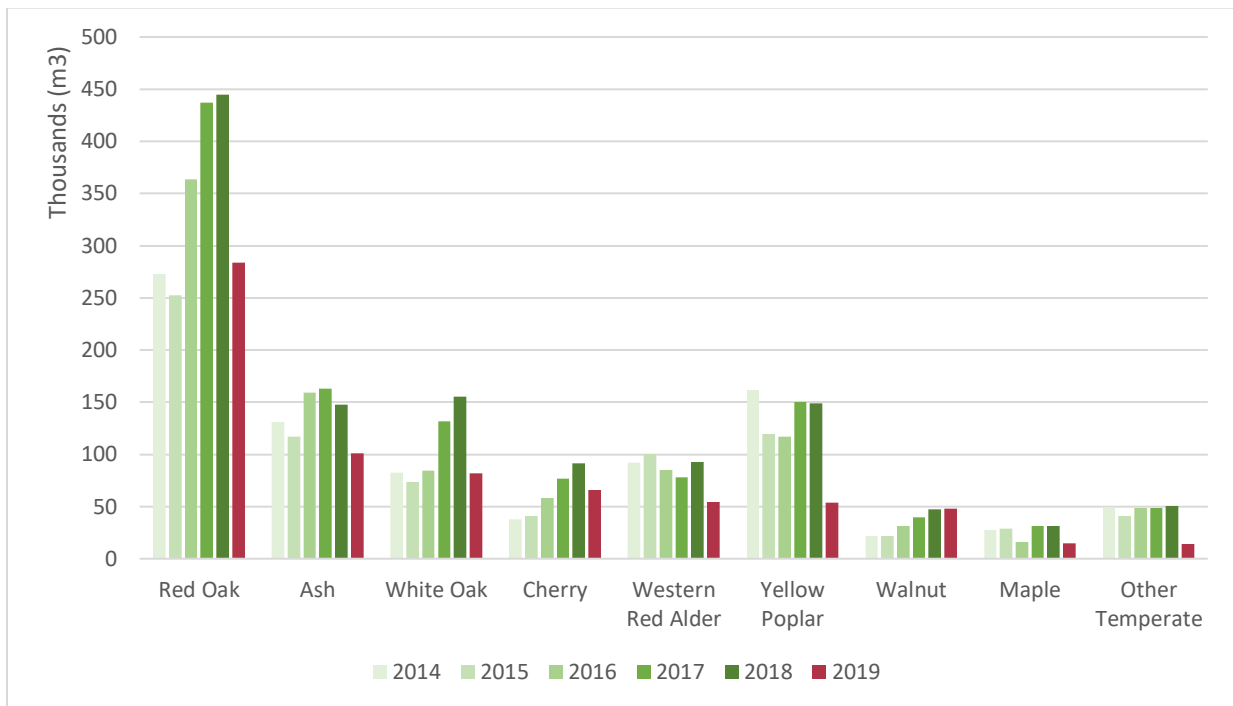


Fig. 2: US hardwood lumber exports to China for the first half of each year

US hardwood lumber exports to China are down **212.6 million board feet** in the first half of 2019. This volume is roughly the same amount of lumber as was shipped to Vietnam in all of 2018.

Compared to other markets in 2019, the decrease in volume to China actually exceeds the total trade to SE Asia and Europe Combined for the same time period.

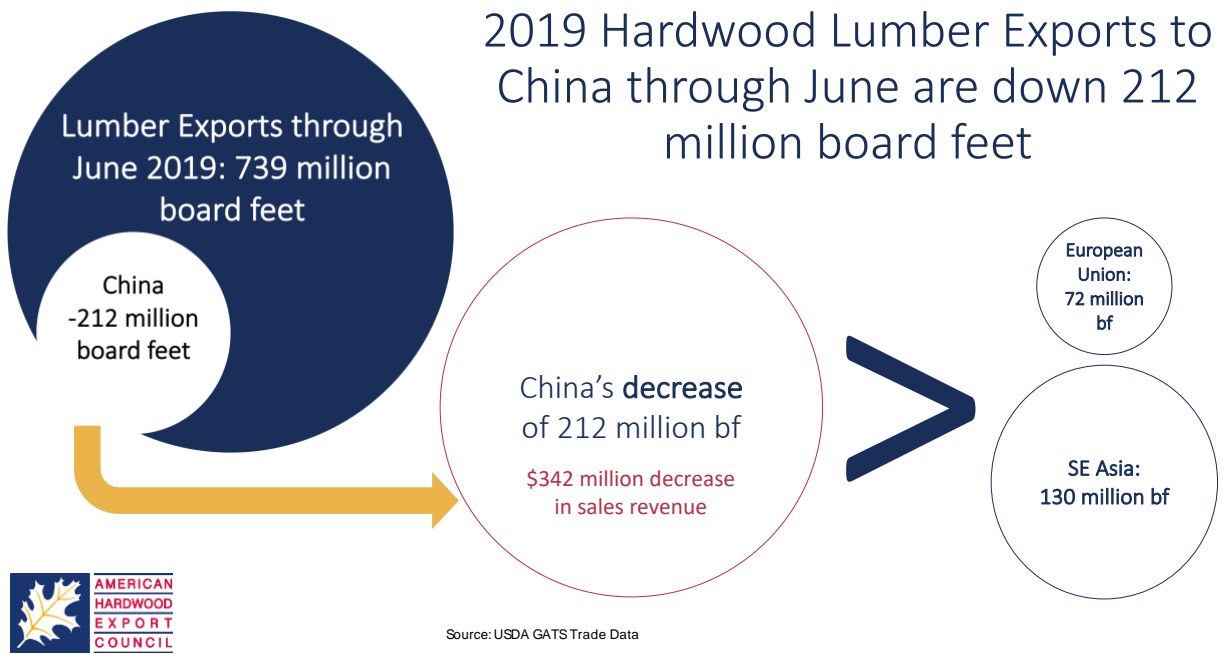


Fig. 3: Volume drop of China put into perspective

To reiterate, the drop in volume to China so far in 2019 exceeds the total trade to all of Europe and SE Asia combined during the same time period, OR the total volume shipped to Vietnam all of last year, which was a record high.

With June '19 data, we now have 12 months of trade figures since the US hardwood industry began to be directly impacted by the trade war. Over this July '18 - June '19 year, US hardwood lumber exports are down by a total value of **\$614,500,023** compared to the previous 12 months. Log exports are down a total of \$179 million over this same period. This is an average loss of \$154 million each quarter for lumber, and \$45 million each quarter for logs.

Quarterly US HDWD Lumber Exports to China

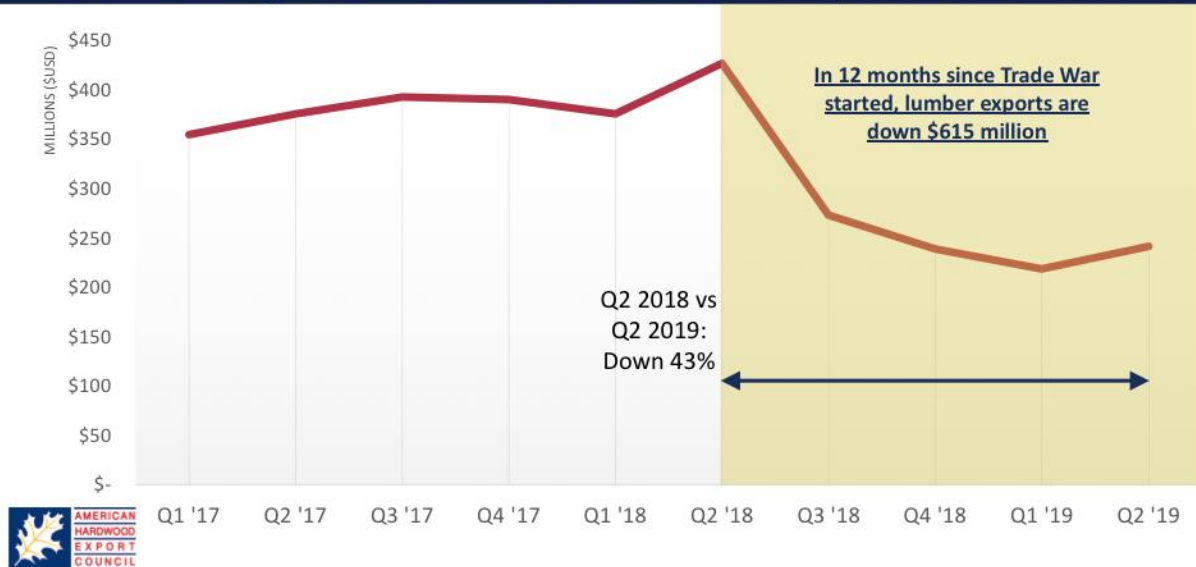


Fig. 4: Quarterly Exports of Lumber since Trade War

Fig. 5 below shows the volume changes for US hardwood lumber exports to China over the first half of 2019, along with appropriate tariff level for each species.

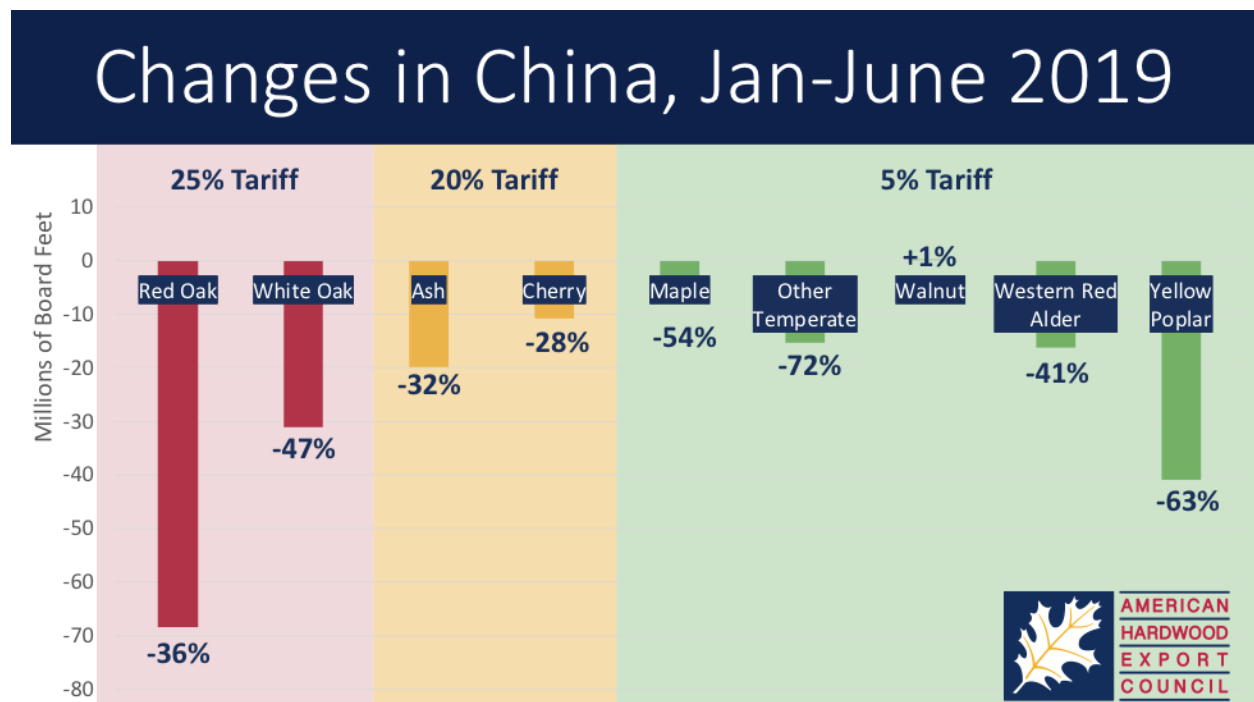


Fig. 5: Chinese consumption changes for each species over the first half of 2019 (in board feet), along with the percentage change

Some species, like yellow poplar (*liriodendron tulipefera*), have seen dramatic decreases (over 40 million board feet) in spite of only having a 5% tariff imposed. According to AHEC Regional Director John Chan, this is because a large percentage of Chinese furniture being made with yellow poplar was used for exports – meaning a piece of furniture made in yellow poplar destined for customers in the United States gets hit with tariffs twice: 5% on the lumber coming in and 25% on the furniture going back to the US.

Is it just the Tariffs?

Tariffs are only part of the story. While it's true that heavily tariffed species like red and white oak are both down significantly (-36% and -47% respectively), larger economic and political factors as well as a broad sense of uncertainty in the market are equally to blame for this dramatic freefall.

Conventional wisdom held that since the US exports far fewer products to China, their ability to retaliate in a trade war would be limited. Conventional wisdom was wrong. A week ago (Aug 1) President Donald Trump announced a 10% tariff on China's remaining \$300 billion in exports to the US, and by Monday (Aug 5th) the Chinese Yuan (RMB) had dropped past an exchange rate of 7 to 1 for the first time since 2008. This additional devaluation dampens the effect of US tariffs on Chinese goods and amplifies the effects of their tariffs on our exports. US goods including hardwood products are more expensive overnight, and now there is considerable political pressure on Chinese companies to avoid importing US agricultural products. For the moment, it does not seem that hardwood products are directly implicated in the Government statement threatening to halt imports of US Ag products, however if tensions continue to escalate China could restrict purchases of more commodities.

Economically, it can be difficult to tell how China is actually doing. In the Chinese Communist Party (CCP) system, municipal economic officials are often given growth targets that (miraculously) are met to an almost exact level every year. As China controls an extremely high number of state-owned-firms across infrastructure, banking, and a myriad of other sectors, officially reported growth numbers are generally accepted as being higher than reality.

One study from the University of Chicago analyzes the surprisingly strong link between light production (as measured by nighttime satellites) and GDP across free market economies and dictatorships and found "authoritarian regimes inflate yearly GDP growth rates by a factor of 1.15-1.3 on average" (Martinez, Luis, *How Much Should We Trust the Dictator's GDP Growth Estimates?* (May 3, 2019). Available at SSRN: <https://ssrn.com/abstract=3093296>). Martinez puts China at roughly 30% below their official reported annual GDP growth rate. The study of light production vs GDP has been backed up by several other studies by groups including Brown University and the National Bureau of Economic Research.

Earlier this year, China reported their weakest level of economic growth in 27 years ([Bloomberg, July 14, 2019](#)). That growth number is still 6.2%, but needless to say, when even the official CCP growth rate is slowing down, the economic effects are serious. This is the lowest growth rate since the country began compiling and reporting quarterly data in 1992.

China has a tremendous amount of debt from “building through” the 2008 global financial crisis, and any future slowdown can have sustained effects on their economy. Officially, China’s debt is only about 40% of GDP as opposed to 106% of GDP in the US, but since so many loans are given to state-owned-enterprises, the real debt level is much higher. We are also hearing reports of private Chinese firms (including the furniture and flooring industry) who are having more difficulty getting loans from local banks as the available money is directed to state-owned firms.

The trade war, while having a direct impact on our industry, is not the direct cause of China’s economic instability in 2019. Rather, many underlying issues in the Chinese economic system (propping up state-owned firms to build through the Global Financial Crisis, intervening in currency markets, unsustainable housing bubble, stagnant capital markets, etc.) are exacerbated by the trade war, forcing Chinese leadership to be more conservative in their growth estimates. With the United States and China both looking to “Circle the Wagons”, the Global economy is in serious danger of another downturn as the trade war continues without an end in sight.

Today, uncertainty continues to cloud the decision-making process for every point in the hardwood value chain. I want to take an example to show how this uncertainty is depressing consumption and trade below “real” levels.

Last October there was a significant increase in purchases as American exporters and Chinese manufactures alike rushed to beat the reported tariff increases on 1/1/2019 (see fig 1, pg.2). This rally came after the President Trump tweet on September 17th that provided a timeline for tariff increases. The fact that tariffs of up to 25% were imminent is not necessarily good news, but nevertheless was a road map that allowed the industry to plan and make cost projections with some degree of clarity. What this dramatic bump and subsequent freefall through winter (as the increases were pushed back and then delayed) tells us is that the Chinese had capacity to purchase US hardwoods but didn’t want to get caught by price volatility. Likewise, with prices of many US hardwood species in sustained decline, importers around the world are hesitant to buy US hardwood products because there is substantial risk they will be caught holding “overpriced” inventory should the market price decline further while the container is on the water. Any stability, even one provided by full tariff levels in China, can be used as a positive for the market to find its level. Of course, there are always additional areas of uncertainty, like another round of tariffs on China announced last Thursday (Aug 1), or a potential trade war with Vietnam or Europe, but that underscores the economic danger of volatile trade policies, and the ignored industries like American hardwoods that can get caught in the middle.

The unfortunate fact is that right now, due in large part to uncertainty, we are being replaced in the Chinese market.

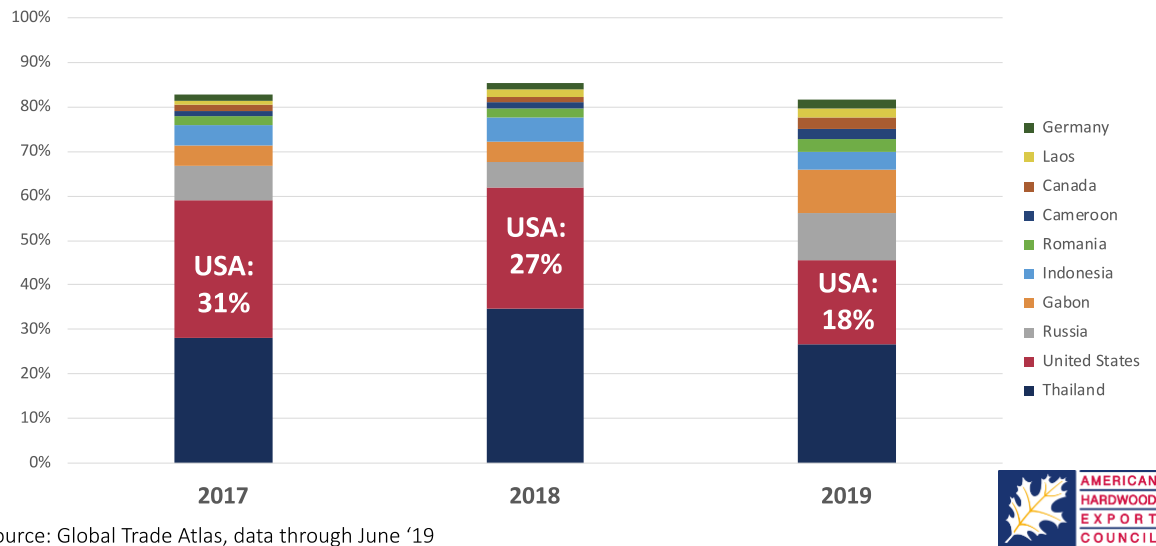


Fig. 6: US Hardwood Lumber Market Share in China

The United States market share in China, in terms of value, was over 30% for hardwood lumber (all 6-digit HS Codes, stats from Global Trade Atlas) in 2017. So far in 2019 we make up only 18% of China's imports. Two markets that have doubled their market share in China during this trade war period: Russia and Gabon. In 2019 China is importing 33% less hardwood lumber in total, so we have a smaller piece of a smaller pie.

The real long-term danger here is that we are losing market share that will not easily be won back. As Chinese manufacturing shifts to using Russian birch instead of American yellow poplar, would they decide to change back if tariffs were lifted? China's Belt and Road Initiative is making trade easier with countries like Russia and Gabon, and if there is no added scrutiny from the end customer on legality and sustainability, we will have serious competition for market segments we once dominated. The longer the trade war goes on, the longer term the damage becomes.

Vietnam

Vietnam has been one of the few global bright spots so far in 2019, as the market has continued its substantial growth and expanded by 14% over last year. This increase is \$14 million in new hardwood markets and the region shows a growing diversification of species preferences. Western red alder, white oak, and red oak have all grown in popularity in the region, particularly as additional manufacturing is added in Northern Vietnam to satisfy Chinese demand.

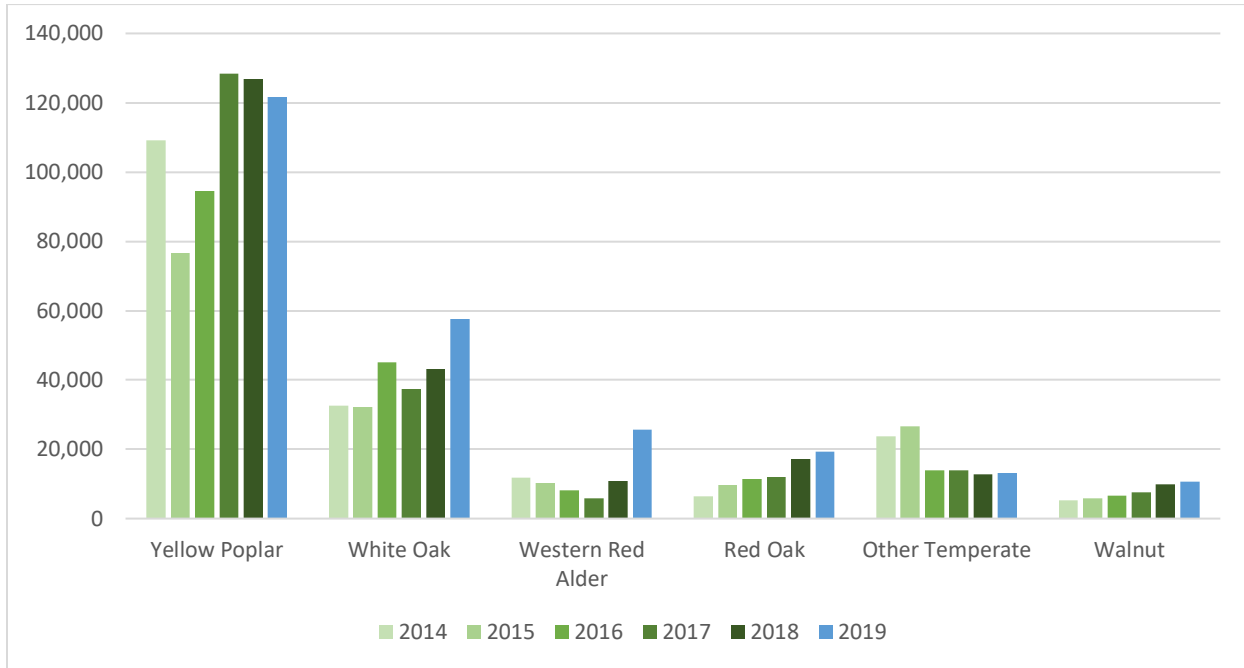


Fig. 7: US Hardwood Lumber Exports to Vietnam, Each Year Jan-June

However, ultimately no one single market, not even Vietnam, can replace the lost business in China over the past 12 months. For the first half of this year, the decrease in value of red oak exports alone to China is larger than the total value of exports to Vietnam for all species (R. Oak is -\$127 million, Vietnam market is \$117 million).

AHEC hosted a SE Asia Convention in Hanoi this past June and will bring a US hardwood pavilion of 30 members to Vietnam Wood in Ho Chi Minh City this September. We’ve designed a continued educational and networking program that will present the benefits of American hardwoods to this audience and are working diligently to provide a platform for you to grow your markets here. Please let me know if you are interested in exploring this market – I recommend attending VietnamWood this year or the VIFA furniture show next March.

Other Market Highlights

Of our top 20 largest hardwood export markets, only 7 have increased their total consumption of US hardwood lumber so far this year.

Those countries (in order of market size and with volume of growth):

- Vietnam ~ +33,219 m³, +14%
- United Kingdom ~ +1,121 m³, +2%
- Thailand ~ +5,170 m³, +58%
- Malaysia ~ +202 m³, +2%
- South Korea ~ +296 m³, +3%
- Estonia ~ +2,918 m³, +71%
- Saudi Arabia ~ +2,701 m³, +69%

Vietnam, as discussed earlier, has increased their consumption of white oak (+34%) and western red alder (+136%) significantly, as well as moderately increased their consumption of red oak (+12%). The **UK** has held steady in spite of BREXIT related economic concerns, and **Malaysia & South Korea** both moderately increased consumption on smaller markets with no major structural changes.

Thailand's growth figures are somewhat of an anomaly; from 2014-2017 this market consistently imported around 17,000m³ by the midyear point, but in 2018 imports through June were only 8,879m³. The 2019 stats of 14,049m³ is a welcome improvement, but still doesn't bring US lumber exports to their historic average.

Estonia added \$2.4 million in new hardwood lumber imports through June. The majority of the market is white oak (+94% volume) and ash (+57%), which feeds the country's robust thermal modification industry.

Saudi Arabia saw a significant increase in red oak consumption (+84%) over last year, to a total of 2.5 million board feet so far through June. The Middle East is one of the few regions outside of the US and China who utilize red oak, so many of these countries are seeing an increase in the species as US exporters look to find underserved markets.

Small (for now) Markets

If you've talked with me over the past year about growth markets I've probably brought up **India**. India has imported about \$1.2 million of lumber from the US so far this year, which is a 200% increase in consumption by volume from last year. In 2018, India imported over \$270 million of hardwood lumber from all countries – meaning we have only about 1% market share. By no means is this market going to replace China in the immediate or even long-term future. But, based on our experiences in this country over the last year there is a significant growth opportunity today for companies who are willing to do the leg work.

The population growth in India is intriguing, but not the source of many immediate opportunities. The real growth is in the region of Rajasthan in northwest India. This free trade zone has developed into the furniture export hub, supplying pieces to John Lewis, West Elm, Crate and Barrell, Rooms to Go, and Ashley Furniture to name a few. AHEC has planned a trip to the Mumbai Wood trade show as well as two days of factory visits and a seminar in Jaipur, Rajasthan this October 17-22. [You can find out more information and sign up here.](#)

In the words of AHEC Regional Director, Rod Wiles: “There is absolutely no doubt that India offers massive potential for the consumption of American hardwoods across many different sectors, across all price points and both for domestic and export manufacturing. However,” he cautions, “it will take many years for the full market potential to be realized”. No country will be another China, and India will likely not even be another Vietnam, but there is an immediate opportunity for US companies to lay the groundwork for tremendous growth in the next decade. India still requires education on our species, and the market has been notoriously difficult logistically, but India has created a furniture manufacturing sector that's very real and growing quickly. It's up to us if we make American hardwoods part of that growth.

Cambodia is another intriguing market for US hardwoods. As development in Vietnam strains the country's infrastructure and wages continue to increase, some manufacturers are looking to alternative markets in SE Asia. Cambodia imported a negligible amount of US hardwood until November 2018 when a new factory began consuming a couple containers a month. So far in 2019, imports have totaled over \$770,000, mostly in white oak. That's not much, but is an early sign for AHEC to investigate and promote American hardwoods as regional dynamics continue to shift.

Red Oak Gains in Europe

In 2018 and 2019 AHEC has focused our **Europe** campaigns on the promotion of American red oak. If you attended Interzum Cologne you saw all display pieces and even the stand itself were made out of American red oak. The centerpiece of our pavilion, which hosted nearly 30 US companies, was “The Blushing Bar”.



“The Blushing Bar” by Sebastian Cox. Dye injected American red oak

This, and upcoming design projects in Poland and London, are focused on communicating the message that American red oak is a viable, and many cases preferred, alternative to European oak. So how did the statistics say our campaign was received?

American red oak lumber exports to Europe are up 25% by value and 30% by volume so far in 2019. In the UK, home to our London office and the epicenter of our design marketing campaign, red oak lumber imports are up 49% by value and 48% by volume. This represents a \$2.5 million market in the UK and over \$9 million in the EU. That’s still relatively small by volume, but the growth is an encouraging sign that the region is beginning to appreciate American red oak.

Through additional projects later this year in Europe, the Middle East, and Oceania that focus on the unique characteristics and benefits of American red oak, we plan to drive global adoption of this beautiful and abundant species.

Upcoming AHEC Events

August

7-11

[100% Design SA](#)

Johannesburg, South Africa

14-17

[Technomueble Trade Show](#)

Guadalajara, Mexico

September

3-6

[Abastur Interior Design & Hospitality Show](#)

Mexico City, MX

9-12

[FMC Premium Trade Show](#)

Shanghai, China

10

Turin Design Festival

Turin, Italy

11

[Commercial Interior Design Awards](#)

Dubai, U.A.E.

13

[AHEC "Legacy" Red Oak Project](#) at LDF

London, UK

18-21

[VietnamWood 2019](#)

Ho Chi Minh, Vietnam

October

2-4

[NHLA Convention](#)

New Orleans, Louisiana

3-6

[Warsaw Home Fair](#) (Red Oak project)

Warsaw, Poland

9-12

[iFMAC & WoodMAC 2019](#)

Jakarta, Indonesia

October (Cont'd)

15-19

[Expo CIHAC Trade Show](#)

Mexico City, MX

16

[Australian Timber Design Awards](#)

Sydney, Australia

17-19

[Mumbaiwood](#)

Mumbai, India

21-22

[AHEC Mini-Convention & Factory Visits](#)

Jaipur, India

30

Seneca Creek Environmental Conference

Tokyo, Japan

November

11-16

[Dubai Design Week](#)

Dubai, UAE

12-13

[Branchentag Holz](#)

Cologne, Germany

20-21

[International Hardwood Conference](#)

Berlin, Germany

20-22

[IFFT "Eco Design in American Hardwoods"](#)

Tokyo, Japan

December

3-6

[Cairo Woodshow](#)

Cairo, Egypt