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Germany

Forest Products

Annual Report

1998

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Report Highlights:
U.S. forest products exports to Germany are forecast at US$ 335 mill. in 1998. Major export items are hardwood logs, lumber and veneers and softwood plywood. The German woodworking industry imports mainly highest grades of U.S. hardwoods and softwoods. Lower grades are not a good market for U.S. exporters as there are adequate supplies available on the German and neighboring European markets. Of growing importance o the German forest products industry are imports from CEE countries.

Includes PSD changes: Yes
Includes Trade Matrix: Yes

General Economic Situation

Growth of German GDP for 1998 could increase by 2.7 percent. The outlook for 1999 is projected at only 2.0 to 2.5 percent, dampened by economic crisises in Russia and a number of newly industrialized countries. Export demand is slowing down, and marginally improving domestic demand cannot compensate for export losses. The domestic construction industry, which used to be the economic engine for Germany during the mid-90s, has had a recession for the past three years. Housing starts dropped by about ten percent in 1998 compared to 1995. Lucrative investment support programs for eastern Germany during the early 1990's resulted in surplus construction of homes, offices and other commercial buildings. Unemployment reached an historic high of 11.4 percent in 1997. By the end of 1998, the situation improved slightly with unemployment at 10 percent in November 1998. Retail sales are also recovering in 1998 by about 0.6 percent versus a reduction of 0.4 percent in 1997. Particularly, automobiles and electronics pushed retail demand.

Domestic Wood Production

Improved timber prices in German forests resulted in increased timber production of about four million cubic meters to about 41 million in 1998. The increase mainly took place in hardwoods. Demand continues to be strong for European beech. For 1999, forest experts forecast domestic timber harvest at or somewhat above 1998 levels. Plans to build a long-fiber sulphate pulp mill in eastern Germany are proceeding. So far, Germany does not produce any sulphate pulp for paper production but imports about four million metric tons annually, mainly from Scandinavia and Canada.

German Timber Harvest in 1000 CUM (United)

	Logs	Slee-pers	Industrial Wood Long	Industrial Wood Short	Stacked Wood	Other Wood	All	
Oak, Red Oak								
1990	843	4	126	128	218	86	1,405	
1991	570	19	107	64	170	79	1,009	
1992	483	15	120	83	197	75	973	
1993	475	16	104	66	196	87	944	
1994	536	9	138	69	206	107	1,065	
1995	667	8	307	90	203	100	1,375	
1996	625	9	300	88	193	128	1,343	
1997	493	10	117	67	238	139	1,064	*
1998							1,100	**
Beech, Other Hardwoods								
1990	4,329	83	1,772	788	841	204	8,017	
1991	2,746	100	1,682	497	762	165	5,952	
1992	2,239	98	1,607	600	721	215	5,480	
1993	2,193	85	1,468	525	763	270	5,304	
1994	2,578	71	1,706	515	761	329	5,960	
1995	3,175	66	2,500	650	760	321	7,472	
1996	3,170	62	2,578	557	620	358	7,345	
1997	2,727	63	1,378	552	914	447	6,081	*
1998							7,500	**

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Spruce, Fir, Douglas Fir								
1990	44,513	195	3,851	4,353	1,286	397	54,595	
1991	12,918	119	2,026	3,359	620	164	19,206	
1992	11,333	162	1,447	2,771	619	230	16,562	
1993	12,389	0	1,192	2,457	634	273	16,945	
1994	16,932	0	1,130	2,569	811	335	21,777	
1995	16,491	0	1,350	3,000	828	350	22,019	
1996	16,194	0	1,350	2,700	660	341	21,245	
1997	17,935	86	1,040	2,744	750	480	23,035	*
1998							23,500	**
Pine, White Pine								
1990	6,136	4	2,503	1,602	596	163	11,004	
1991	2,544	2	969	1,486	357	160	5,518	
1992	2,068	2	692	1,447	406	129	4,744	
1993	2,359	5	551	1,253	411	185	4,764	
1994	2,806	3	676	1,629	472	230	5,816	
1995	3,919	3	1,100	2,700	500	255	8,477	
1996	3,435	2	849	2,235	299	259	7,079	*
1997	4,066	7	669	2,171	817	297	8,027	**
1998							8,500	
All Species								
1990	55,821	286	8,252	6,871	2,941	850	75,021	
1991	18,778	240	4,784	5,406	1,909	568	31,685	
1992	16,123	277	3,866	4,901	1,943	649	27,759	
1993	17,416	106	3,315	4,301	2,004	815	27,957	

	1994	22,852	83	3,650	4,782	2,250	1,001	34,618	

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1995	24,252	77	5,257	6,440	2,291	1,026	39,343	
1996	23,424	73	5,077	5,580	1,772	1,086	37,012	
1997	25,221	166	3,204	5,534	2,719	1,363	38,207	*
1998							40,600	**

* Does not add up because some German states did not supply complete data sets.

** Forecast

Source: Federal Ministry of Agriculture

The German timber market has been mixed in 1998. While prices for raw timber went up, prices for lumber stagnated due to weaker international demand and increased competition on the domestic market. Lumber which cannot be sold on the Asian market is redirected to the European market. Import prices for softwood lumber from Scandinavia and countries of the former Soviet Union dropped by more than ten percent. A major success story for German saw millers is the export of beech lumber which is shipped to Mediterranean countries and in large volumes to Hong Kong.

Consumption

Developments in the construction sector matter the most for the forest products market. The outlook for public construction continues to be bleak. Public deficits on all levels prohibit expensive new investment. Large portions of federal investments are used in Berlin to build the new capital. Public investment in the eastern part of Germany had also slowed because of empty budgets and completion of priority projects. Commercial construction investment is also forecast to shrink marginally. International economic problems and growing lack of confidence in the new German government postpone companies investment plans. Private housing sector demand for single-unit homes is strong in 1998. An increase of about 12 percent from 1997 is estimated in western Germany for 1998 . Interest rates are at a historical low which supports private housing starts. In eastern Germany there is low enthusiasm to invest in private housing, even with favorable interest rates, since income and demand are not strong enough to absorb excessive housing construction of past years, the result of favorable investment support programs for eastern Germany.

Housing Starts and Housing Permits in Germany				
	Permits	Housing Starts		

		Single Units	Multiple Units	All
1991	340,639	133,800	130,341	268,931
1992	394,093	137,377	179,251	322,128
1993	525,935	164,044	221,555	394,120
1994	624,839	212,354	284,309	501,728
1995	552,695	205,165	312,481	524,606
1996	496,694	188,802	292,173	485,249
1997	453,773	206,482	283,679	494,668
1998	400,000	220,000	250,000	470,000

German housing is predominantly maisonary. However, in recent years wooden houses gained market shares, partly the result of intensive promotion work of American Plywood Association (APA). Stricter national insulation requirements and intensive German tourism to North America may have assisted the upward trend in wooden house construction. Rough estimates are that about six to eight percent of the newly built homes are wooden. A small number of wooden houses are directly imported from the United States. However, German building codes significantly limit this business.

The German wooden flooring industry does not necessarily follow domestic construction industry trends since parquet or other wooden flooring is usually built into higher value single unit private homes. In contrast multi-unit homes are predominantly equipped with carpet or modern high pressure laminate (HPL) flooring.

German Parquet Flooring Market, in 1,000 sqm				
	Production	Import	Export	Consumption
1993	8,781	11,406	2,174	18,013
1994	9,955	13,648	2,612	20,991
1995	10,228	14,949	3,312	21,865
1996	9,850	15,000	3,684	21,165
1997	9,952	12,771	4,215	18,507
1998*	10,000	13,000	4,300	18,700
1999				
Source: German Parquet Industry				

The German window industry suffers from reduced construction. In particular wooden windows lost market shares during recent years. Lower priced plastic windows are increasingly built into single-unit private homes. The public discussion and discrimination of tropical timber had a negative influence on the use of wood in window production. Particularly meranti wood was substituted by plastic and by temperate softwoods. Since softwoods are more problematic than meranti a number of customers switched over to plastic windows. Since the discussion about tropical timber has nearly ceased in 1998, more tropical timber is being used again.

Production Developments on the German Window Market (mill. Units)						
	1993	1994	1995	1996	1997	1998
Wood Windows	7.9	7.6	7.4	6.9	6.6	5.9
Plastic	9.9	11.8	12.3	12.0	12.6	12.2
Aluminum	4.7	5.2	5.2	4.9	4.4	3.7
Alu + Wood	0.5	0.6	0.7	0.7	0.7	0.8
All Types	23.0	25.2	25.6	24.5	24.3	22.6
Source: German Windows Manufacturers Ass'n						

The German furniture industry reports an improvement of business for 1998 of about six percent. Major improvement is reported for chair manufacturers and kitchen cabinets. Office furniture production went up by only two percent. While furniture sales improved significantly, the industry complains about reduced profit margins. It is forecast that the number of furniture manufacturers will drop by three percent to 1,480 plants by the end of 1998. In 1998, domestic demand is strong for young fashionable furniture and for lower priced off-the-shelf furniture. High value designer and conventional furniture were not in strong demand in 1998. Since domestic furniture demand had slowed last year, German manufacturers successfully concentrated sales efforts on export markets. Besides the neighboring EU countries central and eastern European countries are increasingly attractive for German furniture exports.

Preference for wood species did not vary much in 1998. European beech, red alder, white oak, hard maple and other light colored species are highly preferred. Natural colored oak of European and North American origin are likely to regain some ground. The market is also open for new species. German customers are not attached to a single species. Living rooms may contain furniture reflecting many species

Trade

The forest products market in Germany and other European countries is liberalized and therefore highly competitive. Despite price improvements during the past two years, forest owners complain about low prices. Debate about tropical timber also had a negative impact on forest products prices. To escape from this negative scenario the German government, in cooperation with the forest industry implemented a special promotion program managed by the Forest Marketing Board in the early 1990's. A special label identifying wood harvested in German forest was developed to indicate and prove that German forest management corresponds with international sustainability principles. Competing with the national sustainability program is the certification by the Forest Stewardship Council (FCS). Although a number of do-it-yourself markets, mail order companies, furniture and window manufacturers assigned to the FCS program, the FCS logo has not yet gained any market relevance. Consumers do not seem to be interested in the logo guaranteeing forest sustainability. Forest products traders and manufacturers argue that this merely a logo among many others.

Consumers are more interested in regional identification. The domestic furniture industry utilizes a label identifying the furniture as of German origin. This implies that more than 50 percent of the furniture’s input are of German origin, distinguishing the product from imported furniture. This label does not exclude imported veneers or lumber used in German furniture making.

German imports of forest products amounted to US$ 332 million in 1997, accounting for eight percent of total German forest products imports. For 1998, German imports are forecast to remain at high 1997 levels. The major portion of these imports are accounted for hardwood logs (US$ 27 mill.), hardwood lumber (US$ 90 mill.) and hardwood veneers (US$ 112 mill.). Softwood plywood imports account for US$ 46 mill.

German exports of forest products to the United States are rather small, accounting for only US$ 62 mill. in 1997 but rising to about US$ 80 mill. in 1998. Major German export items to the United States are medium density fiberboard (MDF), particleboard and veneers. Particularly German exports of MDF grew significantly to an estimated volume of US$45 mill. in 1998.

Marketing

Since Germany itself is an important timber producer, imported timber from the United States is usually only of the highest grades “FAS/FAS1F” or “Select&Better.” Lower grades are usually not accepted. Most imports done by importers and agents. Direct purchases are limited since most German furniture and flooring manufacturers are mid-sized companies. The trend in wood product sales to Germany is towards processed dimension products. It is recommended to U.S. exporters to visit InterZum Trade Show held every odd-number year in Cologne. Interholz-fair in Hanover is of lesser importance to U.S. exporters. It competes with and directly follows InterZum or partly overlaps with InterZum.

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