

11 HOUSING AND CONSTRUCTION

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HIGHLIGHTS

- OECD economies, in aggregate, have been sluggish; unemployment remains high in several countries, and minimal gross domestic product gains are forecast for the Euro area through 2016.
- Recession, sovereign debt problems and lethargic economies continue to constrain Europe's housing construction market; no improvement is expected before 2015 or 2016; Germany's positive housing market is an exception.
- Housing completions in the Russian Federation achieved record levels in 2013, with a total of 912,100 new dwellings built, an increase of 10.3% over 2012 and the largest number of new dwellings built in a single year for more than 20 years.
- The US housing market was mixed in 2013: there was substantial improvement in the first half of the year but waning sales in the second half. Within this overall picture there was an improved but subdued single-family market; an expanding multi-family market; and decreasing sales of lower-priced houses versus increasing sales of higher-priced houses.
- The annual rate of formation of new US households decreased by about 800,000 between 2009 and 2014; overall, there has been a 59% decline from the 2000–2006 average of 1.35 million per year.
- Investor purchases, a substantial influence in the improvement of housing sales in the US, decreased in the latter half of 2013.
- North American building-material demand and prices increased substantially in early 2013 but declined in the latter half of the year due to a sluggish world economy and a tepid US housing market.
- The economic situation in Canada improved in late 2013 and is expected to continue to improve in 2014 and 2015. Forecasts suggest modest housing demand and starts in Canada in 2014 and 2015.

11.1 A BRIEF ON THE ECONOMIC SITUATION IN THE UNECE REGION IN 2013-2014

In general, the economic condition of a country has a significant effect on its housing and construction markets. For example, housing construction and sales usually increase in more prosperous economic times because people tend to purchase houses. The reverse also is true: in less prosperous economic periods, housing construction and sales usually decline. The International Monetary Fund (IMF) and the World Bank foresee lacklustre economic performances for both the US and the Euro area (also called the Eurozone) in 2014 and 2015. The IMF (2014a) forecast overall growth in gross domestic product (GDP) in the advanced economies²⁴ of 2.2% in 2014, increasing to 2.3% in 2015. Estimates for the US were somewhat more than this, at 2.3% in 2014 and 3.0% in 2015, and lower for the Euro area, at 1.2% in 2014 and 1.5% in 2015. The outlook is also disappointing for the Organisation for Economic Co-operation and Development (OECD) countries as a whole, with a forecast increase in GDP of 1.5% in 2014 and 1.9% in 2015 (IMF, 2014a). According to the World Bank (2014), "Developing countries are headed for a third consecutive year of disappointing growth below 5% ... the Euro area is on target to grow by 1.1% and the US by 1.9% in 2014". Fragile consumer and business confidence, high unemployment in some member countries, continued banking-sector and fiscal restructuring, and lingering sovereign debt problems restrain economic growth in developed and high-income regions such as Europe. The Euro area is still suffering from the after-effects of the 2008 global financial crisis. The US economy appears to be improving slowly, but several of the uncertainties affecting the Euro area, particularly business uncertainty, also are affecting the US.

The prospects for the Russian Federation's economy were downgraded in 2014 (in the wake of the Ukraine crisis and other factors), with the IMF estimating GDP growth at 0.2% in 2014 and 2.3% in 2015 (IMF, 2014b). The World Bank (2014) projected GDP growth in the Russian Federation of 1.1% in 2014 and 2.1% in 2015 on the assumption that the political situation does not worsen.

11.2 EUROPEAN CONSTRUCTION MARKET

11.2.1 Review and outlook

In 2010, about 42% of EU27 citizens lived in flats, nearly 34% lived in detached houses, and 23% lived in semi-detached houses. Nearly 28% of the EU27 population lived in owner-occupied homes with outstanding loans or mortgages, while about 43% lived in owner-occupied homes without loans or mortgages (Eurostat, 2014).



Source: proHolz Austria, 2014.

The Euroconstruct²⁵ region's housing market is mixed. Housing is "strongly influenced by macroeconomic events" (Euroconstruct 2013a), and the forecast is for "slim growth" in 2014 and in the near future (Euroconstruct 2013b). Another potentially adverse factor is demographics: in the future, the aging of the population may have substantial negative consequences for several OECD housing markets because older people are more likely to downsize than to invest in new housing, and fewer young people are projected to form households.

Prospects for the Euroconstruct region's housing markets have therefore been revised downward from previous forecasts. This is illustrated by a change in the countries that lead the Euro area in construction. In the first decade of the current century, the top five construction countries were Germany, France, Italy, Spain, and the UK (Euroconstruct, 2013a). In the 76th Euroconstruct (2013b) report, countries were segmented into six groups, ranging from Group 1 (the highest-rated countries with the best prospects for housing and construction) to Group 6 (countries with the weakest prospects for housing and construction). Austria, Belgium and Germany were in Group 1 and Finland, Norway, Poland and Switzerland were in Group 2; France, Italy, Spain and the UK (all previously among the top five construction countries in the Euro area) were all downgraded into lower groups. Perhaps the most obvious example of the housing crash is Spain. Significant construction occurred in

²⁴ The IMF list of advanced economies includes: Andorra, Australia, Austria, Belgium, Canada, Cyprus, Czech Republic, Denmark, Estonia, Faroe Islands, Finland, France, Germany, Greece, Holy See, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Latvia, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands, New Zealand, Norway, Portugal, San Marino, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Taiwan, United Kingdom, United States.

²⁵ The Euroconstruct region comprises 19 countries. The western subregion consists of Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK. The eastern subregion comprises the Czech Republic, Hungary, Poland and Slovakia.

Spain in the early 2000s: for example, the country accounted for 20% of all Euro-area housing under construction in that period. In 2014, however, Spain's construction forecast was severely downgraded, and now Spain is in Group 6, along with Ireland and Portugal (Euroconstruct, 2013b).

In 2013, nearly 46% of all construction activities were associated with residential building: new construction accounted for 18% and renovation and maintenance for 28% (Euroconstruct 2014). Allen (2014) reported that construction increased by 8.0% in the Euro area and by 7.2% in the EU28 between April 2013 and April 2014. The gains in both these groupings were due primarily to improvements in the building construction sector, with only a slight increase in the civil-engineering sector.

On a monetary basis, remodelling is the largest expenditure in Euro area construction. In the immediate future, however, new residential construction is forecast to increase more than remodelling in percentage terms. Total new residential construction spending is forecast to increase by an average of 3.2% (inflation adjusted) between 2014 and 2016. In eastern Europe, new construction accounts for about 66% of building activity, compared with just under 33% in western European countries (Euroconstruct 2014).

11.2.2 European construction trends

11.2.2.1 New housing

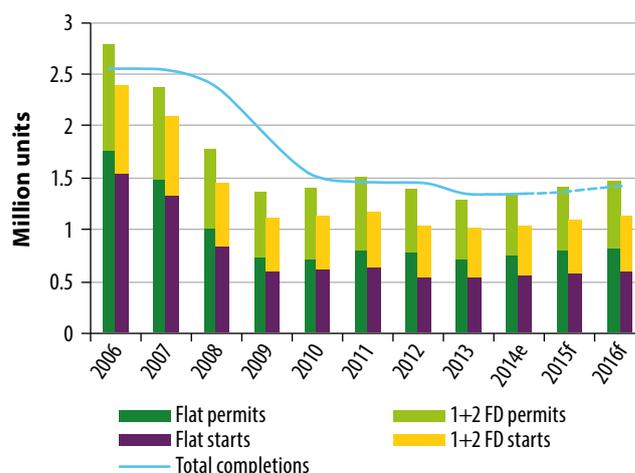
The projected number of new housing permits and starts in 2015 is 1.46 million and 1.14 million units, respectively – nearly the same quantities as in 2010 (Euroconstruct, 2014). A record 2.77 million construction permits for homes were issued in 2006, compared with 1.28 million units in 2013, a 53.8% decrease. Nearly 562,500 flats and 480,000 single and multi-unit structures that also are referred to as 1 + 2 family dwellings (meaning detached or semi-detached) starts are forecast for 2014. Moreover, 631,200 1 + 2 (single and multi-units) and 716,000 flats are projected to be finished in 2014 (graph 11.2.1) (Euroconstruct 2014).

Germany's housing market is an exception to the aggregate building trends in the Euro area. Möbert (2014) projected an improvement in the German housing market through most of 2014, with permits exceeding completions in that year. Germany's issued building permits and completions will approach equivalency in 2015 or 2016 at the earliest.

In Euroconstruct's projection of the top five countries for new construction and remodelling in 2014 (table 11.2.1), Germany ranked first in both categories (Euroconstruct, 2014).

GRAPH 11.2.1

Building permits, housing starts and completions in the Euroconstruct region, 2006-2016



Notes: FD=family dwellings. e=estimate. f=forecast. Source: Euroconstruct, 2014.

TABLE 11.2.1

Residential new construction and remodelling forecast for top five countries in the Euroconstruct region, 2014-2015

(billion €)					
New construction			Remodelling		
Country	2014	2015	Country	2014	2015
Germany	46.5	48.9	Germany	113.0	113.0
France	41.0	41.8	Italy	66.9	68.0
UK	33.3	36.0	France	53.3	53.6
Switzerland	18.5	18.8	UK	35.7	37.0
Italy	18.0	17.9	Spain	14.8	14.5

Notes: In 2013 prices. Data published in June 2014. Source: Euroconstruct, 2014.

11.2.2.2 Non-residential buildings and civil engineering

Construction demand in the Euroconstruct region is being depressed by a number of factors, including: government budget reductions (Euroconstruct, 2014); business deleveraging and decreased spending; consumer deleveraging; and the economic climate, including the effects of the global financial crisis.

Non-residential construction comprised nearly 33% of all construction in 2013, and housing and civil engineering accounted for 45% and 22%, respectively. Non-residential construction is predicted to increase by 1.0% in 2014, by a further 1.6% in 2015, and by an additional 1.9% in 2016 (table 11.2.2). Germany, France, the UK, Italy, and Spain (in that order) were the five largest non-residential markets in 2013 (Euroconstruct, 2014).

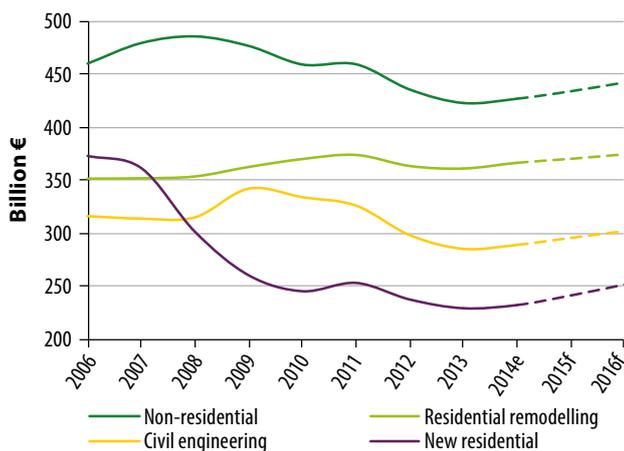
TABLE 11.2.2**Non-residential construction spending forecast in the Euroconstruct region, 2014-2016**

(billion €)			
Year	New construction	Remodelling	Total non-residential
2014	219.1	207.6	426.7
2015	223.3	210.4	433.7
2016	228.2	213.8	442.0

Notes: In 2013 prices. Data published in June 2014.

Source: Euroconstruct, 2014.

Spending projections for new residential and non-residential buildings, civil engineering and residential remodelling illustrate the overall construction malaise in the Europe area (graph 11.2.2). Spending in the educational and miscellaneous non-residential building sectors is forecast to decrease in 2014 because of prevailing economic conditions. Expenditures on warehouse, agricultural, commercial, health and office buildings are forecast to increase, albeit minimally (Euroconstruct, 2014).

GRAPH 11.2.2**European construction spending, 2006-2016**

Notes: e=estimate. f=forecast.

Source: Euroconstruct, 2014.

The value of residential construction is forecast to be 1.4% higher in 2014 than in 2013, with gains of 2.1% and 2.4% projected for 2015 and 2016, respectively. Total residential construction in 2014 is forecast to reach a value of €598.4 billion (\$797.9 billion), increasing to €625.7 billion (\$834.3 billion) in 2016 (table 11.2.3). On average, total new residential construction is forecast to increase by 3.2% (in real terms) between 2014 and 2016, somewhat below the earlier Euroconstruct (2013b) forecast of 3.4%.

Residential remodelling is projected to remain the most important construction activity in the Euro area, increasing from €366.3 billion (\$488.3 billion) in 2014 to €374.3 billion (\$499.0 billion) in 2016. Housing renovation forecasts are all positive: a 1.5% increase in 2014, a 1.0% increase in 2015 and a

1.1% increase in 2015. Renovation and home repair figures have been steady since the global financial crisis. Historically, home renovation projects have been supported by government programmes (Euroconstruct, 2014).

TABLE 11.2.3**Residential new construction and remodelling spending forecast in the Euroconstruct region, 2014-2016**

(billion €)			
Year	New construction	Remodelling	Total residential
2014	232.1	366.3	598.4
2015	241.2	370.0	611.2
2016	251.5	374.3	625.7

Notes: In 2013 prices. Data published in June 2014.

Source: Euroconstruct, 2014.

Civil engineering has declined overall in the Euro area since 2009; output was about 13% less in 2013 than in 2010. Note, however, that public civil-engineering spending varies greatly between countries. Projections for 2016 indicate that civil-engineering spending will surpass that for 2012, increasing by 5.9% over 2013 from €285.1 billion (\$380 billion) to €301.8 billion (\$402.4 billion) (Euroconstruct, 2014).

11.2.2.3 Construction sector shares and growth: contrasting Western and Eastern Europe

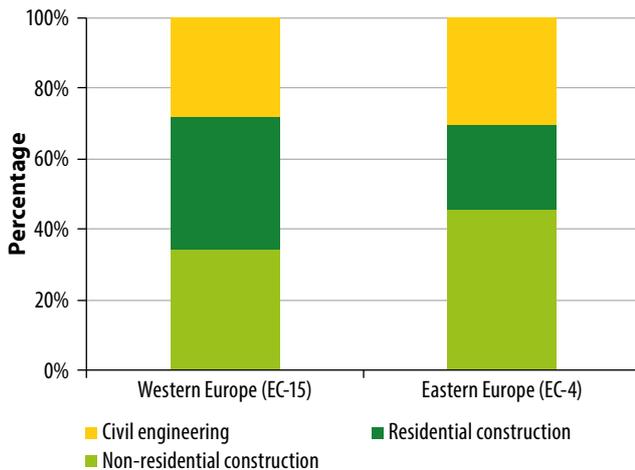
In Euroconstruct's western subregion, total residential construction is predicted to increase from €589.9 billion (\$786.5 billion) in 2014 to €625.7 billion (\$834.3 billion) in 2016. Euroconstruct's eastern subregion is forecast to increase residential construction from €16.7 billion (\$22.3 billion) to €18.2 billion (\$24.3 billion) in the same period (Euroconstruct, 2014).

According to Euroconstruct (2014), total construction spending (measured in constant prices) in 2013 was at its lowest level since 1993, at €1.3 trillion (\$1.7 trillion). About two-thirds of European construction is forecast to occur in Germany, France, the UK, Italy, and Spain (in order of magnitude) (Euroconstruct 2014).

In Euroconstruct's western subregion, new residential construction is the leading sector in terms of spending, followed closely by new non-residential building (37.6% and 34.2%, respectively). Spending in the eastern subregion comprises about 6% of total Euroconstruct region construction expenditure; there, new civil engineering and new non-residential construction comprise 75.5% of expenditure on new construction (graph 11.2.3) (Euroconstruct, 2014).

GRAPH 11.2.3

Euroconstruct sector shares for new construction, 2013



Source: Euroconstruct, 2014.

11.3 CIS CONSTRUCTION MARKET, WITH FOCUS ON THE RUSSIAN FEDERATION

11.3.1 Housing construction in the Russian Federation, 2013-2014

There were record housing completions in the Russian Federation in 2013. A total of 912,100 new dwellings were built, an increase of 10.3% over the previous year and the largest number of new dwellings for more than 20 years (Sosna, 2014). Residential space construction totalled 69.4 million m² in 2013, an increase of 5.6% over 2012.

In the first quarter of 2014, 178,000 apartments were commissioned in the Russian Federation, with a total area of 13.6 million m². This is nearly 31% greater than commissioned during the same time-period of 2013, when 10.4 million m² was commissioned. In the first quarter of 2014, individual developers built 47,600 residential houses with a total area of 6.4 million m², an increase of 19.2% above the total for the same period in 2013 (Russian Federation Federal State Statistics Service, 2014).

11.4 NORTH AMERICAN CONSTRUCTION MARKET

11.4.1 The US housing market

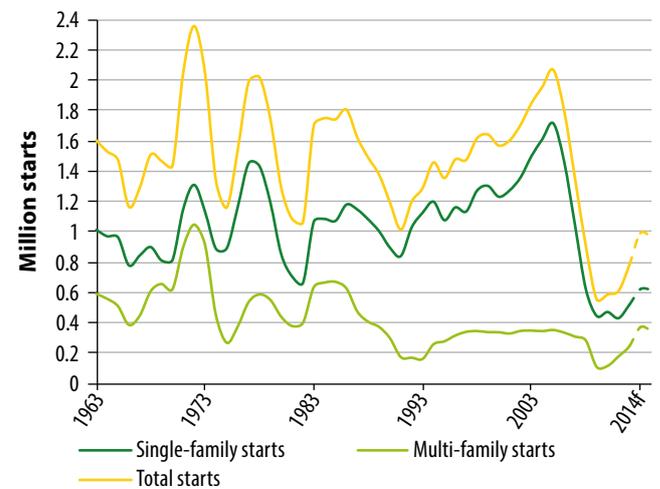
The US housing market experienced modest growth in 2013 – although annual starts were much lower than the 1963-to-2013 average of 1.46 million units. The overall market improved in the first half of 2013 but has waned since. Total starts increased marginally and were sustained by multi-family starts. Housing starts were estimated at a seasonally annualized adjusted rate (SAAR) of 1.01 million in May 2014, 9.4% more than in May 2013. Yet, single-family starts (graph 11.4.1) are less than the 1963 level (US Census Bureau, 2014a).

The house sales market did not improve, either. In May 2014, 4.89 million existing (previously owned, annualized figures) houses were sold, compared with 5.15 million in May 2013 – a 5.0% decrease. In May 2014, the median existing house sales price was \$209,917, 0.3% lower than in May 2013 (National Association of Realtors, 2014).

New home sales (newly constructed) averaged 431,000 units per month between January and April 2014 (all SAAR). The volume of new-house sales is similar to those in 1966-1970. The median new-house sale price was \$277,397 in May 2014, 6.9% higher than in May 2013 (US Census Bureau, 2014b).

GRAPH 11.4.1

US housing units and starts, 1963-2014



Notes: f=forecast (May 2014 data). Seasonally annualized adjusted rate. Source: US Census Bureau, 2014a.

The substantial number of houses with negative equity in the US also is affecting new housing construction, existing and new house sales and the use of wood products. Hopkins (2014) reported that about 9.7 million houses had negative equity as of May 2014, meaning that the owners of those houses owed more on their mortgage than the house's current appraised value. Some analysts speculate that the high level of negative equity is a reason for the middling housing market – owners of houses with negative equity are reluctant to purchase new houses because of their debt and because of future-financing fears.



Source: UNECE/FAO, 2014.

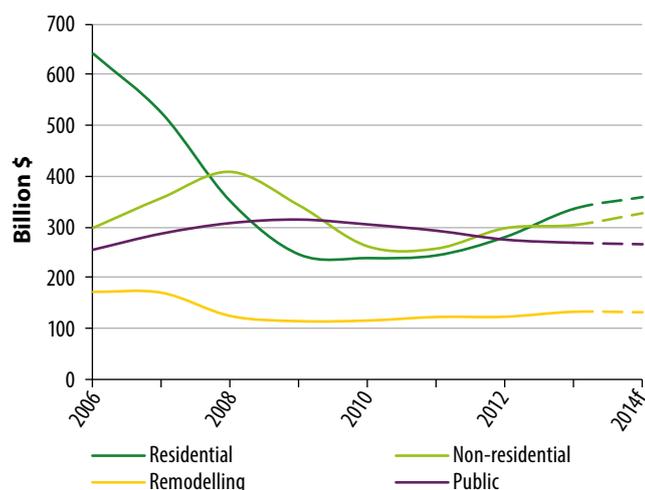
Another factor for the slow-moving housing market is a decline in the formation of households. Household formations are important to housing because, when families are formed, the new households typically rent a dwelling or purchase a house. US annual household formation has decreased by 800,000 in recent times, a 59% decrease from the 2000-2006 average of 1.35 million household formations per year (US Census Bureau, 2014c). The increase in the number of 18-30-year-olds living at home – 45% in 2012, compared with 39% in 1980 (Federal Reserve Bank of Atlanta, 2014) – provides further evidence of this decline. An estimated 1.2 million more young adults were living with their parents in 2012 than in 2006 (Porter, 2014).

The number of households in mortgage arrears and foreclosure decreased in the past year (from April 2013 to April 2014) as a result of increasing numbers of foreclosure sales and housing price gains that resulted in some housing valuations increasing to above the loan amount. The national foreclosure inventory was about 694,000 homes in April 2014 (1.8% of all houses with a mortgage), a decline of 35% compared with April 2013, when 1.1 million homes were in foreclosure (CoreLogic®, 2014).

Housing construction spending is gradually improving (graph 11.4.2), with total private residential construction spending increasing by 7.5% year-over-year from May 2013 to May 2014, to \$354.8 billion. Single-family construction spending increased by 10.9% year-over-year, to \$187.5 billion; multi-family expenditure increased by 30.7% year-over-year, to \$40.4 billion; and house remodelling spending decreased by 2.4% year-over-year, to \$126.7 billion (all SAAR) (US Census Bureau, 2014d). Harvard's Leading Indicator of Remodelling Activity (2014) projected that an average \$149.5 billion would be spent on remodelling in 2014.

GRAPH 11.4.2

US construction spending, 2006-2014



Notes: f=forecast (May 2014 data). Residential, non-residential and remodeling represent private sector.

Source: US Census Bureau, 2014c.

Historically, US housing has been a major component of US GDP – typically averaging 17-19%. Housing's portion includes: residential investment (construction of new single- and multi-family houses, residential remodelling, production of manufactured homes, and brokers' fees); housing services spending (rent, owner's equivalent rent, and utilities); and expenditure on furnishings and durable goods. Housing-related GDP was 17.6% in the first quarter of 2014, compared with 20.6% in the third quarter of 2005. For construction purposes, residential investment is the most critical component – the best year was 2005, when it was 6.2% of GDP. Residential investment was 3.1% in the fourth quarter of 2013 and in the first quarter of 2014 (US Bureau of Economic Analysis, 2014).

11.4.2 United States construction outlook

The US housing market has stabilized, and data from some sectors indicate an improvement. However, a more robust housing construction and sales market may be hindered by: a tendency for "millennials" (adults born in 1982 or later) to live with their parents; a relatively low level of household formation; student debt; under-employment and stagnant-to-declining median incomes; negative equity; banking regulations (including stringent down-payment requirements); a constrained housing inventory; and a fragile economy. Another potential impediment is a change in attitudes towards home ownership, including a developing trend to rent rather than buy. Attention to such factors is needed because they have major implications for the housing and wood products industries. Several agencies, including the Federal Housing Finance Agency (2014), have projected that a moderate to robust housing recovery is still several years away.



Source: APA, 2014.

11.4.2.1 United States and Canada construction materials

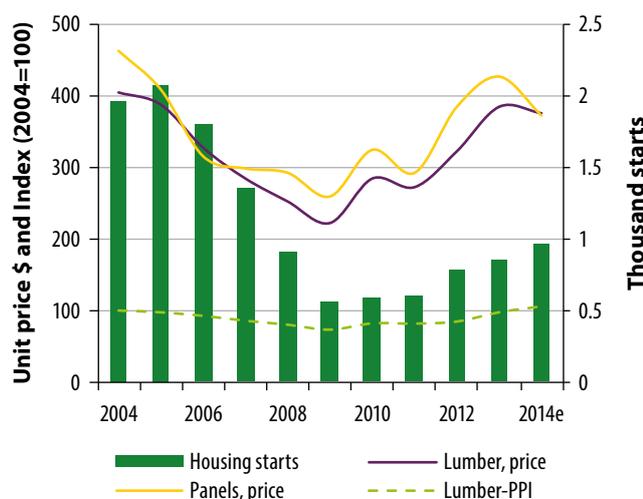
Traditionally, North American sawn softwood, structural panels and associated usage and pricing are greatly influenced by US housing starts. North American houses – particularly single-family houses – have been the primary market for sawn softwood and structural panels. In 2006, about 39% of all solid wood products consumed in the US, and 28% of all solid wood products consumed in Canada, were used in new residential construction. Single-family houses use about 14,800 board feet (25.1 m³) of lumber products and 16,000 square feet (14.2 m³) of panel products; by comparison, a typical multi-family unit uses 2,400 board feet (4.1 m³) of lumber and 1,750 square feet (1.5 m³) of panel products (Adair and McKeever, 2006). Building-material prices improved dramatically in late 2012 and through mid-2013, in part because of improving housing starts. Due to a subdued housing market (in late 2013) and a sluggish world economy, however, wood-material prices declined in late 2013 (graph 11.4.3).

US lumber consumption is projected to reach 29.6 billion board feet (50.3 million m³) in 2014, of which about two-thirds will be used for residential housing construction and remodelling. Of the total, 46% will be used for new residential construction. In comparison, new residential lumber consumption was, on average, almost 40% higher in the 1990s (RISI, 2014). Because the US repair and remodelling market uses more lumber than new construction, consumption is forecast to increase by 7.4% in 2014 (Random Lengths, 2014a).

The consumption of wood-based panels also is increasing with improvement in the housing sector, following a similar pattern to sawnwood. The relationship between the demand for housing and prices for panels and sawnwood is linked closely to the number of housing starts (graph 11.4.3).

GRAPH 11.4.3

US building material prices and housing starts, 2004-2013



Notes: e=estimate (May 2014 data). Structural panel composite price unit=1000 square feet, framing lumber composite price unit=1,000 board feet, lumber composite price unit=1,000 board feet, lumber PPI index (2004=100).

Sources: US Bureau of Labor Statistics, 2014; US Census Bureau, 2014a; Random Lengths, 2014b.

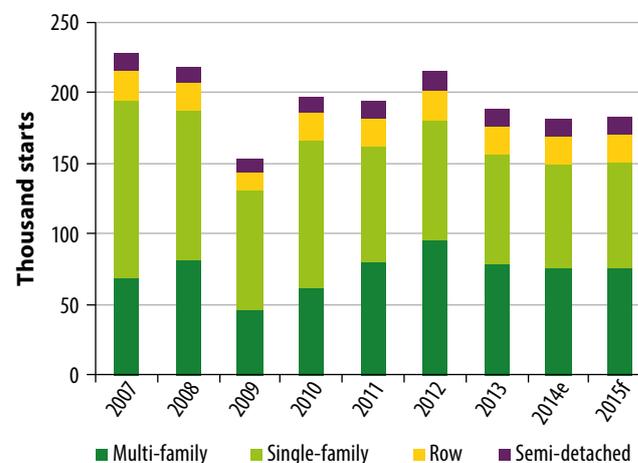
For more information on the effects of housing and construction on sawn softwood and wood-based panels markets, see Chapter 5 (sawn softwood) and Chapter 7 (wood-based panels) of this publication.

11.4.3 Canadian housing construction market

The Canadian housing market is relatively stable, with 187,923 starts estimated for 2013 and 181,100 starts expected in 2014 (Canada Mortgage and Housing Corporation, 2014). Of the expected starts in 2014, 73,000 are forecast to be single-family units and 108,100 to be multi-family. Some 74,500 single-detached unit and 107,600 multi-family unit starts are projected for 2015 (graph 11.4.4) (Canada Mortgage and Housing Corporation, 2014). Despite Canada's lacklustre job growth and record high home prices, home purchasing is stable, with home buyers attracted by near-record low mortgage costs and discounted interest rates (Warren, 2014). The Royal Bank of Canada (2014) expects the Canadian housing market to enter a slow growth phase in 2014 when long-term interest rates begin to rise, projecting home resales to increase by 0.8% in 2014, to 461,000 units. The Canada Mortgage and Housing Corporation (2014) projected moderately increasing home sales of 457,900 units in 2014 and 471,100 units in 2015.

GRAPH 11.4.4

Housing starts in Canada, 2007-2015



Notes: e=estimate. f=forecast.

Source: Canadian Mortgage and Housing Corporation, 2014.

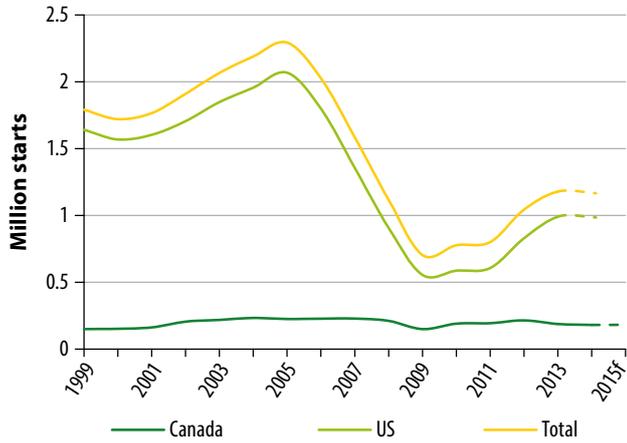
The Canadian economy has been forecast to improve in 2014 and 2015, with GDP increasing to 2.2% in 2014 and 2.5% in 2015. Bendiner (2014) expected real GDP growth to average 2.2% in 2014 and 2.6% in 2015. Employment was forecast to increase by 1.2% in 2014 and by 1.9% in 2015; although modest, this increase in employment would aid the housing market (Canada Mortgage and Housing Corporation, 2014).

11.4.4 US and Canadian housing

The combined housing markets for the US and Canada (graph 11.4.5) still exhibit the after-effects of the housing crash and global recession. Although both markets have improved, there is much room for further improvement.

GRAPH 11.4.5

Housing starts in North America, 1999-2015



Notes: 2014 is an estimate. f=forecast.

Sources: US Census Bureau, 2014c; Canada Mortgage and Housing Corporation, 2014.

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ABSTRACT

The *Forest Products Annual Market Review, 2013-2014* provides a comprehensive analysis of markets in the UNECE region and reports on the main market influences outside the UNECE region. It covers the range of products from the forest to the end-user: from roundwood and primary processed products to value-added and innovative wood products. Statistics-based chapters analyse the markets for wood raw materials, sawn softwood, sawn hardwood, wood-based panels, paper, paperboard and woodpulp. Other chapters analyse policies, innovative wood products and markets for wood energy, value-added wood products and housing. Underlying the analysis is a comprehensive collection of data. The Review highlights the role of sustainable forest products in international markets. Policies concerning forests and forest products are discussed, as well as the main drivers and trends. The Review also analyses the effects of the current economic situation on forest products markets.

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