

2 *The economic situation and construction-sector developments in the UNECE region, 2011-2012*

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Highlights

- The economic recovery in the UNECE region has been sluggish, national income in one half of the economies has yet to return to 2008 levels, and unemployment remains high.
 - There are numerous downside risks to even attaining moderate growth in 2013, a deepening eurozone crisis being the most likely.
 - If the eurozone crisis should further deteriorate, it will have significant implications not only for the EU but also for the global economy.
 - The modest recovery of the US economy is not strong enough to re-employ the people who lost their jobs during the crisis.
 - As a result, the US housing market is still weak, with new housing starts and sales at their lowest levels since modern records began to be kept in 1963.
 - The Canadian housing market is in a better state than that of the US, although housing starts are below 2008 levels; and some people are concerned about a housing bubble in Canada.
 - The European housing construction market is still sluggish, as the sovereign debt and lingering financial crisis continue to affect many countries. Norway and Switzerland are the notable exceptions to the ongoing housing malaise.
 - After four years, the correction in the housing market is far more advanced in the US than in Europe.
 - Economic conditions, such as unemployment, tightened loan requirements and consumer sentiment, are still hindering a robust recovery in new home starts in the UNECE region.
 - In the EU, there is no immediate sign of any housing recovery.
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2.2 Construction-sector developments

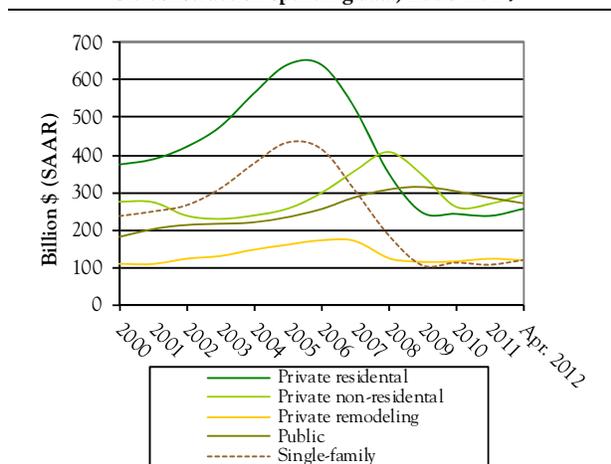
2.2.1 United States construction market review

The US housing market continues to struggle from overbuilding, the housing crash, and the Great Recession. It is still in a correction that began in 2008, with new housing starts and sales at their lowest levels since modern records began being kept in 1963 (graph 2.2.1). Spending on housing construction is at record lows; however, the remodelling and multi-family subsectors' expenditures are increasing slightly. Most estimates for a moderate to robust housing recovery are still several years in the future.

In April 2012, new US house sales increased to a seasonally adjusted annual rate (SAAR) of 343,000; a decrease of 73% from the housing peak in July 2005 or about 50% of average annual sales dating back from 1963 (graph 2.2.2). New home construction comprised 6.7% of the 2011 residential sales market, a decline of 15% from the past decades housing boom. New home sales are depressed and the quantity of new homes on the market is the lowest in 47 years (US Department of Commerce-Construction (DOC), 2012b).

GRAPH 2.2.1

US construction spending data, 2006-2014



Notes: Single-family expenditures are also included in private residential spending. Single-family data was included here to illustrate the housing crash and “Great Recession” effect on single-family expenditures.

SAAR = Seasonally Annualized Adjusted Rate.

Source: US Census 2012a and US Department of Commerce-Construction (DOC) 2012a.

Existing home sales in May 2012 were 4.55 million (SAAR) (National Association of Realtors (NAR), 2012) – a decrease of 69% from the housing peak in 2005 (graph 2.2.2). The median existing house sales price in

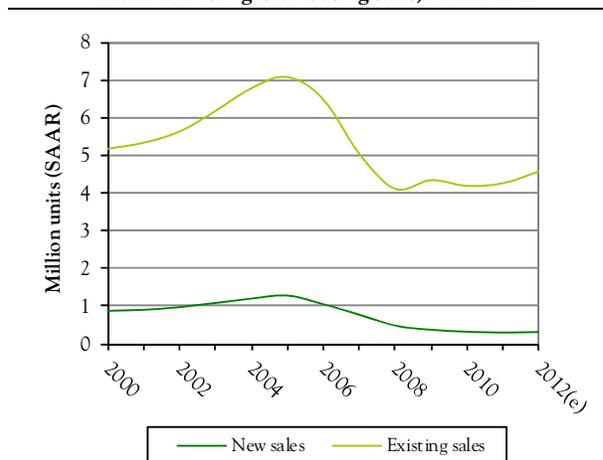
May 2012 was \$177,400; 9.6% greater than in May 2011 (NAR, 2012). Also in May 2012, the median new home sales price was \$235,700, nearly 5% greater than in April 2011 and the largest percentage increase since January 2006 (US DOC, 2012b). Standard & Poor's (S&P)/Case-Shiller Home Price Indices, show a declining trend in US home prices since the peak in late 2006 and now the price indices stand at early 2003 levels. There has been also short term increase in these price indices since 2006, but the overall trend has been declining (S&P, 2102a).

The US housing market continues to be troubled. In the first quarter of 2012, the original property loan values of more than 31% of borrowers – equivalent to about 16 million homeowners – exceeded the current market value of their properties. In total, the value of the so-called “negative equity” is \$1,200 billion, with homeowners owing on average of \$75,644 more than the value of their individual property (Zillow, 2012).

At March 2012, about 2.57 million property loans were at least 90 days behind in their repayments. In addition, almost 1.5 million properties were faced with repossession: more than two-thirds of the owners of these properties had made no loan repayments in over a year; with the remaining one third having made no repayments in two years (Lender Processing Services, 2012). By the end of March 2012, the stock of repossessed houses stood at 1.4 million, about 3.4% of all mortgaged properties.

GRAPH 2.2.2

New and existing US housing sales, 2000-2012



Notes: e = estimate. SAAR = Seasonally Annualized Adjusted Rate.

Sources: US Census (2011b) and National Association of Realtors 2012.

Since September 2008, mortgage lenders have repossessed 3.5 million properties, with 1.4 million

foreclosed in 2011 alone. This has led to the existence of a “shadow inventory” of housing stock, which consists of repossessed properties that have still to be listed for sale. Estimates of this shadow inventory range from 1.13 million (S&P, 2102b) to 1.5 million housing units, and its existence undoubtedly affects consumer sentiment and property prices (CoreLogic, 2012).

Factors hindering any significant housing recovery include a continuing high level of foreclosures (repossessions); shadow inventory; low consumer confidence (important since consumer spending is about 73% of the US economy); high unemployment and underemployment; sizeable and increasing student debts; a lethargic economy; and strategic defaults. A strategic default occurs when homeowners, who may be financially able to make loan repayments, voluntarily choose to stop making payments and, in many instances, simply to walk away from their homes in order to escape from negative equity.



Source: C. Giordano, 2012.

2.2.2 US construction outlook

Historically, housing has been the key market driver for sawn softwood and structural panels and their prices normally track housing starts. There are several estimates of new housing starts from May 2012.

(1) 708,000 units, including new single-family starts of 516,000 units (SAAR) (US DOC, 2012c).

(2) 706,000 units (consisting of 499,000 single-family and 207,000 multi-family) (National Association of Homebuilders, 2012).

(3) Other estimates for projected total starts in the range of 700,000 to 740,000 units (Alderman and Buehlmann, 2012).

In April 2012, total residential construction was \$256.1 billion; single-family was \$119.4 billion; multi-family was \$18.0 billion; and home improvement was \$128.6 billion (all SAAR) (US DOC, 2012a). The Leading Indicator of Remodelling Activity (LIRA)

(2012) estimated that spending on remodelling should increase by nearly 5.9%, or \$122.6 billion, by the end of 2012. Authorized building permits for residential remodels in April were 2,729,000 (SAAR), 12% above the April 2011 estimate (BuildFax, 2012). Since 2009, expenditures for private remodelling have exceeded or been equivalent to new single-family spending (US DOC, 2012a).

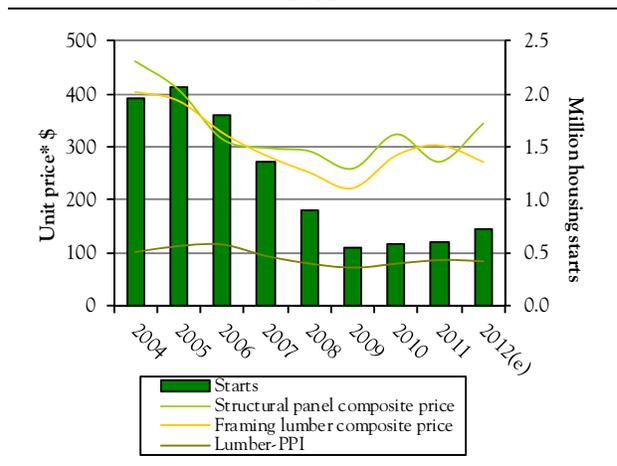
2.2.3 US building material markets

Sawn softwood and panel prices historically tend to correlate with housing starts. The recent increase in demand and material prices appears to be driven by improvement, albeit small, in the North American housing market, and hope for a turnaround in the housing market (graph 2.2.3). While total housing starts have increased above the levels of the past three years, a primary component for these starts has been multi-family housing, a subsector that traditionally does not consume large quantities of hardwood products, though softwood products may benefit.

North American homes historically have been the primary market for sawn softwood and structural panels – in the past some estimates indicated that 65% of wood building materials are directed to this market. This may be changing, as reported last year, as industrial markets consume more sawnwood than new housing, about 35% while new housing construction is nearly 22% (Random Lengths, 2011).

GRAPH 2.2.3

US sawnwood and panel prices versus US housing starts, 2004-2012



Notes: e = estimate, *structural panel composite price unit = 1 000 square feet, framing lumber composite price unit = 1 000 board feet, lumber PPI index (2004=100).

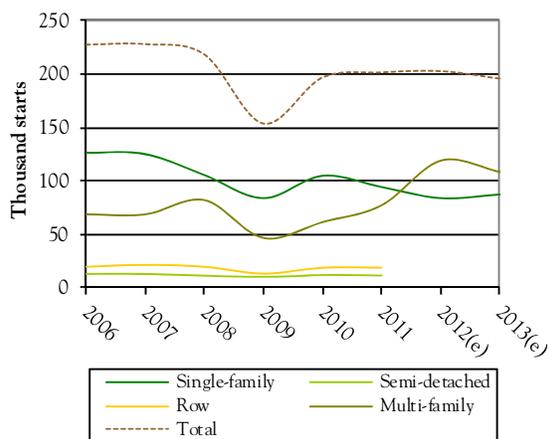
Sources: US Census, 2011c, US Bureau of Labor Statistics – PPI lumber prices, and Random Lengths® – sawnwood and panel prices, June 2012b.

2.2.4 Canadian housing market

The Canadian housing market has recovered better than the US market from the effects of the economic crisis. Housing starts increased from 189,930 units in 2010 to 193,950 in 2011 but are still well below the 2002-2008 levels. Like in the US, multi-family housing is projected to be a primary component of housing in the future; generally multi-family housing consumes less sawnwood than single-family units. And sawn wood is vulnerable to substitute products such as steel, aluminium, and concrete. Single-family starts are estimated to be 86,800 and multi-family starts are 118,900, for an estimated 202,700 starts for 2012. Starts are projected to decrease to 196,750 in 2013 (graph 2.2.4). Mortgage rates are expected to range from 3.1% to 3.6% in 2012 and increasing to up to 5.0% - 5.4% in 5 years. Additionally, the unemployment rate is projected to decrease from 7.4% in 2011, to 7.3% in 2012, and to 7.1% by 2013 (Canada Housing and Mortgage Corporation, 2012). The Bank of Canada has reported that housing shows signs of being overvalued and is vulnerable to the European debt crisis. The report highlighted that the risk associated with high household debt levels and a possible correction in the housing market had not diminished (Palmer, 2012).

GRAPH 2.2.4

Canadian housing starts, 2006-2013



Note: e = estimate.

Source: Canada Housing and Mortgage Corporation 2012.

2.2.5 European construction market

2.2.5.1 Review and outlook

The global economy is teetering on the edge of a double-dip recession and the eurozone has sovereign debt problems and banking woes. These problems are reflected in the overall volume and value of the Euroconstruct

region (ER)⁸ western European housing market. Residential construction is the largest single activity, accounting for 45% of total construction in 2011. Renovation and maintenance work comprises 60% of this subsector and typically is a source of stable activity – in contrast to new residential construction, which fluctuates due to economic conditions.

Throughout Europe, home construction is still sluggish with the exceptions of Finland, France, Norway and Switzerland. Conversely, Ireland and Spain's housing prospects appear grim. From 2007 to 2010, there was a 22% decline in housing production in the Western European Euroconstruct region. Taking into account potential economic threats, a thin housing recovery is forecast for 2012 (1.4% gain); 2.4% for 2013; and 2.7% for 2014. The most promising construction areas, from an increasing percentage basis, are the eastern ER countries, which include the Czech Republic, Hungary, Poland and Slovakia. In absolute terms, 2012 new residential construction is estimated to be €235.64 billion in the ER region, nearly 25% less than in 2008 (Euroconstruct, 2011).

Reviewing housing valuations, the correction in the US is still far more advanced than in the United Kingdom and Spain. Spain will likely see further price adjustments as current valuations pose a threat to the banking sector and economic growth. However, for many ER countries, price changes were relatively modest. Several indices indicate that ER house prices are generally stable or declining (Ball, 2012).

2.2.5.2 European construction trends

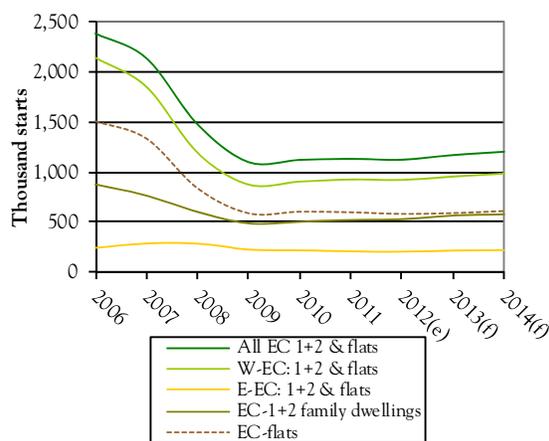
A recovery in new home starts is being delayed by economic conditions that include a weak European economy, high sovereign debt; bank solvency issues; high unemployment; consumer uncertainty, and a housing crash in some countries. At its peak in 2006, a record 2.38 million homes were completed (1.55 million multi-family (flats) and 837,000 1+2 family houses). By contrast, in 2012, only about 1.1 million units are being forecast to be built (597,800 multi-family units and 521,600 1+2 family dwellings) (graph 2.2.5). In 2014, new residential construction values are predicted to increase by 9.3%

⁸ Euroconstruct is the main network providing forecasts about construction, finance and business. The Euroconstruct region comprises 19 countries. The western region includes EU-17 member States (Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Netherlands, Poland, Portugal, Slovakia, Spain, Sweden, and United Kingdom), jointly with Norway and Switzerland. Euroconstruct's western European countries are not the EU-27, but the first 17 countries listed above. Euroconstruct's analysis of eastern European construction also is based on the Czech Republic, Hungary, Slovakia and Poland.

(\$321.7/€253.1 billion from \$264.3/€231.5 billion in 2011) (Euroconstruct, 2011).

GRAPH 2.2.5

Euroconstruct region housing starts, 2006-2014



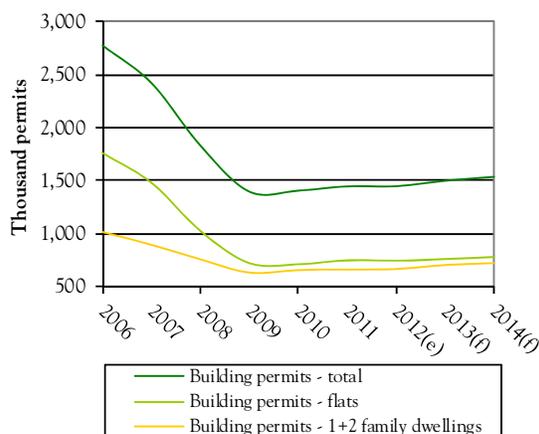
Notes: e = estimate, f = forecast.

Source: Euroconstruct 2011.

The deteriorating economic outlook has negatively affected building permits and new starts. An earlier projected housing recovery in 2012 now seems unrealistic. Any recovery in 2013 in new residential construction is likely to be marginal and it seems highly unlikely that activity will increase significantly, even when looking ahead to 2014 (graph 2.2.6) (Euroconstruct, 2011).

GRAPH 2.2.6

Euroconstruct region building permits, 2006-2014



Notes: e = estimate, f = forecast.

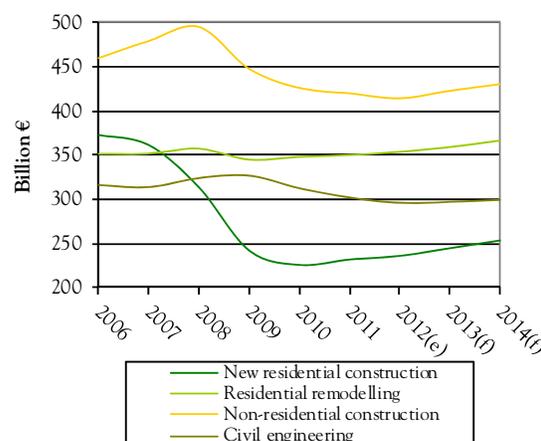
Source: Euroconstruct 2011.

The outlook for housing markets in the eurozone countries is especially bleak; and even in countries outside the eurozone, housing markets are likely to be affected by economic difficulties (Ball, 2012). In the EU 27 countries, building permits have decreased by 44% and price changes vary from a 33% decline in the UK to a 5% increase in Sweden since 2007 (Ball, 2012). Building permits give an indication of future construction activity. For 2012, permit activity is estimated to be only marginally higher than 2011. Even looking ahead to 2014, permits are expected to increase to just over 1.5 million units, or roughly 6% higher than in 2011 (Euroconstruct, 2011).

Demand for most construction services weakened as a result of the financial crisis and the current economy; future work orders are projected to increase slightly in all sectors. By the end of 2011, construction output had been declining for five years and was 16% less than the 2007 peak. In 2011, more than 60% of the construction market was in the five big countries (France, Germany, Italy, Spain, United Kingdom). A mere two years ago, this same construction market was greater than 70% due to the very large Spanish market. The actual composition of the market is expected to remain substantially unchanged up to 2014, with the exception being some further reduction in the Spanish market. Many countries have introduced austerity measures to attempt to control increasing levels of public debt and these measures are likely to dampen construction in all sectors (graph 2.2.7), particularly in education and health (Euroconstruct, 2011).

GRAPH 2.2.7

Euroconstruct region construction spending, 2006-2014



Notes: e = estimate, f = forecast.

Source: Euroconstruct 2011.

Non-residential construction is predicted to increase by 2.4% to €430.2 billion in 2014 from €419.9 billion in 2011. In 2012, this sector is predicted to decrease to €414.2 billion but with an increase that begins in 2013 and 2014 (Euroconstruct, 2011).

Construction growth will not approach pre-crisis levels, as the expected cumulative growth of $\pm 4\%$ (by volume) between 2012 to 2014 will be minimal in contrast to the aggregate decline of around 17% between 2008 and 2012. By the end of 2014, total output is projected to come close to the level of the early 2000s (2010 price basis).

In the overall construction market, the residential sector dominates, accounting for 45% of all spending on construction in 2011. Within the residential sector, renovation (termed “remodelling” in North America) and maintenance account for 60% of spending: typically, this is a fairly stable market that is less affected by the kind of abrupt adjustments that may occur after periods of “overheating” in the market.

Spending in the non-residential sector is projected to increase minimally. In 2011, it was 32% of all construction, with renovation and maintenance accounting for 47% of this. Civil engineering, at 23% of the European construction market in 2011, can vary greatly from one country to another but has generally proved to be fairly stable over time. In recent years, it has tended to be the main driver of activity in the construction market. Since 2011, however, it has been the weakest of the three main construction sectors.

Civil engineering was less affected during the economic crisis due to public-sector funding as part of planned stimulus measures. Forecasts of spending in the civil engineering and non-residential (public) building sectors have since been revised strongly downwards to reflect the fact that these sectors are particularly vulnerable to the austerity measures being implemented by countries most exposed to the debt crisis. Renovation, in both residential and non-residential sectors, has been consuming an increasing share of overall construction spending, rising from 23% in 2006 to more than 27% in 2011. Current projections are for little, if any, growth in 2013 and 2014 (Euroconstruct, 2011).

2.2.5.3 Construction-sector shares and growth: contrasting western and eastern Europe

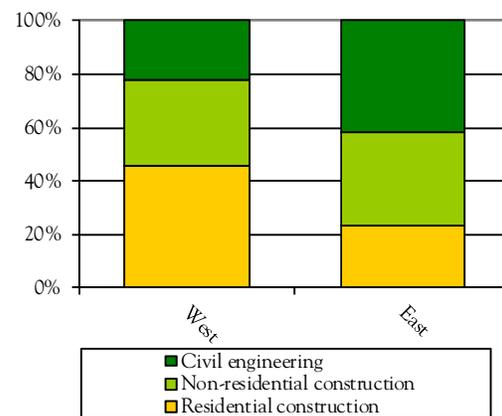
New residential construction projections for the western ER countries indicate incremental increases in the near term, from €218.3 billion in 2011 to €238.8 billion in 2014. In contrast, the four eastern ER countries are projected to increase slightly from €13.2 billion to €14.3 billion. It is estimated that the residential construction share, of all construction investments, will

be 46% in western Europe and 5% in eastern Europe by the end of 2012 (Euroconstruct 2011).

Since 2008, the construction sector’s share in spending has changed in western Europe. New residential construction has declined sharply, civil engineering and non-residential have fallen slightly and only residential renovation has shown any sign of improvement (Euroconstruct, 2011). Three factors are at play here: a) the financial crisis and housing crash; b) austerity (both public and private); and c) people focusing on improving their homes (graph 2.2.8).

GRAPH 2.2.8

Euroconstruct region construction sector shares, 2011



Source: Euroconstruct 2011.

2.2.5.4 House construction in the Russian Federation

According to the Russian Federal State Statistics Service (2012), in 2009 some 217,253 residential houses were constructed; 201,758 houses were built in 2010; and 210,757 were constructed in 2011. Total dwelling floor space increased from 3,229 million m² in 2010 to 3,272 m² in 2011.

The country has begun implementation of the 2011-2015 Housing Programme, which projects a 50% increase in annual construction levels and aims to reach 90 million m² per year of residential construction by 2015. By 2016, residential construction is projected to reach 100 million m² and by 2020 is expected to increase to 140 million m². Russian housing officials state that 67 million m² of housing will be built in 2012, almost 3 million m² more than the record level reached in 2008. In the first quarter of 2012, some 111,800 new housing units with a floor space of 9.8 million m² were built, a 5.7% increase over the first quarter of 2010 (Obetkon, 2012). Further information about Russian housing markets can be found in the sawn softwood chapter, section 5.3.2.

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**FOREST PRODUCTS ANNUAL
MARKET REVIEW
2011-2012**



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ABSTRACT

The UNECE/FAO *Forest Products Annual Market Review, 2011-2012* provides general and statistical information on forest products markets and related policies in the UN Economic Commission for Europe region (Europe, North America and the Commonwealth of Independent States). The *Review* begins with an overview chapter, followed by a description of the macro-economic situation. Next it includes an analysis of government and industry policies affecting forest products markets. Five chapters are based on annual country-supplied statistics, describing: wood raw materials, sawn softwood, sawn hardwood, wood-based panels, and paper, paperboard and woodpulp. Additional chapters discuss markets for wood energy, certified forest products, value-added wood products, forest carbon and innovative wood products. In each chapter, production, trade and consumption are analysed and relevant material on specific markets is included. Tables and graphs provided throughout the text present summary information. Supplementary statistical tables may be found on the website of the UNECE Timber Committee and the FAO European Forestry Commission at www.unece.org/forests/fpamr2012.

KEYWORDS

Bioenergy, biomass, builders joinery, carbon, cardboard, carpentry, certification, certified forest products, climate change, China, construction, consumption, engineered wood products, EWP, exports, fiberboard, fibreboard, forest products markets, forestry industry, forestry statistics, fuelwood, furniture, housing market, imports, innovative wood products, lumber, market analysis, MDF, OSB, paperboard, particle board, particleboard, plywood, production, pulp and paper industry, pulplogs, pulpwood, REDD, roundwood, sawlogs, sawn hardwood, sawn softwood, sawnwood, sustainable forestry, timber, tropical timber, wood energy, wood fuels, wood industry, wood pellets, wood products, wood-based panels, woodpulp.

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