

The International Hardwood Lumber Market and Potential Impacts on Your Bottom Line

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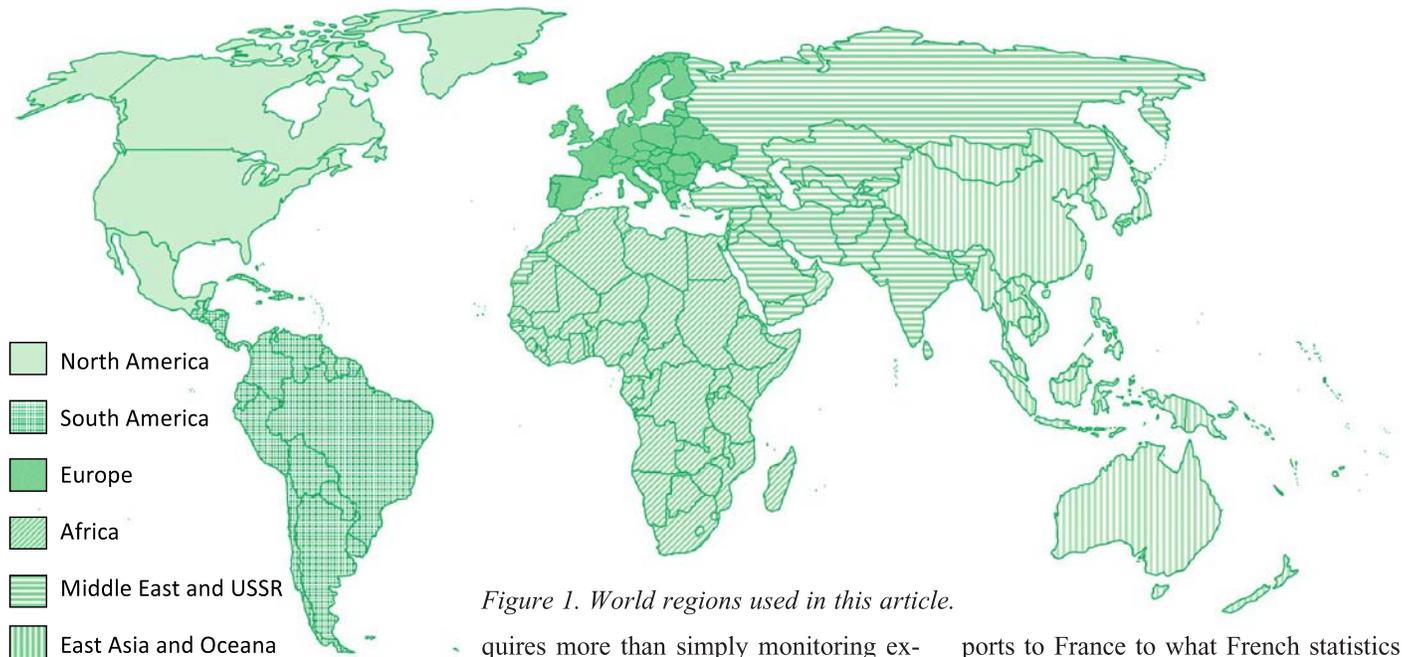


Figure 1. World regions used in this article.

Even if you don't sell logs or lumber to foreign customers, the international hardwood market can impact your business in significant ways, and smart business leaders are taking notice so that they are ready for shifting market impacts.

Many people believe that lumber exporting is only an opportunity for larger sawmills. However, even if you have a portable mill operating somewhere in the Midwest and sell your higher grade lumber to a yard, there is a high probability that some of that lumber will eventually be exported. Furthermore, if you sell your lumber locally under prevailing market prices, that price likely is influenced by the export market.

Understanding International Trends Requires Careful Analysis

While exports have been affecting hardwood lumber prices since the early 1970s, the influence of exports on lumber price today is greater than it has ever been. Therefore, understanding the current hardwood lumber export market can be useful in everyday decision-making. However, understanding this market re-

quires more than simply monitoring export statistics because several underlying issues can affect international hardwood trade for a given region or country (including production, imports, exports and consumption), and these issues are constantly changing.

For international economic analysis, it is sometimes more useful to examine changes in production, consumption and trade on a regional basis rather than for individual countries. For instance, there were only three European countries (France, Germany, and Romania) that produced more than one percent of worldwide hardwood lumber in 2000, but Europe as a region produced over 14% of the world total. Similarly, there was only one country in East Asia that accounted for more than 5% of worldwide production (Malaysia), but the East Asian region accounted for over 21%. Even in 2013, there were only two individual countries that accounted for more than 10% of worldwide production, and those are China and the United States.

Another reason to look at regional trends is the inherent ambiguity of import and export statistics. For example, in 1992, a study compared U.S. lumber ex-

ports to France to what French statistics reported as imports from the U.S.; they did not match. However, when Canada and U.S. exports to France were combined, they matched the combined French reported imports from these two countries. Many times, importing countries track *country of origin* of the lumber rather than what country actually *originally sold* the lumber, as lumber can cross multiple borders before reaching the eventual consumer. For instance, if the walnut lumber you are producing is sold to a Canadian yard, chances are it ultimately will end up in China or Vietnam. In the case of East Asia, Thailand currently imports large volumes of lumber from Malaysia and exports substantial volumes of lumber to China.

Changing Landscape of the International Hardwood Lumber Market

It is important to understand that the international hardwood lumber market seen today can change quickly, and the market that existed in the 1990s is not the market the industry faces today. For this reason, we examine changes in worldwide hardwood lumber production, con-

In 2013, the United States exported 22% more lumber than the other top temperate exporters (Russia, Romania, Croatia, and Germany) combined. Of those four countries, only Russia ships significant volumes of lumber to China and Vietnam.

sumption, and trade since 2000 on a broad basis and focus on specific issues most influential in today's hardwood lumber market in the U.S.

The year 2000 is a good starting point because it is a year when U.S. hardwood lumber production and domestic usage were still relatively robust. After 2000, the United States began to rapidly lose the largest user of higher grade hardwood lumber, the wood furniture industry, to China and later Vietnam. The information used to examine worldwide consumption, production, and trade trends comes from the United Nations Food and Agricultural Organization (UN

FAO) database. U.S. trade trends were examined using the USDA Foreign Agricultural Service database. The regions used in this article are shown in Figure 1.

As can be surmised from Figure 2, worldwide hardwood lumber production has varied considerably this century. Prior to 2000, worldwide production had been decreasing for a variety of reasons with logging restrictions in India and China and economic changes in post-communist Eastern Europe being the most important factors. In 2000, North America (N. America) produced nearly 30% of the hardwood lumber worldwide (Table 1), and the United States ac-

counted for 95% of N. American production. The East Asia-Oceania (EAO) region manufactured another 21% of worldwide production followed by Latin America (L. America which is led by Brazil) and Europe.

Statistics on hardwood imports and exports in 2000 indicate that the most activity occurred in EAO, Europe, and N. America (Table 1). It should also be noted that the international trade in these regions was largely intraregional, that is, between countries within the regions. In the case of N. America, the most important trading partner for the United States was Canada, and Canada's most important trading partner was the United States.

The recession of the early 2000s caused worldwide hardwood lumber production (as well as production and trade) to reach a low point (Fig. 1), but this was followed by five years of growth. However, this growth was largely confined to the EAO region. Between 2002 and 2006, consumption in N. America and Europe decreased slightly, while hardwood lumber production remained fairly constant. In contrast, consumption in the EAO region increased by 56% and production increased by 62% resulting in this region becoming the largest producer and consumer of hardwood lumber. The countries that lead this increase were China and to a lesser extent Vietnam. The increase in EAO hardwood lumber production coincided with a decrease in imports, especially imports by China. However, U.S. exports to China and Vietnam increased during this period, possibly because furniture manufacturers in these countries needed U.S. species to produce furniture for the U.S. market.

Hardwood lumber consumption in N. America and Europe started to decline between 2006 and 2007, but these declines were offset by continual increases in EAO production and consumption. After 2007, hardwood lumber consumption and production declined sharply in N. America, L. America, Europe, and RCSAME (Russia, Central and Southern Asia, and the Middle East) but increased

Global Hardwood Lumber Statistics

Table 1. Percentage market share of hardwood lumber production, imports, exports, and consumption by geographical region in 2000, 2002, 2007, 2009, and 2013 with ranks in parentheses (Source: UN FAO)¹

Quantity	Region	2000	2002	2007	2009	2013
Percent (Rank)						
Production	Africa	5.2 (6)	5.2 (6)	4.7 (6)	6.1 (6)	5.7 (6)
	EAO	20.7 (2)	21.2 (2)	31.9 (1)	40.4 (1)	48.3 (1)
	N. America	29.6 (1)	29.9 (1)	23.4 (2)	16.7 (2)	17.0 (2)
	L. America	17.7 (3)	19.1 (3)	17.1 (3)	14.3 (3)	9.9 (3)
	Europe	14.1 (4)	14.3 (4)	12.2 (4)	11.0 (5)	9.3 (5)
	RCSAME	12.7 (5)	10.3 (5)	10.5 (5)	11.6 (4)	9.8 (4)
Imports	Africa	3.8 (5)	3.9 (5)	5.9 (4)	7.8 (4)	7.4 (4)
	EAO	36.8 (1)	42.1 (1)	36.3 (2)	47.9 (1)	54.7 (1)
	N. America	15.3 (3)	14.8 (3)	12.3 (3)	8.3 (3)	10.3 (3)
	L. America	2.1 (6)	1.3 (6)	1.6 (6)	1.6 (6)	1.2 (6)
	Europe	37.2 (2)	32.6 (2)	37.6 (1)	27.8 (2)	19.2 (2)
	RCSAME	4.8 (4)	5.2 (4)	6.2 (5)	6.6 (5)	7.2 (5)
Exports	Africa	8.8 (4)	6.6 (5)	7.8 (5)	8.7 (5)	9.7 (4)
	EAO	31.3 (1)	39.8 (1)	33.8 (1)	38.5 (1)	36.6 (1)
	N. America	21.2 (3)	18.5 (3)	14.8 (3)	13.5 (3)	19.3 (3)
	L. America	8.1 (5)	8.4 (4)	10.4 (4)	8.8 (4)	4.8 (6)
	Europe	28.4 (2)	24.1 (2)	30.7 (2)	27.0 (2)	25.4 (2)
	RCSAME	2.3 (6)	2.5 (6)	2.6 (6)	3.5 (6)	4.3 (5)
Consumption	Africa	4.2 (6)	4.5 (6)	4.3 (6)	5.9 (6)	5.4 (6)
	EAO	22.2 (2)	22.1 (2)	32.5 (1)	42.0 (1)	51.4 (1)
	N. America	28.1 (1)	28.8 (1)	22.9 (2)	15.9 (2)	15.4 (2)
	L. America	16.1 (4)	17.2 (3)	15.3 (3)	13.1 (3)	9.1 (4)
	Europe	16.5 (3)	16.6 (4)	13.7 (4)	11.0 (5)	8.4 (5)
	RCSAME	12.9 (5)	10.8 (5)	11.3 (5)	12.1 (4)	10.3 (3)

¹ May not add up to 100 percent due to rounding error.

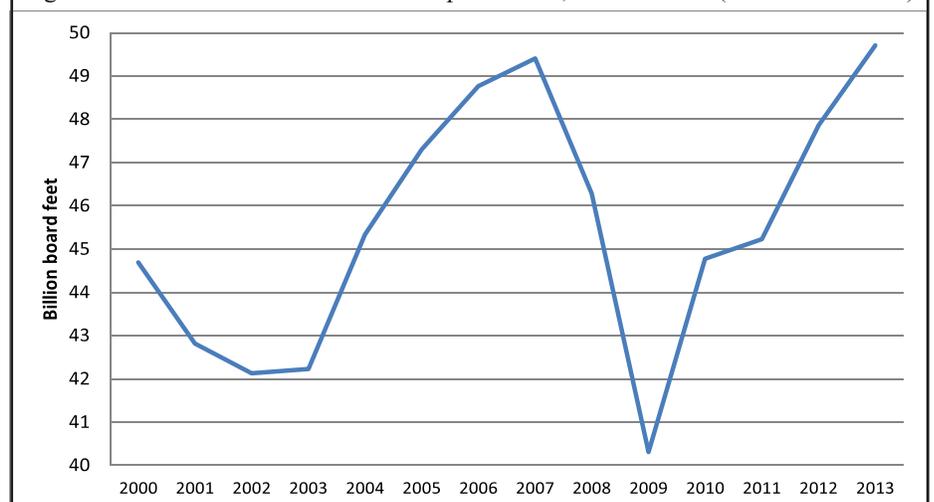
slightly in EAO. As a result, EAO accounted for over 40% of worldwide hardwood lumber production and consumption in 2009.

After the 2009 low point, hardwood lumber production increased in N. America, Africa, and RCSAME, but at much lower rates than the increase in production in EAO. In 2013, the EAO region accounted for nearly 50% of worldwide production and over 50% of worldwide consumption (Table 1). The

largest hardwood lumber producers and consumers in EAO are China and Vietnam. In 2013, Vietnam produced more hardwood lumber than India, Indonesia, and Malaysia (the third, fourth and fifth largest producers in 2000, respectively) and now rivals the production in Brazil (the second largest producer in 2000).

The emergence of China and Vietnam as major hardwood lumber consumers does have some positive outcome for U.S. hardwood lumber producers. It is

Figure 2. Worldwide hardwood lumber production, 2000 to 2013 (Source: UN FAO)



widely accepted by industry that nearly 50% of the grade lumber produced in the U.S. is exported, with a much higher percentage of higher grade lumber being exported, and that these exports have been a driving force behind the increase in lumber prices since late 2012.

The intraregional markets for hardwood lumber that were prevalent in 2000 also have changed. For example, in 2000, N. American countries (Canada and Mexico) and Europe were the major export markets for the U.S. By 2013, China and Vietnam accounted for nearly 55% of U.S. exports, and these countries have continued to increase their export market shares. While the major market for European lumber is still other countries in Europe, exports from Europe to the EAO region continue to grow as well.

It is unknown how much of Chinese lumber production is tropical or temperate, but we do know that all but a small proportion of hardwood lumber produced in the United States is temperate. The United States is the largest exporter of temperate lumber in the world by a wide margin. In 2013, the United States exported 22% more lumber than the other top temperate exporters (Russia, Romania, Croatia, and Germany) combined. Of those four countries, only Russia ships significant volumes of lumber to China and Vietnam.

China Grows in Significance While United States Remains the Largest Exporter

Since 2000, the international market for hardwood lumber has had increasing influence on domestic production and price because of the influence of export markets. Currently China, the United States, Vietnam, Brazil, and India account for over 60% of global hardwood lumber consumption and production. Of these five countries, the United States is the only major lumber exporter and accounted for 17% of worldwide exports in 2013. While Malaysia, Indonesia, and Thailand collectively account for 31% of worldwide exports, this number is misleading because much of the lumber exported to Thailand is then exported to China. In summary, the U.S. grade lumber market currently is heavily influenced by exports; paying attention to international factors can help ensure a greater profitability. 