

UNECE TIMBER COMMITTEE – October 2015

UK Timber Market Statement

Contents:

UNECE TIMBER COMMITTEE – October 2015.....	1
UK Timber Market Statement.....	1
1. General Economic Trends affecting the Forest and Forest Industries Sector	2
Overview	2
GDP Growth	3
Inflation.....	4
Employment	5
2. Policy Developments potentially affecting Trade in Wood Products	6
Forestry Policy in the United Kingdom	6
Plant Health Issues	7
National Forest Inventory	10
Policy and Initiatives – Carbon Reduction.....	11
Carbon Markets in the Forest Sector	11
3. Market Drivers.....	12
Construction, Manufacturing and Distributive Trades	12
Energy Markets	17
4. Developments in Forest Product Markets Sectors.....	23
a) Wood Raw Materials (Softwood).....	23
b) Wood Energy	25
c) Certified Forest Products.....	25
d) Consumption of Timber and Panel Products in the UK.....	25
e) Value-added Forest Products and Engineered Wood Products	26
f) Sawn Softwood	27
g) Sawn Hardwood.....	29
h) Wood-based Panels.....	30
i) Pulp and Paper.....	31
j) Innovative Wood Products / Housing and Construction	31
5. Tables	33

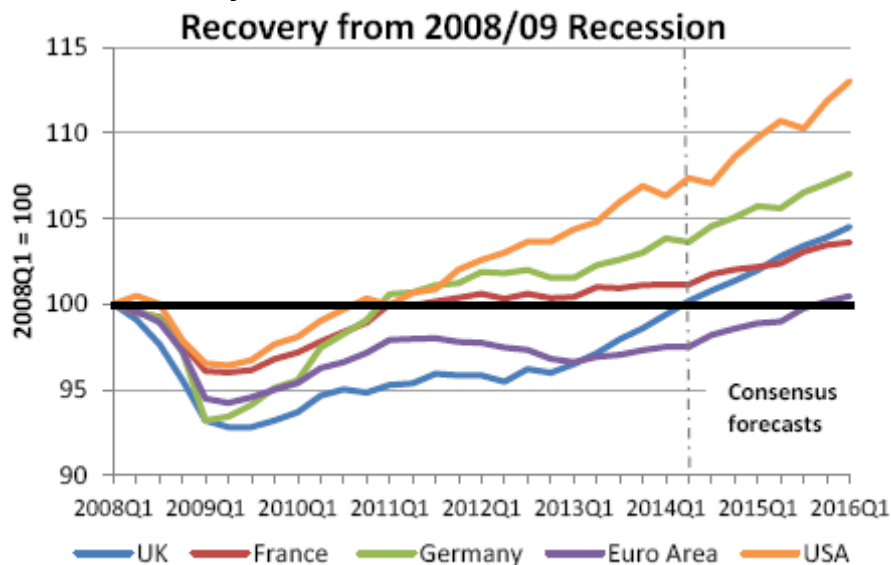
1. General Economic Trends affecting the Forest and Forest Industries Sector

Overview

Following a major economic downturn in 2008/9 and a smaller downturn in 2011/12, there was a consensus amongst Monetary Policy Committee (MPC) members that the UK economy had entered a sustained economic recovery in November 2013. In 2014 Q2, after more than 6 years, the UK finally surpassed its pre-downturn level of GDP and during 2014 was the fastest growing G7 economy. The International Monetary Fund (IMF) forecast growth of 3.2% in 2014. Although, as chart 1 shows, a number of other economies did recover earlier than the UK. In addition to continued improvements in GDP, unemployment has shown strong improvements over the past year, falling to 6.4% from 7.8% at the same time last year.

The economic recovery continues to broaden domestically with increased spending by businesses and households being supported by lower uncertainty and improved credit conditions. The key exception in the recovery remains productivity growth which is yet to show signs of sustained improvement. Despite moderate improvements in 2013, productivity growth stood at 16% below its pre-crisis level in June 2014 and is currently anticipated to only pick up moderately.

Chart 1: Recovery from the 2008/09 recession



Source: Eurostat & OECD; Updated 14th August 2014 (Quarterly)

The MPC has followed a policy of issuing forward guidance since summer 2013 in order to provide more clarity and assurance to the market over future long term interest rates. The MPC announced conditions that the economy, and its indicators, should meet before they expect to increase interest rates. In February 2014 the MPC issued fresh guidance that there remained spare capacity in the economy, that interest rates would be unlikely to rise until this had been absorbed and that when interest rates do rise a return to 'normal' rates of 5% would be unlikely in the medium term. The domestic recovery continues to be accompanied by a strengthening labour market with the employment rate standing at 73.0%. Although the strengthening labour market figures are in contrast with continued weakness in wage growth.

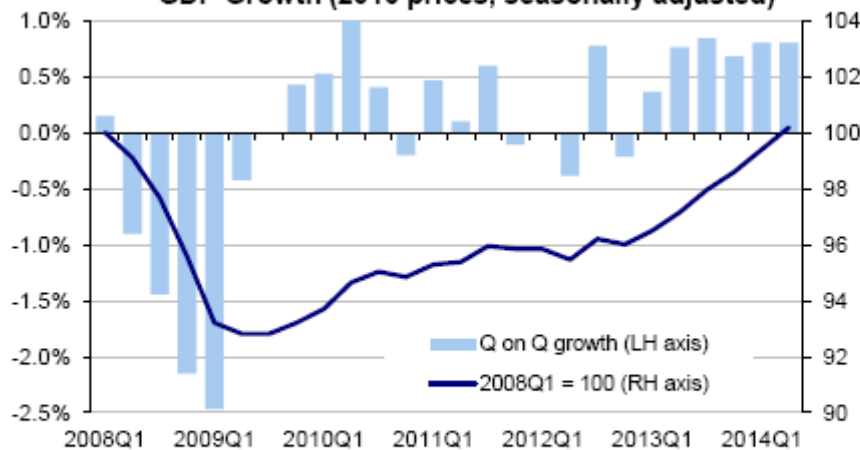
There remains a great deal of uncertainty over the economic outlook and the precise level of spare capacity in the economy. However Bank of England (BoE) Governor Mark Carney announced during mid-2015 that the UK economy was moving closer to the point where interest rates will need to rise.

GDP Growth

Gross Domestic Product (GDP) rose by 0.8% in 2014 Q1 and Q2 quarter-on-quarter according to data released by the Office for National Statistics (ONS) and after more than 6 years the UK surpassed its pre-recession level and during 2014 became the fastest growing G7 economy with the International Monetary Fund (IMF) forecasting growth of 3.2% in 2014. The economic recovery continues to broaden domestically with increased spending by businesses and households being supported by lower uncertainty and improving credit conditions. The recovery does remain unbalanced to an extent with the services sector now above pre-crisis levels and manufacturing and production still somewhat lacklustre.

The quarterly development of GDP over the last six years is shown in chart 2.

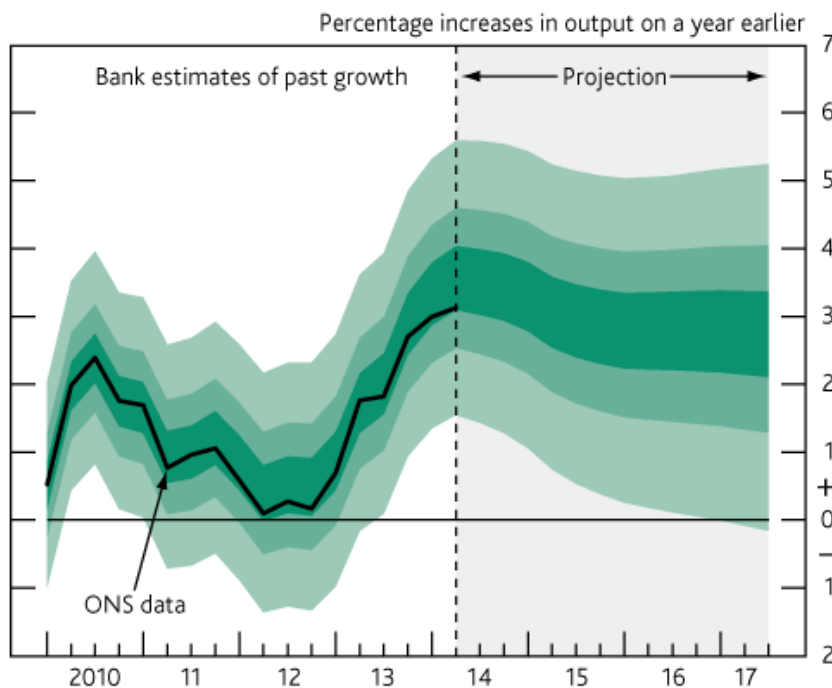
Chart 2: Gross Domestic Product Growth by Quarter, 2008-2014
GDP Growth (2010 prices, seasonally adjusted)



Source: ONS GDP Second estimate, Updated 18th August 2014 (Quarterly)

Growth is expected to moderate somewhat in the second half of 2014 as the boost from pent up demand fades. In the medium term, growth is projected to fall back towards pre-crisis levels as shown in the fan-chart below. Domestically, the projections are sensitive to the assumption that productivity, which has shown few signs of recovery so far, will gradually begin to grow. Internationally the projections assume that global growth remains steady. There are also risks from the euro area which is going through a period of weak inflation and low growth, which could serve to destabilise debt again. Growth projections are demonstrated by the wide band of future possibilities in chart 3 below.

Chart 3: Gross Domestic Product Growth by Year, 2008-2018



The relatively wide band around the ONS published estimates is due to the different methods used in the estimation of GDP and in the timing of these estimates. Different estimates are made at different times and as circumstances change, estimates change accordingly. Despite these constant changes over time, there is a consistency in the scale and direction of movement.

Inflation

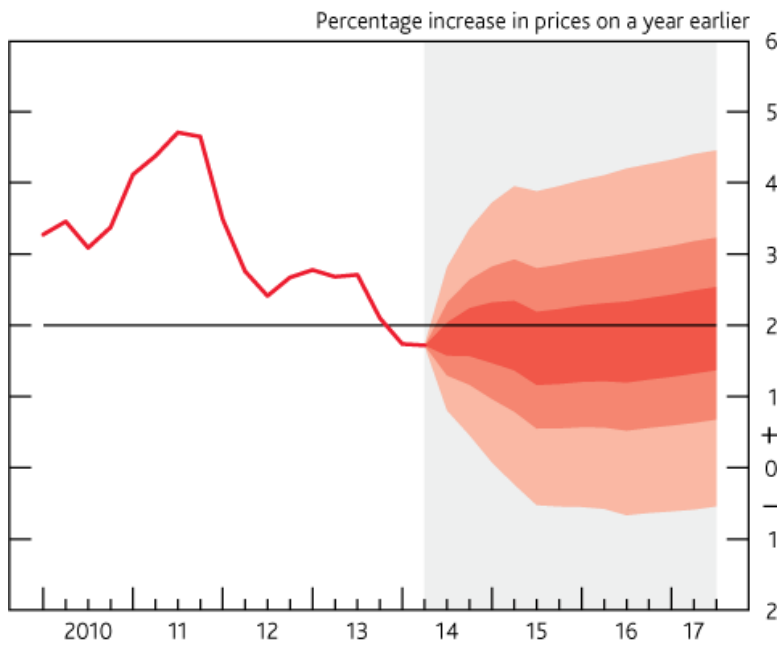
The Consumer Price Index (CPI) of annual inflation, which measures a ‘typical’ basket of household goods, stood at 1.6% in July 2014, down by 0.3pp (percentage points) from the month before and 1.2pp from the previous year. By the middle of 2015, CPI had fallen to zero, but the MPC consider that movement will thereafter begin to approach the Government’s 2% target towards 2017.

Chart 4 below shows the Bank of England inflation projections until 2017. The MPC anticipates, that as the spare capacity in the economy is absorbed in the near term, wage growth will pick up and bring inflation in line with the target. There are risks on both sides of the forecast. If recruitment pressures intensify then wage growth could rise faster than expected. Alternatively, wage pressures could remain weaker for longer if labour supply growth remains strong.

The RPIJ - a wider measure of inflation that includes housing costs and an improved variant of the Retail Prices Index (RPI) – stood at 1.8% in July 2014, down from 2.0% in the previous month and 3.1% on the year before. The ONS started producing the RPIJ in February 2013. The improved method, known as the Jevons index, uses a geometric, rather than arithmetic, mean, in order to meet international standards.

The Bank of England projections for UK inflation to 2017 are shown in chart 4.

Chart 4: Inflation: CPI 2010-2013, projections 2013-2017



Source: Bank of England

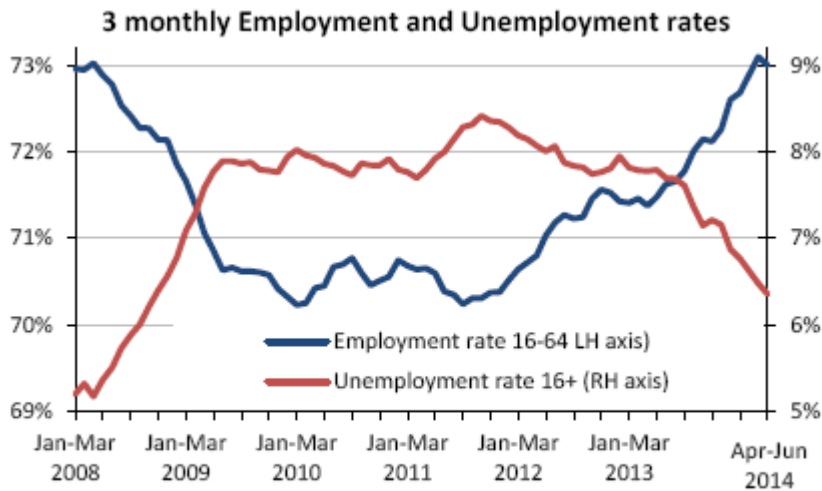
The MPC consider that by meeting the 2% target rate of inflation in the medium term, growth and employment will be sustained in the economy.

Employment

The UK labour market showed resilience in both recent downturns and has grown strongly over the past year with continued improvements in employment and unemployment figures. The employment *rate* stood at 73.0% in the three months to June 2014, consistent with its pre-recession rate, 0.3 percentage points higher than the previous three months and 1.5 percentage points higher than last year. The employment level stood at 30.60 million in the three months to June 2014, 0.17 million higher than the previous three months and 0.82 million higher than the previous year.

The unemployment rate fell to 6.4% in the three months to June 2014; the lowest since late 2008. The unemployment *level* stood at 2.08 million in the three months to June 2014, 132,000 less than the previous three months and 437,000 less than the previous year.

However, strong employment figures are in contrast to continued weakness in wage growth. In the April to June period wages including bonuses were 0.2% lower than the previous year, though 0.6% higher excluding bonuses. Weaknesses in wages will partly be due to productivity growth remaining subdued. Labour market surveys are showing that wage levels being offered for new recruits are growing and if more people start to move jobs, and as new wage settlements are negotiated, wages could be expected to grow more strongly again.

Chart 5: Employment and unemployment rates 2008-2014

Source: ONS Labour Market; Updated 13th August 2014 (Monthly)

In summary, the earlier tentative signs of recovery appear to have been replaced by a more solid economic recovery. On the key headline measures the UK recovery looks relatively robust, with strong GDP growth, stable inflation and a falling unemployment rate. However, there are still strong headwinds for the UK economy, such as weak productivity growth and weak wage growth. Further, public sector net debt (excluding financial interventions) remains on an upward trend, reaching 76.5% of GDP in July 2014 and there are also weaknesses in the UK's main export markets (in particular the EU).

2. Policy Developments potentially affecting Trade in Wood Products

Forestry Policy in the United Kingdom

Responsibility for forestry in the UK is divided between various parts of government. Certain functions, such as international forestry are reserved for the UK Government whilst further functions, (known as cross-border functions) are done on a UK-wide basis by agreement. All the countries co-operate in commissioning forest research, and to a varying extent in the supply of technical advice and the provision of various other services such as economics and international reporting. However, for the most part forestry policy is undertaken at country level in England, Scotland, Wales and Northern Ireland.

The Forestry Commission is the non-Ministerial government department responsible for advising on and implementing forestry policy. It does this directly by serving as the forestry department for the UK Government, for England, and for the Scottish Government in Scotland. (Changes that will result in further devolution to Scotland are likely to take place in 2016, see below). In Wales, forestry was passed to the Welsh Government in 2013 and mostly undertaken by a single environment body called Natural Resources Wales. Forestry in Northern Ireland is undertaken by the Forest Service, an agency within the Department of Agriculture and Rural Development.

Both the UK Government and devolved administrations are committed to sustainable forest management, as articulated in the Forest Europe Ministerial agreements. Sustainable forest management serves as an overarching concept and framework and The UK approach to delivery is set out in the UK Forestry Standard, (2011). The Government published a “Forestry and Woodlands Policy Statement”, early in 2013. This has led to the Woodland Policy Enabling Programme (WPEP) to tackle the main strands of the work over the period 2013 – 2017. These include the setting up a new management organisation for state owned forests in England, and consideration of how forestry functions and cross-border services can best be delivered.

In England, a new UK Government came into being in May 2015. The importance of forestry as a business, increased tree cover and greater use of domestically produced wood and wood products are all likely to be pursued in forestry policy.

In Scotland, the question of whether Scotland should be an entirely independent country was put to a referendum in September 2014 and rejected. Nonetheless, a range of additional devolved powers was agreed and this is likely to affect forest policy and how it is delivered in the coming years.

In Wales, new arrangements for forestry are bedding in after coming into effect in April 2013.

Over recent years, increased attention has been focused on pests and diseases. Due to disease and pest outbreaks, the use of some important commercial forestry species has been curtailed and extensive areas of sanitation felling have been necessary. Work aimed at quantifying the risks associated with the forest resource has been undertaken through the National Forest Inventory (NFI). The results of this work are being utilised across the forest sector, particularly in relation to bio-security, to assess the risks and undertake contingency planning.

Other areas of policy development have been in relation to the increasing use of woody biomass for renewable energy and appropriate criteria of sustainability.

Plant Health Issues

Phytophthora ramorum infection of Japanese larch (*Larix kaempferi*) trees continues to be the major plant health issue affecting the market in the UK. *P. ramorum* also occasionally infects European larch (*Larix decidua*) and hybrid larch (*Larix x eurolepis*). The National Forest Inventory report on the 50 Year Forecast of Softwood Availability gives a total of 126 thousand hectares in Great Britain for all larches at March 2012.

P. ramorum is a fungus-like pathogen that kills many of the trees that it infects. It was first found on Japanese larch trees in south west England in 2009, and further outbreaks were identified in south Wales, the Peak District, Lancashire, Cumbria, Northern Ireland and south and west Scotland in 2010, with widespread infection in all ages of Japanese larch.

UK overview

An update of the Forestry Commission 2014 programme of aerial surveys for symptoms of *P. ramorum* on larch trees in England has been published. The aerial surveillance programme is undertaken in collaboration with Wales and Northern

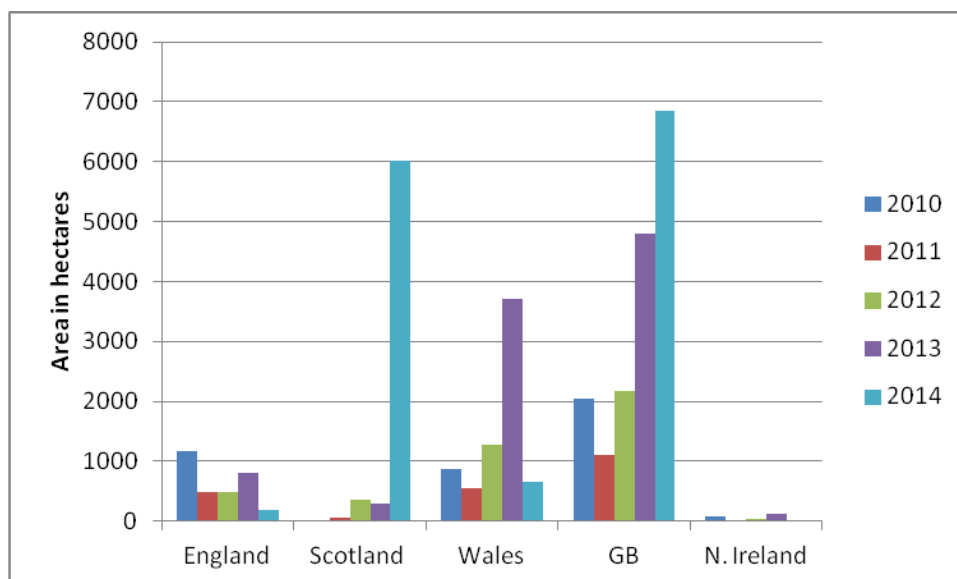
Ireland, and the report includes maps showing the surveillance flight tracks over all three countries, and of the woodland surveyed in England and Wales.

The pattern of observation over the survey season has consistently comprised limited, low-level symptoms in close proximity to previously confirmed infection or in association with infected rhododendron. Follow-up investigations of the small number of new areas of infection have generally confirmed infected rhododendron as the likely source of infection. Some localised death and dieback of sweet chestnut trees has been found in South-West England, and these have been felled for disease control. Low-level damage has also been observed on non-sporulating host species including Douglas fir, Noble fir and western hemlock on sites where infected larch was previously felled, demonstrating *P. ramorum*'s potential to persist on sites where large amounts of inoculum have been generated.

The outbreak map (Annex 1) shows where the disease has been confirmed in larch across the whole of the United Kingdom. With a very small number of minor exceptions, the presence of larch infections throughout the UK to date map to the Meentemeyer1 climex map, which formed the basis for the original strategy's disease risk zones
<http://www.nappfast.org/ASPRM%20web/presentations/rbakertsmall.pdf>.

The area of new outbreaks to be felled in 2013 increased significantly beyond the total amount felled in 2012, largely as a consequence of new cases in Wales and Scotland (chart 6). The cooler and wetter summer in 2012 was considered to be more favourable to sporulation and the dispersal of disease in Great Britain than in the previous two years. A rapid increase in the expression of symptoms noted by observers in spring 2013 was thought to be as a result of the disease spreading in 2012. Conversely the reduction in the spread of the disease during 2014 is considered to be due to the warmer and dryer summer in 2013. The extent to which damage has been observed in Wales and Scotland continues to be greater than the level of damage in England where the woodlands are smaller and where there are fewer blocks of contiguous larch woodland. Of continuing concern is the possibility that the apparently more aggressive EU2 strain in Scotland will spread to England where to date only the EU1 strain has been recorded.

Chart 6: Areas of larch felled (2010-2013) and felled or believed to be infected (2014)



England

In England this has been a relatively modest year for *Phytophthora ramorum*, with an additional 129 sites (250ha) of infected larch identified. Although some lower priority sites are still to be investigated this compares with 223 sites (800ha) last year.

Wales

In Wales there have been 52 (385ha) new notices issued for the felling of *P. ramorum* in larch in 2014 out with the Core Disease Zone (CDZ) which was established for larch in late 2012. This compares with 253 (3,715ha) notices issued for the previous year.

Due to the significant increase in the area of woodland infected, particularly in South Wales, the Welsh Government reviewed their strategy towards managing the disease in larch. In 2012 an approach similar to that being pursued in Scotland was adopted in recognition that eradication was no longer considered achievable. Instead targeted felling on new infections in Disease Limitation Zones (DLZs) outside of Core Disease zones (CDZs) was adopted as the best compromise between disease control, the requirements of sustainable forest management and deliverability in the context of the developing outbreak situation.

Selective deployment of resources under an 'early response' strategy in the DLZs is likely to lead to reduced felling requirements overall. For existing sites in the CDZ current statutory plant health notices (SPHNs) and notification letters have been rescinded by National Resource Wales regulatory staff and management of larch in the CDZ now includes the following measures:

- Private sector woodland owners will apply for a felling licence when they wish to undertake felling operations on sites that have previously had a SPHN issued.
- The felling licence will be issued along with a SPHN introducing movement restrictions (SPHN(m)).
- The SPHN(m) will not have any time limits for operations but will prescribe the mechanism required to ensure movement of the material from site and processing is regulated for biosecurity purposes to prevent the spread of *P. ramorum* through this pathway.

This approach is considered likely to provide the prospect of reducing spread and protection for the currently uninfected 72% of larch, by area, in Wales.

Scotland

Eradication of *P. ramorum* on larch in Scotland is no longer achievable and the aim now is to contain and slow down new outbreaks. Following discussions with the forestry sector a 'Management zone was identified in south west Scotland covering the worst affected area. In June 2014 the Plant Health (Forestry) (*Phytophthora ramorum* Management Zone) Order 2014 was introduced. This order established a 'Management Zone' in the Galloway region in the south west of Scotland where there are 8-9,000 hectares of larch of which 4,000 to 6,000 hectares are thought to be infected. Within this area statutory controls relate to the movement of infected timber and bark only, Statutory Plant Health Notices (SPHN) requiring the felling of infected larch are no longer being issued to private land owners within the Management Zone.

Surveillance flights over Scotland confirmed limited expansion of the disease in 2014. Outside of the Galloway 'Management Zone' there were just 20 detections (at 13 locations), totalling 50ha, all within 10km of previously known infections. During the year the aerial surveys included 93% of known larch stands and 83% of all National

Forest Inventory woodlands. The 'Management Zone' was flown over in detail during August and variable levels of infection were confirmed, with clear 'radiation' from the central 'core' (highest levels of infection) to the outer areas (lowest levels). Good progress has continued to be made with the clearance of larch on Scottish Government land (around 500 ha) in the Management Zone over the summer. Water quality issues remain an important potential constraint on felling activities during autumn and winter months. Forestry Commission Scotland is also working closely with the forest industry and tree health experts to assess the logistical, marketing and environmental implications of harvesting infected larch stands, prioritising this work in accordance with tree health advice.

To help reduce the extent, rate of spread and severity of *P. ramorum* outside the Management Zone, a more rigorous approach will be taken in the rest of Scotland by issuing SPHNs requiring the felling or killing of infected stands of larch and all surrounding larch within 250 metres. The impact of this strengthened approach outside the Management zone will be monitored over the course of the next year and reviewed in the light of experience.

Northern Ireland

In 2014 2 aerial surveys took place taking in forests and woodlands with larch present. Analysis of the resulting aerial photography resulted in 63 suspect sites which were followed up by on ground inspection. In 2014 to date infection has been confirmed at 21 sites. The general picture in 2014 was one of less extensive symptomatic areas compared to 2013. Symptoms tended to be confined to smaller areas of trees in existing outbreak areas surveyed, although of note was the confirmation of infection in new forest locations in the west, north-west and south west of the province.

Movement and processing of affected timber in Northern Ireland continues under licensing arrangements with over 125,000 cubic metres having moved under these arrangements since 2010.

National Forest Inventory

The National Forest Inventory of Great Britain (NFI) provides a record of the size and distribution of forests and woodlands in Great Britain and information on key forest attributes. This information, together with Forestry Commission growth and yield models, is used to forecast softwood and hardwood timber availability.

In 2014, in order to provide a more comprehensive picture of the potential evolution of softwood and hardwood growing stock, increment and removals, 50 year forecasts were published. The scenarios demonstrate the impact of a range of thinning, clear-felling and restocking practices and have attracted considerable interest from the forestry sector and politicians.

Work is ongoing to evaluate the effect of current and potential afforestation programmes and to develop broader 'current state' reporting metrics to include habitat condition.

The work of the NFI is beginning to positively influence business and investment decisions. With a higher precision in the assessment of supply from the forest, companies are able to review the resources that will be required in future decades and develop the required plans to best take advantage of this new information supplied through the NFI.

Policy and Initiatives – Carbon Reduction

Private sector investment in woodland creation is continuing to increase via the Woodland Carbon Code. The Woodland Carbon Code, launched in July 2011, sets out requirements of voluntary woodland creation projects in the UK wishing to make claims about the carbon they sequester. Documentation is revised annually: The following developments have occurred since the last Market Statement:

- During 2015 the ‘monitoring and verification’ process has been piloted. This is where projects are checked for the carbon they have sequestered.
- A ‘small woods’ pilot was launched in September 2015, making the scheme more attractive to woodland creation projects of 0.1 to 5 hectares.

Companies are able to report verified Woodland Carbon Units to compensate for their gross emissions following Defra’s Environmental Reporting Guidelines and used them in claims of ‘Carbon Neutrality’ as set out in the British Standards Institute’s PAS2060:2014 Specification for the Demonstration of Carbon Neutrality ..

Carbon Markets in the Forest Sector

The Woodland Carbon Code has generated much interest among landowners and investors alike. As of 30 June 2015, 204 projects were registered with the Code; together they will create over 15,403 hectares of new woodland and are predicted to sequester 5.7 million tonnes of carbon dioxide equivalent over their lifetime (up to 100 years). Of these projects, almost half (101) are now validated (checked by an independent certification body), representing 22% of the area and 28% of the predicted carbon sequestration.

A proportion of the revenue of each project comes from private sector investment, mainly from companies considering their Corporate and Social Responsibility. Up to now, companies have paid ‘in advance’ for carbon to be sequestered; well over half of the validated carbon has been sold in this manner. Case studies of buyers are available on the Woodland Carbon Code website. Following Monitoring and Verification (checks on actual carbon sequestered) of the first projects, verified ‘Woodland Carbon Units’ will be available by the end of 2015. We will then start to understand the market for ‘sequestered carbon’ rather than carbon purchased in advance.

The annual State of the Forest Carbon Markets report gives the latest on Global and European forest carbon:

- Globally, new woodland creation credits such as Woodland Carbon Units on average reach prices of \$9.5/tCO₂. Forest credits of all types from Europe/Oceania in domestic schemes tend to attract higher prices than credits from elsewhere in the world at average \$14.5/tCO₂. Globally, smaller projects attract higher prices than larger ones.
- The wider social and environmental benefits of a carbon reduction project are very important to buyers. The Woodland Carbon Code provides assurance that projects meet minimum environmental and social standards by requiring compliance with the UK Forestry Standard – but woodland creation projects can provide a wide range of other benefits here in the UK.
- There are more project developers selling direct to corporate buyers and not using a carbon offset company as an intermediary.
- The market is developing and globally more buyers are waiting to buy verified credits (rather than pay upfront for carbon) as the world’s carbon forests grow and start to produce actual verified credits.

Further information on the Woodland Carbon Code can be found on the Forestry Commission website: www.forestry.gov.uk/carboncode

3. Market Drivers

Construction, Manufacturing and Distributive Trades

The UK economy returned to near long-term growth averages in 2014. The recovery that began in 2013 was sustained throughout 2014 with the economy achieving the highest growth rates recorded since 2007.

UK manufacturing output rose by 3.2% for the year in 2014, compared to a (revised) small decline of less than 1% in 2013.

The construction industry grew strongly in 2014 with all construction output higher by 10.2% compared to 2013.

Reflecting the overall strength of construction, housing starts in the UK were around 9% higher in 2014. The volume of repair, maintenance and improvement (RMI) work (all sectors) also recorded the best growth rates for many years, higher by 8.5% in 2014. Within the overall increase of RMI, housing RMI increased by 9.5% in 2014, following a 2.5% fall in 2013.

The Office for National Statistics provide data on the value of output by manufacturers of wooden pallet production and this was reported to have fallen by 25% in 2014. There remains considerable doubt over the accuracy of these data and this subject is further reported later in this Statement.

There are no official statistics available for output in the fencing and outdoor products markets, however, industry comment indicates that producers of fencing products experienced high demand in 2014.

In summary, recovery of the economy and in the activity of timber consuming markets in 2014 provided a year of excellent growth for the UK timber industry.

Construction

The return of growth to construction output in 2013 was driven by the housing sector and although other sectors made significant contributions to growth in 2014, the housing sector once more was at the forefront of the strong performance of UK construction in 2014.

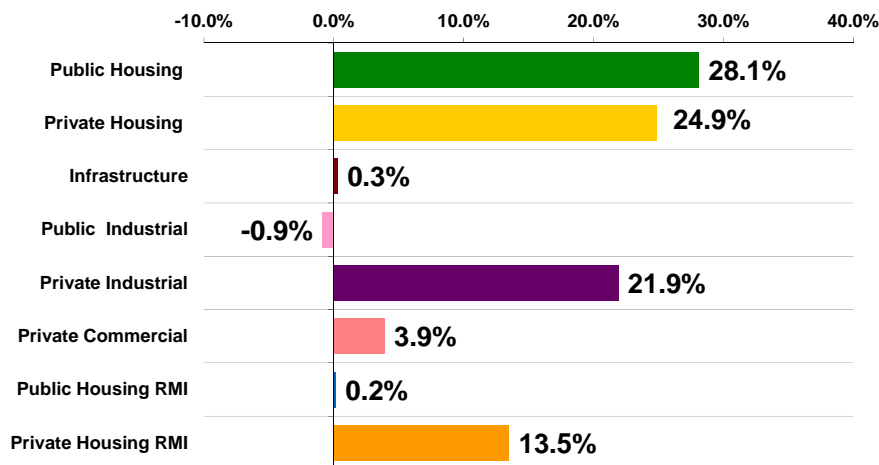
Private sector housing starts were higher by around 12% in 2014, but public sector starts were lower by 6%. The private sector in the UK is around four times larger than the public sector, hence the overall growth in housing starts of 9%. The value of housing output revealed a different performance level compared to housing starts however, with all new housing output increasing in value by around 25% at 2011 prices. Both sectors participated in this growth with public sector output increasing by 28%. The reason for this differential performance between public sector housing starts and output was due to the rapid take-up of funds available through the Government's Affordable Housing Programme. The deadline for claiming grants under this programme of March 2015 resulted in a surge of completions in the public sector in final months of 2014 and a sharp reduction in the number of housing starts. In England,

representing around 80% of new house building in the UK, housing starts were 12% lower than in the same quarter in 2013 while completions were around a third higher.

The output of other construction sectors also contributed to strong performance in 2014, particularly in the private sector. Private sector industrial output was higher by 21% and private sector housing RMI was higher by 13.5%.

The growth rates by main construction sector in 2014 compared to 2013 are shown in chart 7 below.

Chart 7: Construction Industry Sector Output, 2014/2013 @ 2011 Constant Prices



Source: Office for National Statistics (ONS)

The influence of the Affordable Housing Programme on public sector housing output (+28.1%) can be seen from chart 7 when compared to the output of the public industrial sector (-0.9%) and public housing RMI output (+0.2%).

This stimulus is likely to be short-lived however. The Construction Products Association (CPA) forecast that growth of public sector new housing output will moderate to around 4% in 2015 as reduced funds available to housing associations follow a more orderly development. Actual data for the first half of 2015 reveal a sharper decline than this forecast however. In the first half of 2015, new public sector housing output fell by 3.5% compared to the first half of 2014.

There are signs of weakness elsewhere in the construction industry, based on first half output.

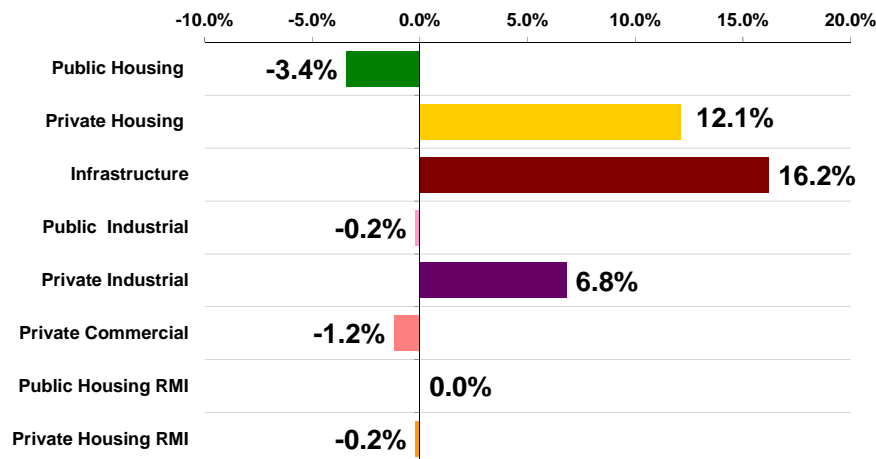
Public industrial construction output was lower by 0.2% in the first half of 2015 while public housing RMI output was flat – at the same level as in the first half of 2014.

Once more, the private sector has fared better with new private sector housing output higher by 12% and private industrial output around 7% higher. However, there is weakness in the private sector with private commercial output lower in the first half by 1.2% and private sector housing RMI a little worse than in 2014, down by 0.2%.

The first half performance of the main construction sectors is shown in chart 8 below.

With an improving economy; less restrictive lending policies by banks and building societies and continued low interest rates, the private new housing sector that has grown robustly in the first half of 2015. Growth for all sectors is shown in chart 8 below.

Chart 8: Construction Industry Sector Output, 1st Half 2015/ 1st Half 2014 @ 2011 Constant Prices



Source: Office for National Statistics (ONS)

Overall, in the first half of 2015, the output of all new work was higher by 6%, driven by good performance in private sector new housing, infrastructure projects and private sector industrial output, but all RMI work was lower by 0.9% due to lower output in both the housing and non-housing RMI sectors.

The high growth rates in construction achieved in 2014 are not being sustained in 2015 and although there are sectors where there is little or no growth in 2015, the construction industry has experienced growth in the first half of 2015.

This total construction industry performance is currently consistent with the CPA's projection of full year growth in 2015 of between 2% and 2.5%.

Manufacturing and Distributive Trades

Recovering from the depths of recession in 2008 and 2009, manufacturing output in the UK rebounded to reach growth levels of over 5%. These growth rates were matched against very weak output in 2008 and 2009 and these relatively high percentage increases achieved in 2010 were soon revealed as just a modest 'bounce' as output began to stabilize during 2011 and the first half of 2012. By the end of 2012 and the first part of 2013, negative growth rates again emerged as the true extent of the weakness in manufacturing was confirmed.

As shown in chart 9 below, from Q4 2011 to Q2 2013, manufacturing output remained weak with output below the level of previous years.

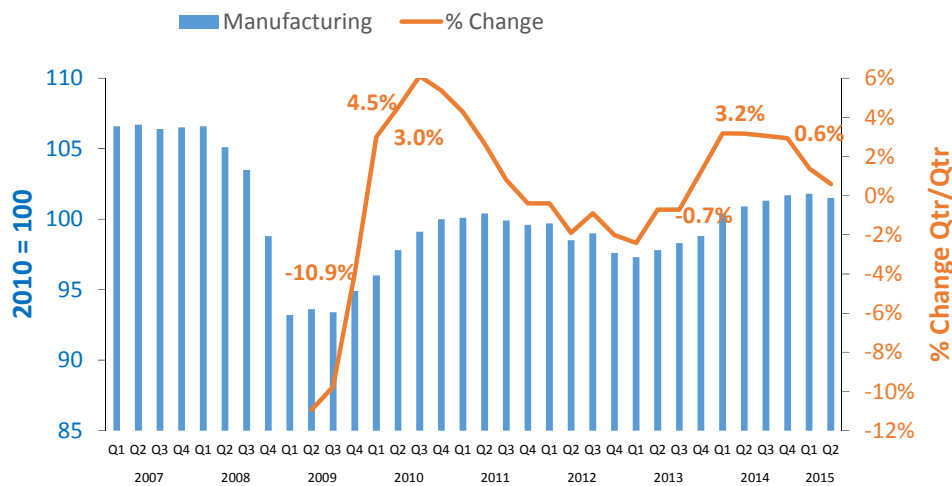
However, by Q3 2013, improvement was evident and growth, quarter on the same quarter of the previous year, has continued since that time.

By Q2 2014, growth in manufacturing had reached a level of 3.2%, although as was the case in 2010, this growth was measured against relatively weak data in 2012 and the first half of 2013.

Over the last year, manufacturing growth has slowed and by Q2 2015 stood at 0.6%, the lowest quarterly growth rate during the seven consecutive quarters of growth since the start of the recovery in Q4 2013.

The quarterly development of manufacturing output is shown below in chart 9.

Chart 9: Index of UK Manufacturing, Q1 2007 - Q2 2015



Source: Office for National Statistics (ONS)

Growth in manufacturing and distributive trades has traditionally translated into improved performance in the wooden pallets and packaging industry.

The provisional ProdCom results reveal the opposite for 2014 however. Pallet production in the UK is measured through the ProdCom data series as provided by ONS.

Despite growth in manufacturing, the number of new pallets manufactured in the UK according to the ProdCom data fell by 25%, following a 5% increase in 2013.

According to ProdCom, the number of new pallets produced in the UK in 2014 fell to around 51 million from 68 million in 2013.

These official data do not concur with the sentiment of industry or alternative available data.

Following proposals from TIMCON, the pallets and packaging confederation, ONS changed its methodology in the measurement of pallets making and repair in order for the substantial repair activity to be included in its 2014 ProdCom publication. Unfortunately, the attempt to provide this has resulted in data which cannot be relied upon.

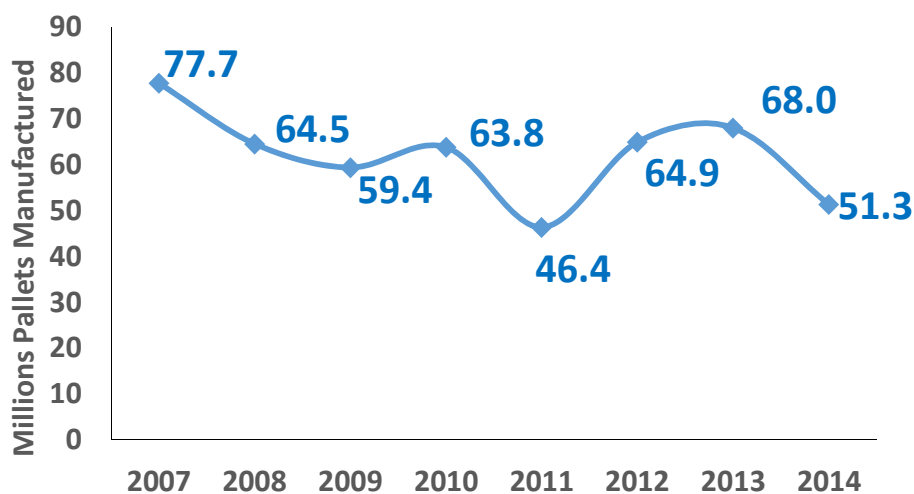
Consequently, the official data presented here should be viewed with caution.

The Wood Packaging Study, conducted for TIMCON and the Forestry Commission, considers a more realistic measure of newly manufactured pallets in the UK to be in the region of 30 million with a further 40 million or more pallet repairs taking place. New pallet production reduced following the recession in 2008 and beyond as pallet using companies sought to reduce costs and buy fewer new pallets while extending the life of existing pallets. This led to a rapid increase in the number of repairs conducted.

Data are not yet available to indicate levels of activity in 2014, although it is likely that a little growth in new pallet production took place in 2014 and not the significant decrease as reported by ProdCom.

The ProdCom data from 2007 is shown in chart 10 below.

Chart 10: UK Pallet Production 2007-2014



Source: ProdCom

In 2014, the demand for fencing products continued at historically high levels.

Continuing to benefit from the poor weather of the previous year, coupled with greater movement in the housing market, both UK producers and importers supplied increased volumes into this market.

The amount of money spent by consumers in the UK on household goods, including maintenance rose in 2014 by 4.5%, which was estimated to have provided a further stimulus to the domestic fencing market.

Industry sources indicate that in the first half of 2015, demand for fencing has slowed and it is likely that less timber will be consumed by this market compared to 2014.

Energy Markets

Key Facts:

- Total energy consumption in the UK fell by 5.6% in 2014
- Growth of renewables for electricity generation grew by 19% in 2014, following a revised 20% growth in 2013
- Growth of renewables for heat generation grew by 4% in 2014 following a revised 17% growth in 2013
- Within the 4% growth of renewables for heat, the use of wood for domestic heating fell by 4% and the use of wood for non-domestic heating grew by 34%.

On a temperature corrected basis (to remove the impact a hot or cold year has on energy consumption) primary energy consumption in 2014 was 2.6% lower than in 2013.

The domestic sector used 14% less primary fuel for electricity consumption in 2014 due to the warmer weather and as a consequence, the share of total usage for the domestic sector fell to 28% compared to 30% in 2013.

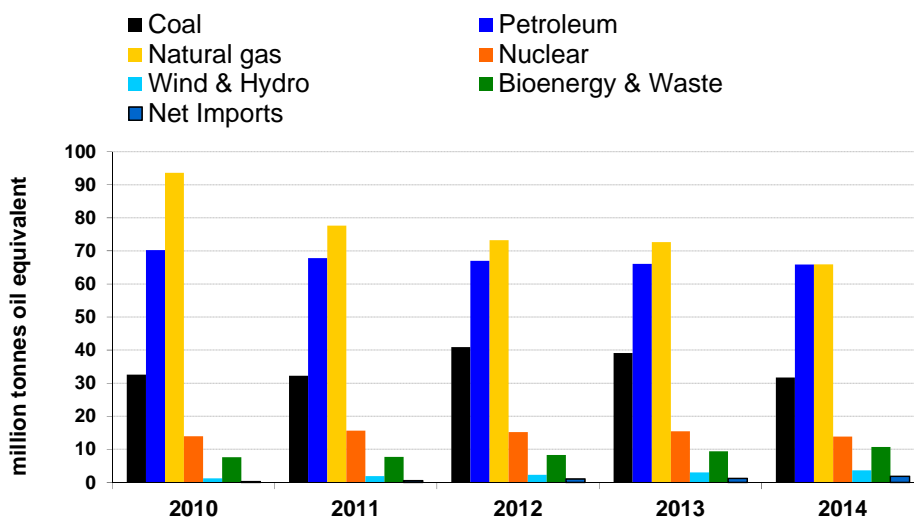
A much smaller decline in usage also took place in the industrial sector (which includes the iron and steel industries), down by 1%.

The only sector to increase consumption in 2014 was the transport sector, higher by 1%, and this sector is the largest consumer of primary fuels, accounting for 40% of consumption in 2014.

The UK has a wide range of fuels supplying its energy needs, although around three quarters of all supply is accounted for by natural gas and petroleum.

The changes in consumption by the main types of fuel used for energy generation is shown in chart 11 below.

Chart 11: Inland consumption of primary fuels and equivalents for energy use 2010-2014



Source: Department of Energy and Climate Change (DECC)

The consumption of natural gas and petroleum continued to account for around two-thirds of all energy consumption in 2014, but consumption of natural gas has fallen

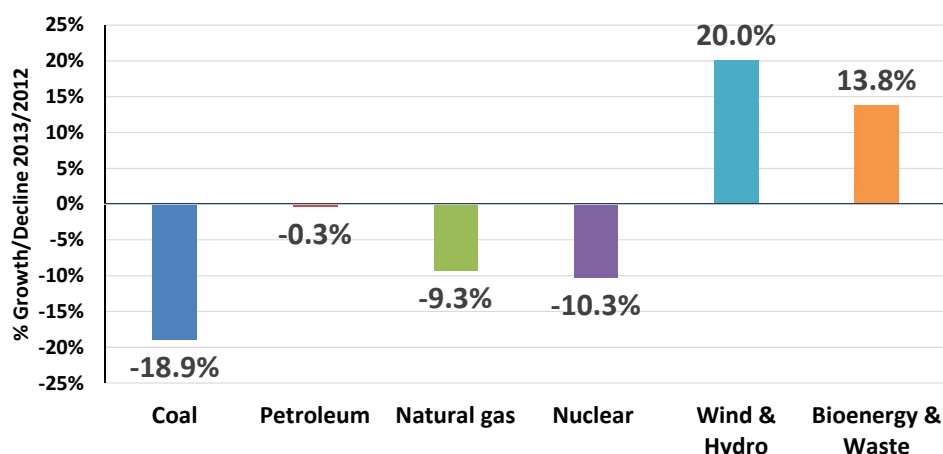
over the last five years with a decline in 2014 of 10%. The share of consumption held by natural gas has fallen from 43% in 2010 to 34% in 2014.

A substantial fall in coal consumption also took place in 2014, lower by 19%.

Consumption of renewables, although relatively small in comparison to gas, petroleum and coal, has continued to grow strongly. A 20% increase in the consumption of wind and hydro in 2014 followed a 30% rise in 2013 which was supported by the growth of bio-energy and waste of 14% in 2014 after a 13% increase in 2013.

The increases in renewables in 2014, along with changes in other fuels is shown in chart 12.

Chart 12: Percentage Change in Use of Primary Fuels for Energy Consumption, 2014 / 2013



Source: Department of Energy and Climate Change (DECC)

The growth of wind and hydro combined with the growth of bioenergy and waste raised the share of these fuels to 7.4% in 2014 from 6.0% in 2013 and 5.1% in 2012.

Consistent with the overall reduction in energy consumption in 2014, less electricity was consumed in 2014, down by 4.4%.

Coal remains the largest fuel of use for generating electricity and accounted for 35% of total consumption in 2014, down from 42% in 2013. Natural gas consumption increased to 27% of the total from 24% in 2013 and nuclear powered electricity consumption fell to 20% from 21% in 2013.

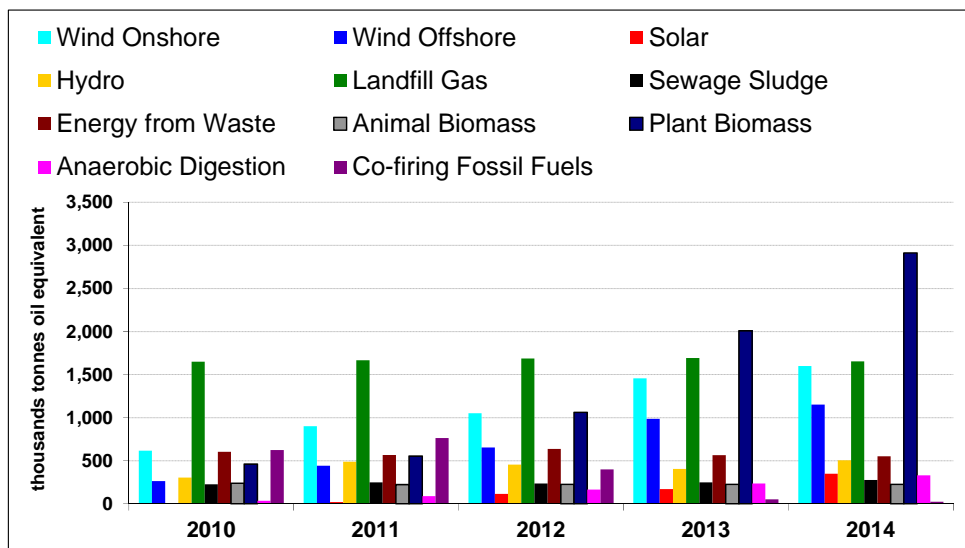
Collectively, these three fuels accounted for 82% of consumption compared to 85% in 2013.

Although petroleum is a major energy product, very little is used for electricity generation in the UK at less than 1% of the total.

Renewables account for the remaining 17% of fuels used.

The various types of renewable energy used for electricity generation between 2010 and 2014 are shown in chart 13.

Chart 13: Renewable sources used to generate electricity, 2010-2014



Source: Department of Energy and Climate Change (DECC)

The growth of plant biomass over the last four years has been exceptionally strong.

A growth rate of 45% was achieved in 2014 which resulted in plant biomass accounting for 30% of all renewables used for generating electricity. The share of renewables held by plant biomass in 2010 was just 9%.

Significant growth was also achieved in the supply of electricity by wind and solar power.

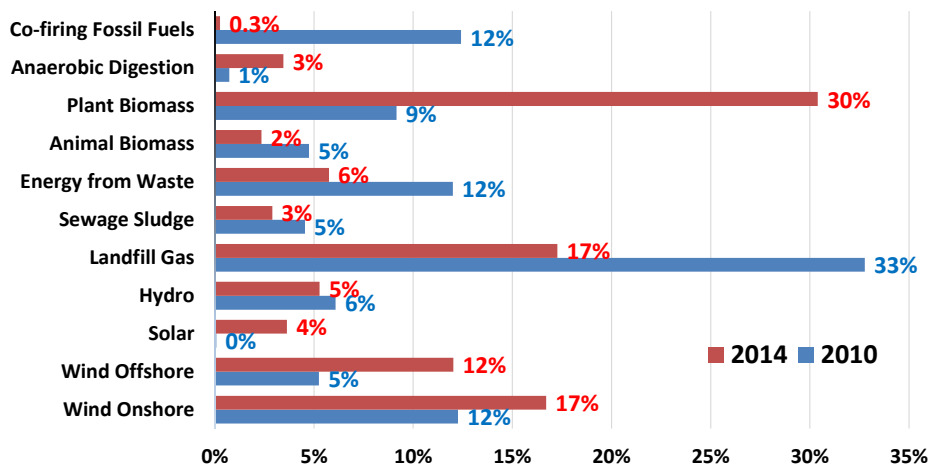
Offshore wind electricity generation increased by 17% in 2014 while onshore wind generation increase by a more modest, yet still robust 10%.

However, the highest growth of renewables in percentage terms in 2014 came from solar power, mostly through solar farms, which increased by 104%.

As usage of some renewables increased, others decreased. The greatest reduction in percentage terms was co-firing with fossil fuels, experiencing a 53% fall in volume. There were also small reductions in the supply of energy from waste (which includes the formerly described municipal waste) and in the supply of landfill gas.

The overall increase in the quantity of renewable fuel supply for electricity generation in 2014 was 19%.

Chart 14: Changes in the Share of Renewable Electricity Generation by Product, 2010-2014



Source: Department of Energy and Climate Change (DECC)

As described above, the share of plant biomass has risen from 9% of the total in 2010 to 30% in 2014. Both offshore and onshore wind generation have increased their share of supply which jointly, is at a similar level to the share for plant biomass.

The growth in plant biomass was driven by the burning of woody biomass, including pellets, often to replace the burning of coal.

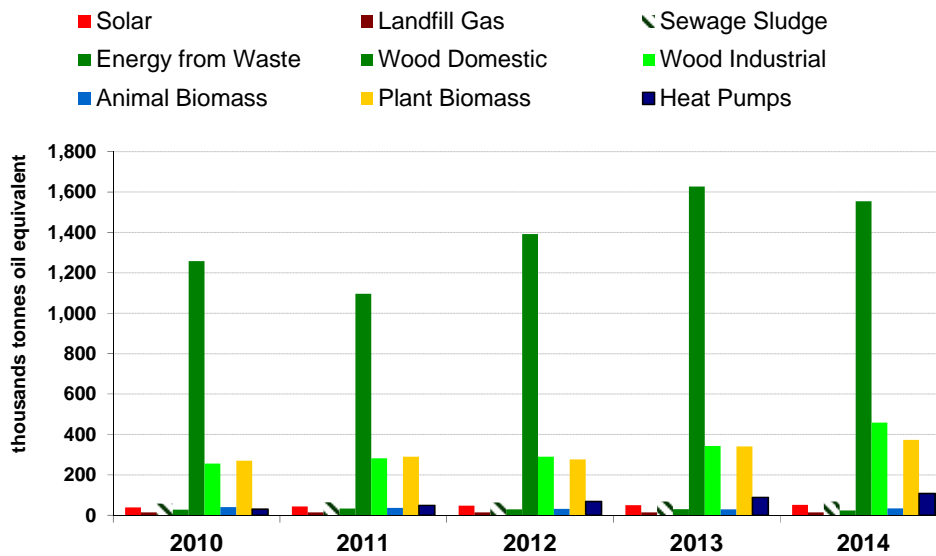
Wood pellet production in the UK grew by 18% in 2014 to reach a level of around 0.35 million metric tonnes and import quantities also increased rapidly, from 3.39 million tonnes in 2013 to 4.76 million tonnes, an increase of around 40%.

Despite high levels of usage, especially of pellets for electricity generation, growth in renewables for electricity generation is likely to slow from 2015 and beyond however as the UK Government introduces measures to reduce subsidies for renewable energy forms.

The withdrawal of the exemption of the climate change levy for renewables will, in the short-term, impact upon the profitability of electricity generators having converted coal burning plants to accommodate biomass fuels and is likely to slow the development of the future biomass plants.

Subsidies for onshore wind farms are also to be withdrawn which is likely to slow the development of this type of renewable form of energy.

Chart 15: Renewable sources used to generate heat, 2010-2014



Source: Department of Energy and Climate Change (DECC)

All heat generated from renewables grew by 4% in 2014, following two years of much higher growth: 17% in 2012 and 16% in 2013. The greatest contribution to this slowing growth rate was the reduction in the use of wood for domestic use.

The quantity of wood used for domestic heating is estimated to have fallen by 4% in 2014 because of milder weather in 2014 resulting in fewer days where heating was required in homes.

In contrast, wood for non-domestic (industrial) heating rose in 2014, by 34% as wood burning grew in popularity, especially as a form of space heating in both smaller scale industrial and commercial premises. The non-domestic Renewable Heat Incentive scheme, introduced in 2011 has helped to stimulate this growth, leading to an increase in the share of non-domestic wood burning to 17% of all renewable forms of heating in 2014.

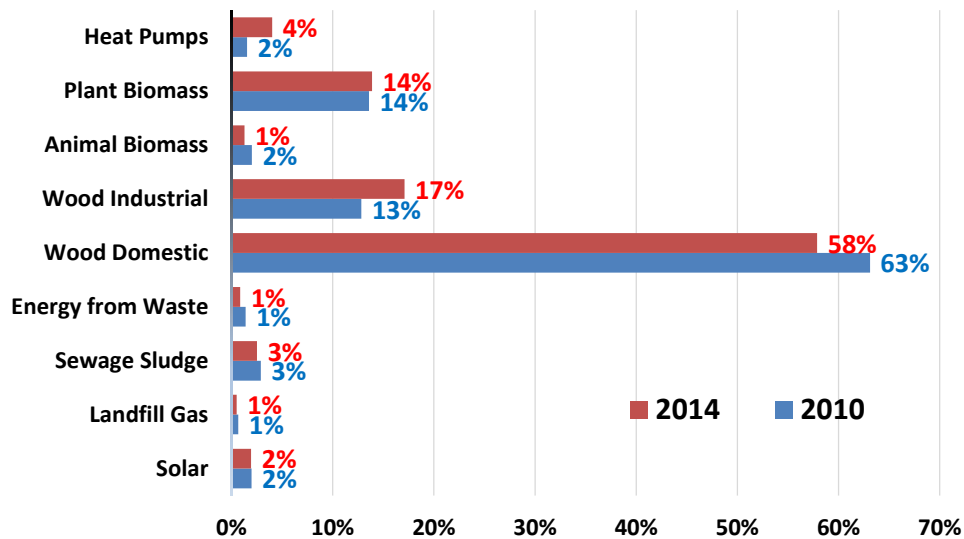
Non-domestic wood burning combined with the 58% share of renewable heating held by domestic wood results in wood representing three quarters of all renewable heating in 2014.

The share of domestic wood as a heating source was substantially revised in 2014. In 2014 the Department of Energy and Climate Change (DECC) commissioned a one-off large scale user survey of domestic wood fuel consumption in the UK. The purpose of the survey was to provide a new baseline for domestic wood fuel use in the UK. The results of this survey and a recent estimate from a smaller scale study by the Forestry Commission supported anecdotal evidence that domestic wood fuel use has been consistently underestimated over many years.

It should be noted that estimates from these studies remain broad estimates at this time. The estimated quantity of wood for domestic use for 2014 was 1.55 million tonnes, compared to 0.6 million tonnes in 2013 under the previous method of calculation.

The revised method of calculation has been retrospectively applied, back to 2010. The sharers of renewable heating in the UK over the last two years is shown in chart 16 below.

Chart 16: Changes in the Share of Renewable Heat Generation by Product, 2010-2014



Source: Department of Energy and Climate Change (DECC)

The 4% reduction in the quantity of wood used for domestic heating had the effect of lowering its share of all renewables used for heating to 58% in 2014, from 63% in 2013.

As previously mentioned, the share of industrial, or non-domestic wood rose in 2014 to 17% of the total, from 13% in 2013.

The use of plant biomass for heating grew by 9% in 2014 and marginally increased its share of the total with all other forms of renewable heating having a relatively low level of participation.

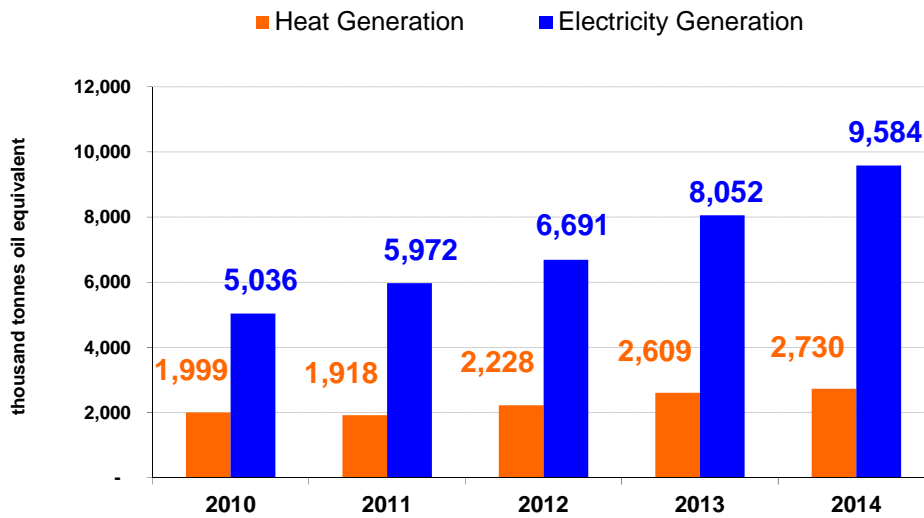
Wood for all forms of renewable energy consists of cut logs, brash, wood chips, off-cuts, recycled wood waste, charcoal and imported wood.

The highest growing form of renewable heat generation other than non-domestic wood, was a 22% growth achieved from the use of heat pumps.

Ground source heat pumps, ambient air to water heat pumps, and exhaust air heat pumps contributed around 108 thousand tonnes oil equivalent in 2014, a more than threefold increase from 2010.

In total, the use of renewables for both electricity and heat generation has nearly doubled over the last five years to reach a level of over 12 million tonnes oil equivalent, as shown in chart 17 below.

Chart 17: Renewables Used for Electricity and Heat Generation, 2010-2014



Source: Department of Energy and Climate Change (DECC)

4. Developments in Forest Product Markets Sectors

a) Wood Raw Materials (Softwood)

“Public sector removals” relates to the removal of timber from woodlands owned or managed by the Forestry Commission in England and Scotland and (until March 2013, Wales), Natural Resources Wales (in Wales from April 2013) and the Forest Service (in Northern Ireland). “Private sector removals” relates to the removal of timber from all other woodlands.

In 2014, 11.4 million green tonnes of softwood were removed from UK forests, an increase of 4.5% over 2013.

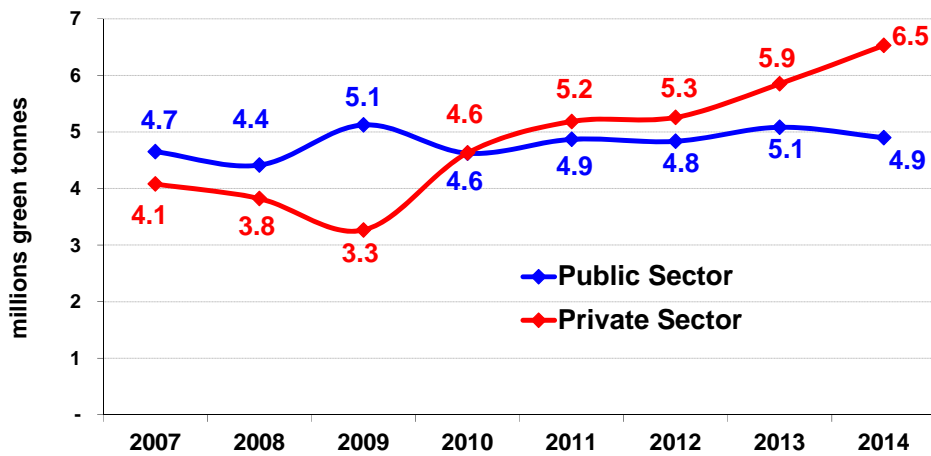
An 11.6% increase in private sector removals raised the total to 6.5 million green tonnes from this source as a 3.6% reduction in public sector removals reduced the total removed from this source to 4.9 million green tonnes.

In the eight years from the pre-recessionary year of 2007, all softwood removals from UK forests have increased by 31%. Over this time, public sector removals have risen by 5% while private sector removals have increased by 60%.

This differential development has resulted in the private sector accounting for 57% of all removals in 2014, up from 47% in 2007.

These changes in the source of supply from UK forests over the last eight years are shown in chart 18 below.

Chart 18: Softwood Removals from UK Forests by the Private and Public Sectors, 2007-2014



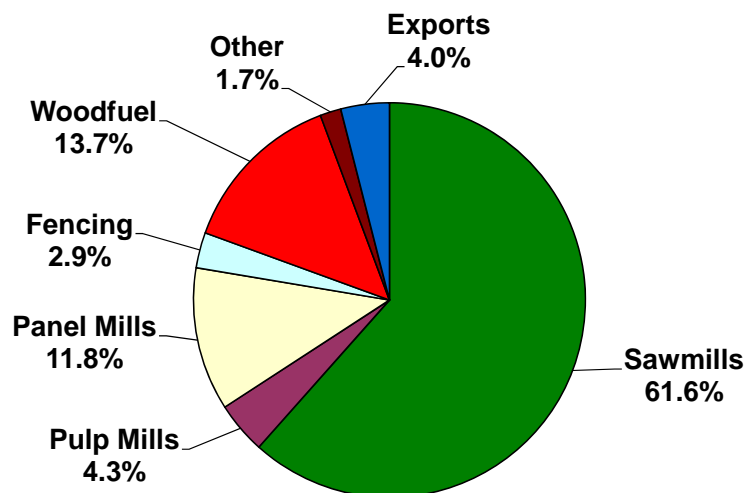
Source: Forestry Commission, Natural Resources Wales, Forest Service, industry surveys

Increased deliveries of coniferous roundwood, removed from UK forests, were made to sawmills (+5%) and to panel mills (+2%), but the largest percentage increase in deliveries was made to the woodfuel market, higher by 20%, following a 25% increase the previous year.

Deliveries to pulp mills were at the same level as in 2013 while reductions in deliveries to the fencing market (-5%) and to export markets (-32%) took place in 2014.

The relative size of the various markets for UK produced coniferous roundwood is shown in chart 19.

Chart 19: Deliveries of Coniferous Roundwood from UK Forests to User Industries, 2014



Source: industry surveys, industry associations

b) Wood Energy

Wood used for energy generation includes sawmill products, such as wood chips and sawdust, bark, recycled wood and wood pellets. UK production of wood pellets continued to grow in 2014, by 18%, to reach a total of 0.35 million tonnes while the supply of pellet imports rose in 2014 by 40%, to a total of 4.76 million tonnes.

c) Certified Forest Products

Nearly all removals from publicly owned forests are certified and over the last few years, an increasing proportion of the output from privately owned woodland has become certified.

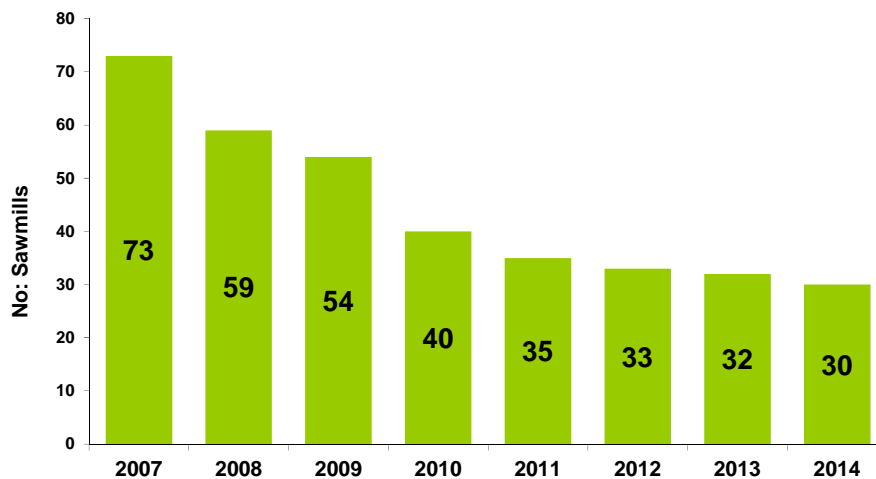
The development of certified sawmill production has also been positive over the last ten years. A measure of this development is the reducing number of sawmills in the UK without chain of custody certificates.

In 2007, 73 mills were known to operate without a chain of custody certificate and by 2014 this had reduced to just 30. These were mostly small mills, of which 25 produced less than 5,000m³ of sawnwood with the other 5 mills producing between 5,000m³ and 25,000m³.

The percentage of UK sawmill consumption of softwood roundwood having chain of custody accreditation in 2014 was estimated to be 80% of all consumption.

This overall reduction in sawmills operating without chain of custody is shown in chart 20.

Chart 20: Number of Sawmills Operating in the UK without Chain of Custody Certificates, 2007-2014



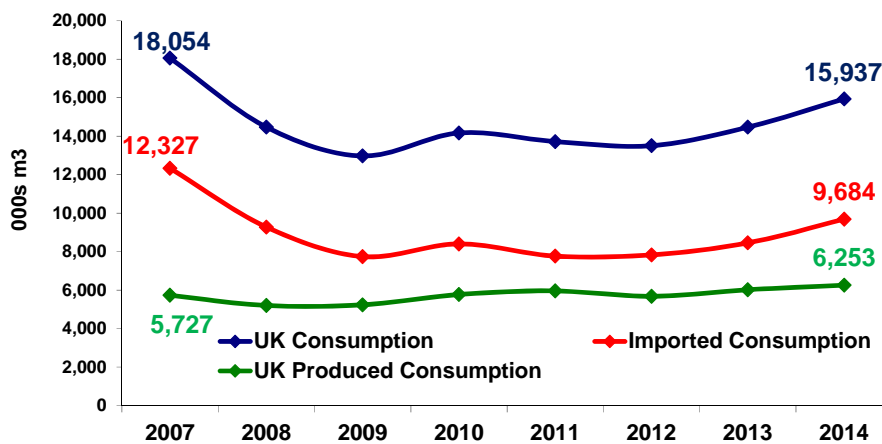
Source: Forestry Commission

d) Consumption of Timber and Panel Products in the UK

The sudden improvement in imports of timber and panel products in the final quarter of 2013, combined with the continued strength of UK production during 2013 was sustained throughout 2014 with the consumption of all the main timber and panel products increasing by 10%.

Imported consumption in 2014 was higher by nearly 15% and domestically produced consumption higher by 4%. The development of UK consumption of the main timber and panel products since 2007 is shown in chart 21.

Chart 21: Consumption of UK Timber and Panel Products, by Source, 2007-2014



Source: Forestry Commission; Timber Trade Federation, Wood Panel Industries Federation; *timbertrends*

The 10% increase in UK consumption in 2014 followed a 7% increase in 2013 to reach a level of nearly 16 million m³. This growth over the last two years has been driven by an increase in imports which reached a level of nearly 9.6 million m³ in 2014, the highest volume since the pre-recessionary year 2007. This remains around 21% below the 2007 level however,

In contrast, the growth of domestically produced consumption has steadily risen over the last eight years to stand 9% above the 2007 level.

e) Value-added Forest Products and Engineered Wood Products

Volumes of all imported sawn and planed softwood were higher by around 17% in 2014.

The volume of rough sawn varieties increased by 19% while further processed (value-added) softwood imports, such as planed, square-edged and finger-jointed grew by 12% in 2014.

The volume of imported planed goods increased from 1.79 million m³ in 2013 to 2.20 million m³ in 2014. Rough sawn volumes rose from 3.29 million m³ in 2013 to 3.93 million m³ in 2014.

Data on the volume of further processed goods from UK producers are not available, however, the trends noted in the import sector are believed to be reflected in the domestic production sector also.

Further processed goods, as a proportion of all imported sawn softwood, fell from 37% in 2012 to just over 35% in 2013 and to 34% in 2014.

Volumes of manufactured timber products (engineered wood products) have continued to grow in 2014, although there is little published data available to confirm this. Anecdotal evidence suggests that modified wood products, such as Accoya, laminated veneer lumber (LVL), cross-laminated timbers (CLT) and I-joists are growing rapidly in popularity, particularly in construction. This view is further confirmed by the increased production capacity in Europe able to produce engineered wood products. In the UK, James Jones & Sons Ltd have invested in new capacity to raise production levels of I-joists.

f) Sawn Softwood

Sawn softwood, in common with other timber and panel products, experienced sharp reductions in demand during the recessionary years after 2007 and the continued development of competitive products, including engineered wood products such as LVL and CLT, has restricted the ability of volumes to recover to pre-recessionary levels.

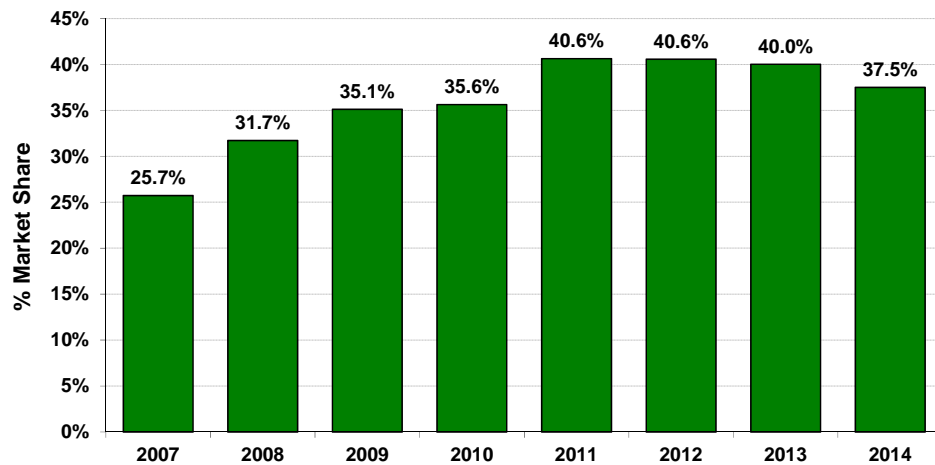
The construction industry was particularly affected by recession and with this market frequently accounting for the majority of all softwood consumption, demand remained suppressed between 2008 and the most of 2013. A high proportion of softwood consumed by construction is imported and before the most recent recession in 2007, imported softwood provided around 75% of total softwood consumption in the UK. By 2014, this proportion had fallen to 60%. As reported elsewhere in this Market Statement, recovery in construction markets in 2014 has led to an improvement in demand and, as mentioned above, softwood consumption in the UK increased by 12% in 2014.

Whilst the health of the construction industry is instrumental in the development of imported softwood, domestic producers have significantly higher shares of the pallets and packaging and fencing and outdoor markets.

Although the pallets and packaging industry also suffered a downturn in demand during the recessionary years between 2008 and 2013, the penetration of this market by UK producers enabled growth in market share to be achieved at the expense of imported goods.

During this time, UK producers continued to enjoy a price advantage over imported softwood and it was this, combined with the changing patterns of usage in end user markets (such as the movement towards greater use of refurbished pallets in place of purchasing new), enabled UK producers to achieve modest volume growth and robust market share growth over this period.

The market share of domestically produced sawn softwood from 2003 is shown in chart 22 below.

Chart 22: UK Producers Share of Sawn Softwood Consumption, 2007-2014

Source: Forestry Commission; Timber Trade Federation; *timbertrends*

Throughout the first decade of the current century, the share of softwood consumption held by UK producers rose from a little over 20% to stand at nearly 41% in 2011 and 2012.

As mentioned earlier in this Market Statement, softwood imports experienced a sharp downturn compared to other timber and panel products and along with the gradual increasing levels of output from UK sawmills, the market share of domestically produced softwood increased rapidly between 2008 and 2012. However, as construction markets and particularly the new build housing market (which has traditionally consumed significant quantities of imported softwood) began to recover at the end of 2013 and into 2014, higher volumes of imported softwood were demanded and the share of imported softwood improved.

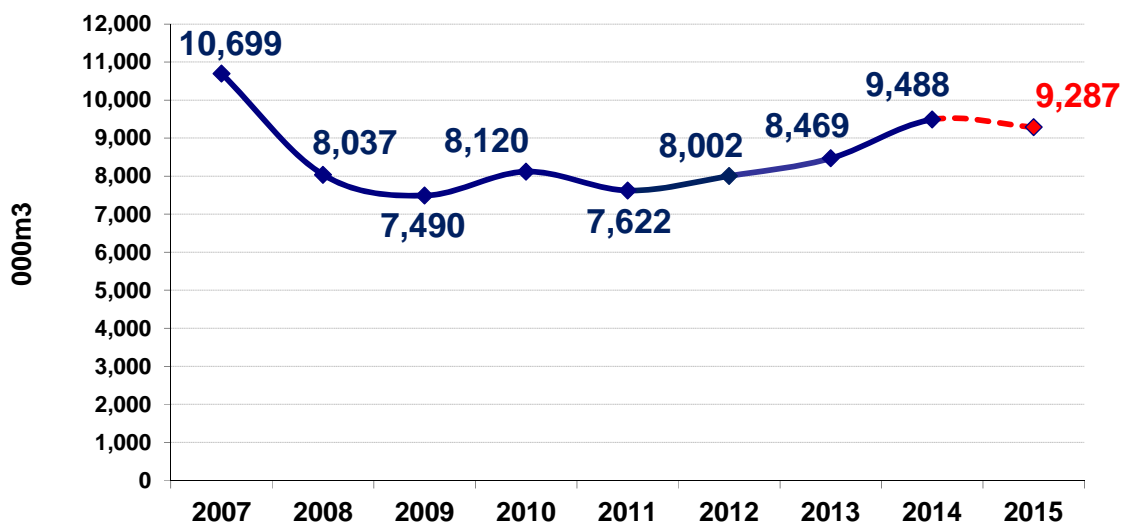
The National Softwood Division (NSD) of the Timber Trade Federation produce an estimate of softwood imports mid-way through each year for the second half and a forecast for the following year. The forecast for 2015 indicates a broadly similar volume of softwood imports in 2015 as in 2014.

A forecast of UK production for 2015, based on the advice of the Forestry Commission's Expert Group on Timber and Trade Statistics indicates that output from UK sawmills will fall in 2015 by around 4.5% to a level of 3.55 million m³.

From these forecasts, the consumption of softwood in the UK for 2015 is projected to fall by around 2% to 9.29 million m³.

The change in UK sawn softwood consumption is shown in the chart below.

Chart 23: UK Sawn Softwood Consumption 2007-2014 & Forecast 2015



Source: Forestry Commission; Timber Trade Federation; *timbertrends*

g) Sawn Hardwood

In concert with an improving economy, sawn hardwood consumption in the UK increased in 2014 by 21% to 0.53 million m³.

The great majority of sawn hardwood consumed in the UK is imported, accounting for over 90% of all hardwood consumed, with a very wide variety of products demanded for many different uses.

UK production of sawn hardwood increased in 2014 to 0.047 million m³, a 4% increase over 2013 as hardwood imports increased by 22% to 0.496 million m³.

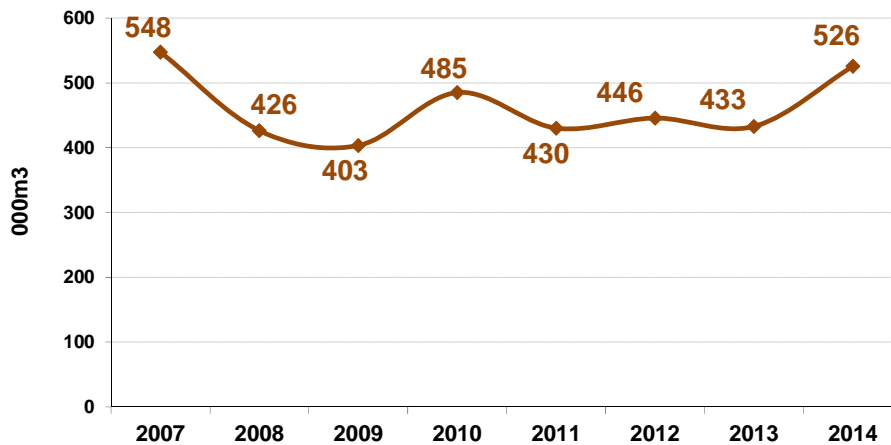
In 2013 the European Union Timber Regulation, aimed at eradicating the placing of illegally felled timber onto European markets, came into force. Although not wholly attributable to the regulation, it is believed the lower volumes of sawn hardwood imported in 2013 were partly as a result of the caution required in ensuring that sources of supply were properly evaluated before and during procurement.

In 2013, imports of tropical hardwoods fell by 12%, but temperate species also declined, down by 5%.

The 22% growth in imports in 2014 was equally shared by tropical and temperate species through a 23% rise in tropical volumes and a 22% increase in temperate species.

Export volumes in 2013 amounted to only 0.018 million m³.

The development of sawn hardwood consumption since 2007 is shown in the chart below.

Chart 24: UK Sawn Hardwood Consumption, 2007-2014

Source: Forestry Commission; Timber Trade Federation; *timbertrends*

h) Wood-based Panels

Particleboard, OSB and MDF are produced in the UK and imported, but all plywood and fibreboard is imported.

UK production of panel products rose by around 1% in 2014 while imports increased by 10%.

Particleboard and OSB imports were significantly higher, rising by 23% compared to an increase of approximately 2% in UK produced particleboard and OSB.

The fall in exports of Particleboard and OSB of over 30% in 2013 was followed by a 5% drop in 2014.

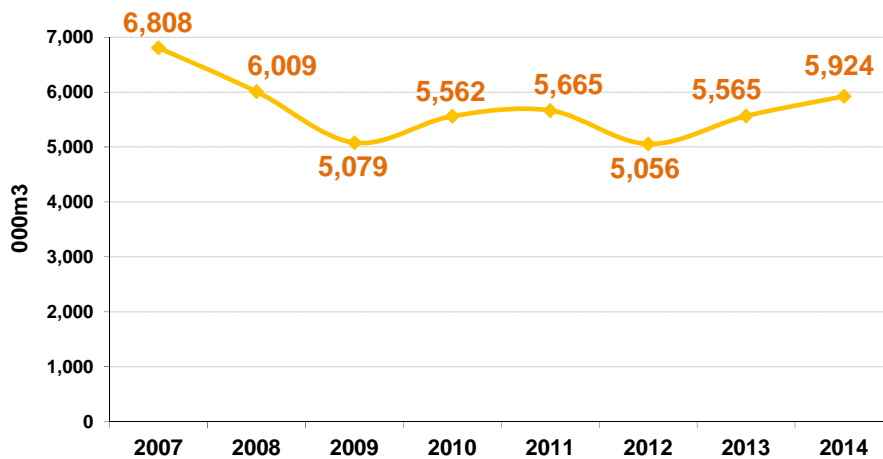
UK produced MDF was slightly lower in 2014, down by less than 1% while imported MDF rose by 16%, thereby exceeding UK production and accounting for 51% of all UK MDF consumption.

Plywood imports grew by around 2% in 2014 to 1.40 million m³ and plywood re-exports, although of much smaller volume, were substantially higher at 0.72 million m³, an increase of 24%.

Consumption of imported panel products grew to a level of approximately 3.17 million m³ in 2014, an increase of 10%, but volume remains 16% below the pre-recessionary level of 3.76 million m³.

Consumption of UK produced panel products, after taking into account exports and re-exports, was higher at 2.75 million m³, from 2.68 million m³ in 2013, a 3% increase.

Volumes of exports and re-exports of panel products were 0.40 million m³ in 2014, down from 0.43 million m³ in 2013.

Chart 25: UK Panel Products Consumption, 2007-2014

Source: Forestry Commission; Timber Trade Federation; Wood Panel Industries Federation; *timbertrends*

i) Pulp and Paper

Consumption of wood pulp in the UK in 2014 was 1.44 million tonnes, up from 1.29 million tonnes in 2013. This was an increase of 11.6% on 2013.

UK pulp production increased by 4.8% in 2014 to 0.24 million tonnes. This includes an estimate for small chemical pulp which does not include the use of wood fibre.

The Confederation of Paper Industries has recently changed its methodology in the calculation of paper consumption and there is a slight discontinuity with previous data. The previous data for 2013 provided a total for UK consumption of paper and paperboard of 9.86 million tonnes. The revised figure for 2013 is 9.37 million tonnes and for 2014, consumption fell by 0.5% to 9.33 million tonnes.

UK production of paper and paperboard in 2014 declined by 3.6% to 4.40 million tonnes, down from 4.56 million tonnes in 2013.

The changed method of calculating consumption has also involved revisions to data for UK imports of paper and paperboard and in 2014, this total was 5.95 million tonnes. This was a 0.3% increase on the revised 2013 total 5.93 million tonnes.

j) Innovative Wood Products / Housing and Construction

Development of Timber in Construction

Industry sources indicate that engineered wood products, particularly I-joists have continued to gain acceptance among many housebuilders in the UK. Where traditional sawn timber joists, concrete or steel beams have been used previously, I-joists are now increasingly replacing these products in large-scale projects as well as new home building.

Cross-laminated timber (CLT) and laminated veneer lumber (LVL) are also increasingly used where building time and carbon saving benefits provide advantages over steel and concrete.

The UK is importing increasing volumes of laminated veneer lumber (LVL) and similar timber composites from Finland and increased production of LVL at a dedicated new line in Poland is under development. Softwood has been the core product in the development of LVL over the last three years, but hardwoods, providing even greater strength are now also in production.

Chemically modified wood products are also winning market share over competitive materials and one such, Accoya, is continuing to be used in many joinery applications within construction.

The trend of increased usage of innovative wood products is likely to continue as the strength, faster build-time and environmental superiority over competitive materials are benefits increasingly demanded by specifiers, developers and construction companies.

Housing Demand

More new homes were started in 2014 than in any year since the start of the recession in 2008.

Although final official housing data has yet to be released for the UK, the eventual number of new homes started will be around 163,000.

Data from Northern Ireland, when available, may reveal little or no growth in 2014, but elsewhere in the UK, higher numbers of homes were started in 2014. In England, an 8.5% increase was recorded, resulting in around 135,000 new homes started. Higher growth was recorded in Scotland, higher by 14.5% and in Wales, the number of new homes started increased by 16%.

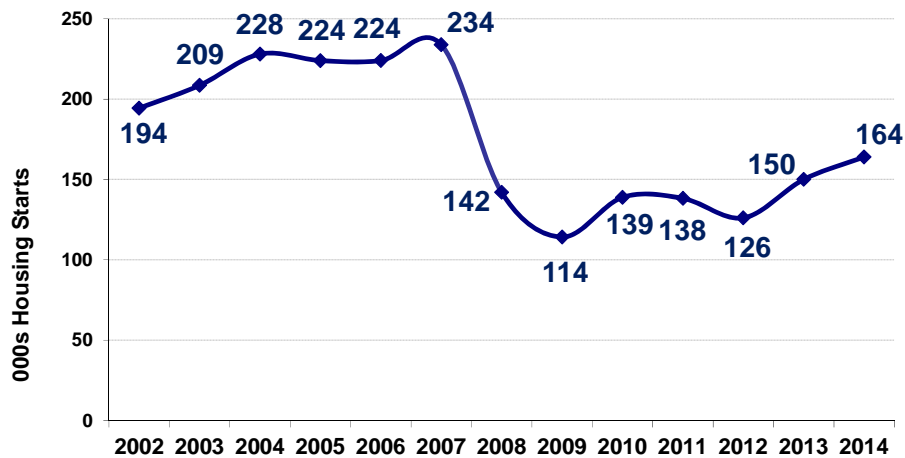
Data for the first half of 2015 is only available for England, but with England accounting for around 80% of new home building in the UK, this is a good indication of performance generally in the UK.

Housing starts in England in the first half of 2015 are slightly higher than in the first half of 2014, although this conceals a very different development by tenure and for each quarter.

Growth in the first quarter of 2015 in England was around 6% over the same quarter in 2014, but in Q2 2015, a near 4% decline was recorded, compared to Q2 2014. By tenure in the first half of 2015, private sector new housing starts increased by 5% as public sector starts declined by 14%. This decline in housing starts in the second quarter of 2015 and in the public sector was largely due to the transfer of resources to achieve the many home completions that were subject to grants under the Government's Affordable Housing programme.

The development of housing starts since 2007 and before, is shown in chart 26 below.

Chart 26: UK Housing Starts, 2002-2014



Source: Office for National Statistics

5. Tables

UK Economic Indicators (% unless otherwise indicated)

	2010	2011	2012	2013	2014	2015
GDP growth¹ (at constant 2010 prices)	1.9	1.6	0.7	1.7	3.0	2.6 ²
Interest Rate (Base Rate at year end)	0.5	0.5	0.5	0.5	0.5	0.5
Consumer Price Index	3.3	4.5	2.8	2.5	1.5	0.4 ²
Unemployment (ILO)	8.0	8.3	8.2	7.8	6.3	5.3 ²
UK Housebuilding Starts (000s)	138.9	137.5	124.5	149.1	163.5 ³	173.5 ⁴

¹GDP growth is measured on a chained volume basis current year compared to previous year

²HM Treasury, Forecasts for the UK Economy: A Comparison of Independent Forecasts, August 2015

³*timbertrends*

⁴Construction Products Association estimates