

TIMBER MERCHANTS MARKET REPORT UK 2011-2015 ANALYSIS



- AMA Research Ltd -

Third Edition

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1. INTRODUCTION

1.1 Background

AMA Research are publishers of a wide range of market reports covering building products and consumer durables. Product report areas include Kitchens, Replacement Doors and Windows, Conservatories and Wood Panels. Specialist distribution sectors are also covered including Builders Merchants, DIY Retailers and Building Products Distribution.

In addition AMA have published a wide range of reports reviewing the housing market including Housebuilders, Self-Build, Prefabricated Buildings and Timber Frame Housing.

This report specifically reviews the Timber Merchants sector of the timber products distribution market, with a specific focus on the timber merchants themselves. Key influences affecting the market, the competitive environment and reviews of merchants' key customers are all included within this report. This report is the **Third Edition** and represents a comprehensive and unique review of the sector.

The market has experienced strong growth over the past few years, caused largely by raw material price increases. Issues relating to the sustainability of construction materials have had a significant effect on the market, as customers become more environmentally-conscious. The use of timber as a construction material has increased in recent years, which has had a positive effect on the market, and should continue to do so in the future.

1.2 Sources of Information

AMA Research was established in 1989 and have been producing market reports on construction, building and home improvement products for over 20 years. AMA specialise in the construction sector and now publish a range of over 130 reports covering the market and have developed a comprehensive understanding of the industry.

While there are basic Government statistics at an overall construction industry level, there are very few 'officially recognised' statistics at individual market, product or sector level. Some sectors of the construction industry or trade associations produce basic market statistics but, in general, there is very little published data which identifies market size, product mix, sector application mix, supply and distribution structures and shares etc.

AMA's reports address this fundamental lack of data in terms of providing an assessment of markets. The Timber Merchants market is typical in terms of lack of availability of market data. As a result, information in this report has been collated from a wide range of sources and includes both primary and secondary research data. Secondary data sources include government statistics, company accounts, Internet, trade magazines, etc, whilst a primary research programme of interviews throughout the industry including suppliers, distributors, retailers and others has also contributed to the development of this report.

As a result, market calculations are based on AMA's assessment of these information sources, together with data and research in related markets, which has been collated over the last 20 years. Data in the report is often sourced as 'AMA Research / Trade Estimates', which reflects the fact that assessments are estimates only and are based on a range of sources and our interpretation of data and key market influences, and we are happy to discuss our findings with the reader.

Finally, forecasts of market developments are provided and these are also based on our interpretation of the wide range of factors influencing the market. Forecasting in the current climate is very difficult, but AMA assess the key positive and negative factors impacting on the market and then develop 5-year forecasts of trends.

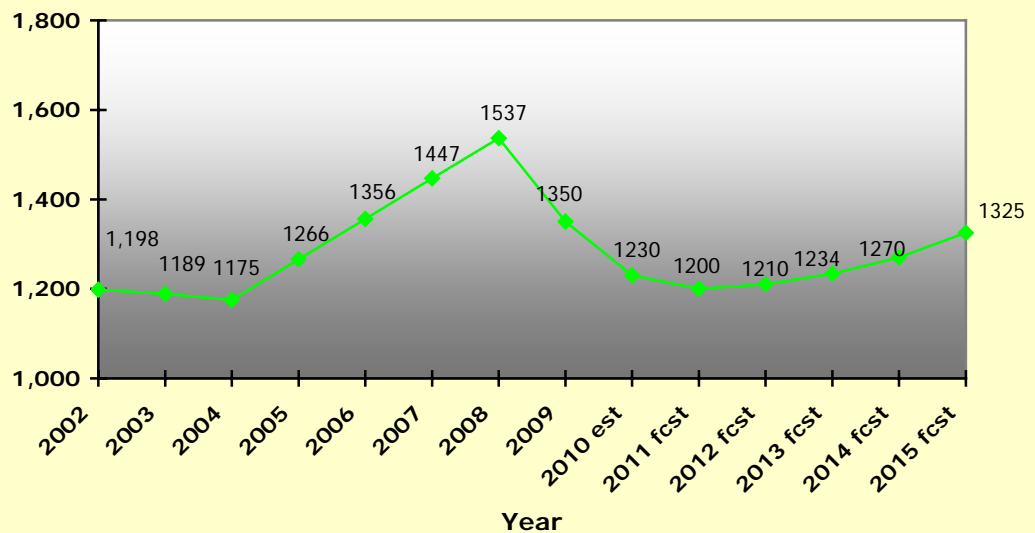
2. SUMMARY AND FUTURE PROSPECTS

2.1 Summary

The Timber Merchants market relies heavily on the performance of the housing and general construction market in the UK and currently the housing market is still subdued following a severe recession that has lasted several years.

Following a 4 year period of growth up to 2008, the timber merchant's market went into decline and in 2010, **the timber merchants market is estimated to be worth around £1,230m** - a fall of 9% on the previous year as the chart below illustrates:

Chart 1: UK Timber Merchants Market and Forecasts: 2004-2015 by Value (£m)



Source: AMA Research/Trade Estimates

As the chart above shows there were strong annual increases up to 2007/08, before a combination of the housing recession together with the start of a decline in non domestic construction output impacted severely on the sector - resulting in an estimated decline of 12% in 2009 and a further decline of around 9% in 2010.

Housebuilding output collapsed in 2008/early 2009 due a combination of factors primarily related to the banking crisis, leading to lack of funds for mortgages and much stricter lending criteria, particularly for first time buyers. As a result, the volume housebuilders focused their effort on preserving cash through major cutbacks in land buying and introducing a variety of incentives to reduce their housing stock and work in progress and many reduced their new site developments to an absolute minimum and sold from stock to generate cash.

In 2010, although UK new housing starts increased to 141,000, a 32% increase compared to the previous year, this was still much lower than the 2007 level of 232,000 - in addition completions were down 13% compared to 2009. There are some indications of a slight recovery in early 2011, but it is too early to assess whether this growth will be sustained for the rest of 2011 given the current uncertain climate in mid-2011.

In addition to new housebuilding, sales of timber also rely heavily on replacement timber products in the social sector and home improvement in the private sector. In terms of overall construction output, all sectors of the market have grown substantially since 2000 with steady growth up to 2008 in repair and maintenance output growth in both the public and private housing sector. However, in 2009 there was a decline in both sectors, the private sector performing worst with a decline of around 11% - the first downturn since 2000 - whilst the public downturn was not as severe at -2%.

Forecasts for 2011 indicate low or no growth in RMI in public and private housing in value terms and the timber sector may face a further challenging year of reduced margins and low volumes. Growth in repair and maintenance output for the private housing sector could well be static as long as the uncertainty in the housing market continues and consumer spending remains at a low level.

The recent recession in housebuilding has meant lower volumes in the construction of housing units and a change in the housing mix. The volume of flats constructed in the UK rose considerably from 2003 - 07 and by the end of 2009 the share of flats to total housing was 50%. The majority of this growth has been in England and is a result of the need to build at higher densities because of land price and availability. However in 2010 traditional housing completions were 55% of total housing with flats at a reduced figure of 45%. The current approach by the major housebuilders regarding their preference to build traditional 2 storey housing in order to increase margins and reduce build times will mean that construction starts in flats will remain depressed in the short term.

In turn, this decline in flats and return to more traditional housing should have a positive effect on the sector with the need to supply increasing volumes of timber such as roof trusses, doors and windows, fencing, gates etc. There may be some negative effect on the sector with a reduction in timber frame flats, although this could be offset as timber frame manufacturers switch to supplying traditional housing providing the volume housebuilders continue to support timber frame as part of their 2 storey housing.

The number of small sawmills in the UK - those with sawnwood production of less than 1,000 m³ - totalled 259 in 1994 and by 2010 that number had declined to just 73. Consolidation throughout the sector over the years has resulted in the number of large sawmills i.e. more than 50,000 m³ p.a. increasing substantially in the same period.

In the 5 years to 2010 production of sawn softwood the UK has been largely static - though total consumption has declined by around 20%. As a result, UK sawn softwood market share has grown as imports have declined from 35% to 27% of consumption. Woodbased panel production in the UK (Particleboard and Fibreboard) saw decline in the 4 years to 2009 by 13%, about the same decline as exports, however imports of the product declined much more significantly by 37% in the period. However, as the housing market started to show some signs of recovery in 2010 consumption of woodbased panels recovered by around 9%.

The cost and availability of raw materials has been a significant factor in the timber merchants market, with price inflation having affected the sector and, in recent years, timber merchants have regularly faced the problem of passing these price increases onto their customers.

Another key longer term factor influencing the timber merchants market is the relative demand for timber products in competition with other materials. Doors and windows are a key sector where timber has seen a steady decline for over 20 years, though stronger sustainability credentials have seen a reversal of the trend over the last few years.

In the short term, it is unlikely that the timber merchants market will experience any other than marginal growth at best, and this may not occur until 2012 as the forecast above indicates. The housing market, on which the sector depends, shows little sign of full recovery and it may well be several years before housebuilding volumes reach levels equivalent to the years before the housing recession.

Much will depend on RMI in the housing sector and there will need to be a return of consumer confidence and readily available mortgage finance before growth rates will achieve an appropriate level. House prices still show no sign of sustained growth in early-mid 2011 and mortgage approvals have not improved for some time.

The economic climate in mid-2011 is very fragile with consumer spending and confidence levels low. As a result, forecasting the **timing, speed and scale of recovery** is difficult, with construction and home improvement markets unlikely to experience strong growth for some time.

3. ECONOMIC ENVIRONMENT

The general economic environment has a significant effect on the development of the UK Construction market, influencing a wide range of factors such as the level of activity within the private RMI sector, housebuilding, public sector investment, and consumer confidence and spending.

Following a period of sustained growth for almost 15 years, the UK economy has experienced an unprecedented downturn since mid-late 2008 due to the global financial 'crisis' initially driven by sub-prime mortgage problems in the US.

As a result, the performance of the overall UK economic outlook deteriorated significantly, reflecting rapidly declining business and consumer confidence coupled with a very depressed housing market, though since late 2009 / early 2010 the quarterly GDP performance has been more volatile, with the economy showing little clear direction.

The main economic factors that influence the building products industry are outlined below.

3.1 GDP

- GDP growth in the 2000-07 period was relatively steady at an underlying annual rate of around 2.5%, but 2008 was marked by a significant change in the economic climate, with Q3 falling to -0.7%, the first quarterly decline for over 15 years, followed by successive quarterly declines up to Q3 2009.
- Q4 2009 was a reversal of this trend and the first period of growth, with Q2/Q3 2010 producing surprisingly strong data with a significant rise of 1.0% in Q2 and 0.7% in Q3. This figure was boosted by both a sharp turn in the inventory cycle as firms rebuilt stocks, and a recovery in construction and consumer spending.
- Growth had been forecast to fade in the second half of the year, and indications of falling consumer confidence and spending, coupled with particularly bad weather, resulted in a surprising decline of -0.5% in Q4.
- Early 2011 has seen a partial recovery for Q1 of 0.5% growth, which was regarded as slightly disappointing, with the retail and construction elements particularly disappointing. Recent Q2 data indicates a marginal growth of 0.2%, continuing the disappointing economic performance.
- The overriding factor impacting on the economy in mid 2011 remains the level of debt – both in the UK and the Eurozone – which has already resulted in major spending cutbacks in Greece, Ireland, Portugal and Spain. With the election of a Conservative / LibDem coalition, debt reduction plans have been outlined with some £81 billion of cuts and tax increases over the next 4 years announced in the Autumn Spending Review.
- These cuts will inevitably impact on GDP growth and restrict the speed of recovery – or even result in a 'double-dip' recession.

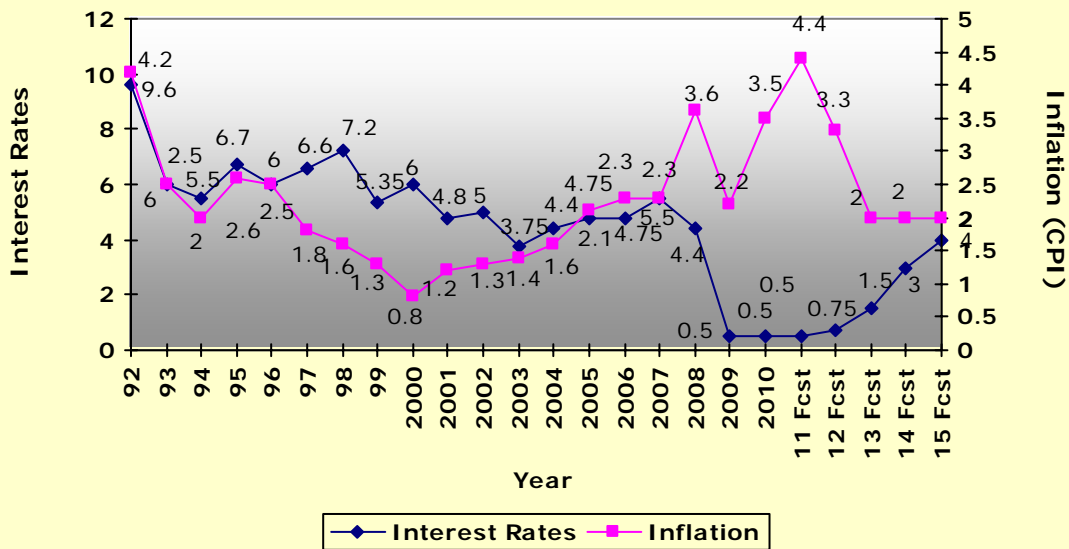
- While low interest rates, a decline in Sterling and steady recovery in the wider global economy have helped stimulate some recovery, the measures outlined in the Spending Review will restrain any major recovery in business and consumer confidence in the UK.
- In overall terms, recovery in GDP in 2010 was low at around 1.25% growth. While H1 2011 has seen a modest 'bounce-back', this effectively meant a flat economy over late-2010/early 2011 and prospects for 2011 are relatively modest. A risk of a 'double-dip' recession still remains and forecasts from OBR (Office of Budget Responsibility) have been revised downwards in the March 2011 Budget to 1.7% from an optimistic 2.1% for 2011 and 2.5% 2012 (from 2.6%). However, private sector forecasts are more pessimistic with a recent OECD estimate of 1.5% growth for 2011 in the UK and very recent private sector forecasts at 1.3%.
- Prospects will be determined by rising confidence in the global economy and a recovery in consumer spending and business investment in the UK – offset by rising global inflation, major debt concerns and falling real disposable incomes.

3.2 Inflation & Interest Rates

- Interest rates have now been at just 0.5% since early 2009 – the lowest level for 300 years. Inflation fell in early-mid 2009 to below target levels of 2.0%. However, despite low wage increases, rising oil, food and commodity prices have helped push inflation to 4.4% in August 2011, though these increases were expected to be temporary. However, the budget announcements suggest there will be additional inflationary motivators from VAT increases, Middle East unrest etc, which will sustain higher inflation levels well above target in 2011.

The following chart illustrates the performance of interest rates and overall CPI: -

Chart 2: Interest Rates and Inflation (CPI) from 1992-2015



Source: ONS/AMA Research

- In August 2011, the BoE indicated interest rates are to remain at 0.5%, with high inflation driving growing calls for a rise, while the weak economic data supports the case for sustained low rates.
- Any increases are unlikely to be rapid given the fragility of the economy and, similarly, interest rates will remain low in most global economies until confidence of a sustained recovery is established.

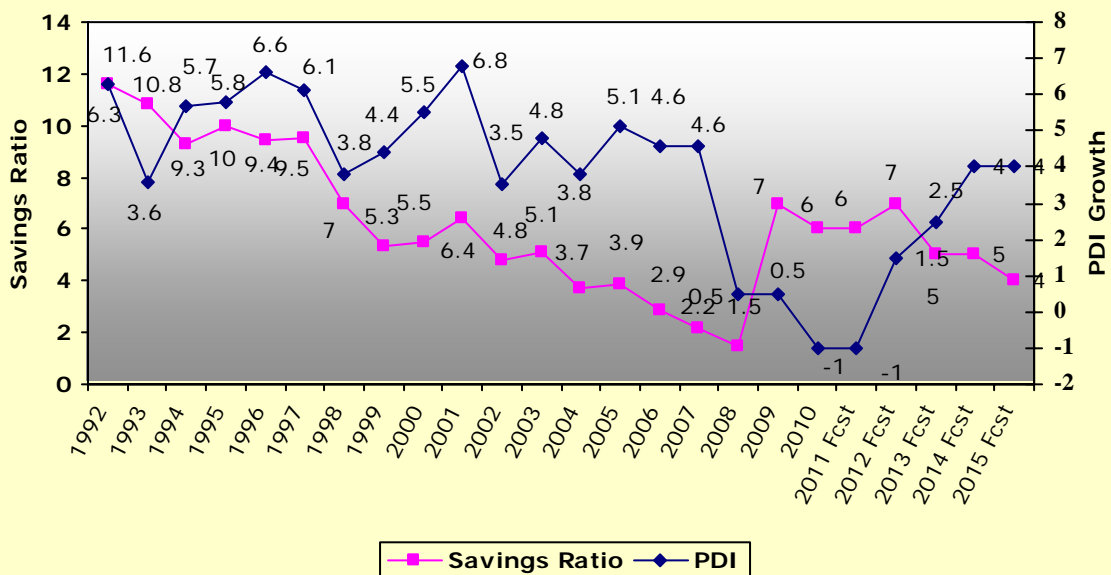
3.3 Unemployment

- Unemployment levels in the UK are generally below EU average levels, reflecting a more flexible labour market. Up to mid-2008, unemployment was at the lowest levels for over 30 years, but has risen over the last 2 years.
- Since late 2008, however, there has seen a substantial change in the employment outlook. Major redundancies in construction, retail and the financial sectors have fed through into other sectors of the economy and unemployment has now risen to just under 2.5 million in May 2011 and is around its highest level for 17 years.
- Indeed the forecasts for 2011 are for further increases in unemployment and a forecast rate of over 8.2% was predicted in the Budget for later in 2011, driven by public sector spending cuts in particular.
- Despite the rise in unemployment, employment levels have also surprisingly continued to recover, primarily due to the substantial increase in migrant workers from Eastern Europe. However, the change in Government has led to a cap on non-EU immigration levels, which may assist in limiting the growth in UK unemployment to some extent.

3.4 Household Consumption

- Consumer spending figures in 2010 were quite volatile, with mixed signs of recovery in spending in the consumer durable sector.
- Disposable income levels are now falling for many households **in real terms**, reflecting major increases in food, oil and energy costs, and rising tax levels. Indeed, 2010 showed the first fall in real household disposable income since 1981. This is continuing in 2011 with little or no growth in disposable incomes as average wage rises are below inflation, which is being compounded by a freeze on public sector wages and further tax rises across all sectors of the economy (including the VAT increase to 20% in January 2011).
- Retail spending proved to be reasonably resilient in 2010, though this has been more mixed in 2011 with a weak start, stronger April data, followed by weaker May data and recent anecdotal evidence of retail failures such as TJ Hughes, Jane Norman and HomeForm - and therefore prospects for the next 12 months are much more uncertain.
- Typical of a recession, household savings ratios increase as consumers are less willing to spend, with a sudden reversal of the downward trend through to 2009.
- The following chart shows the performance of PDI and savings ratio since 1992 at current prices with forecasts through to 2015, indicating that the Savings Ratio will probably rise as consumers cut back on spending: -

Chart 3: PDI & Savings Ratio at Current Prices 1992-2015



Source: ONS / AMA Research

3.5 Housing & Construction

- Housing completions increased steadily in 2001–07, reaching over 200,000 in 2007. Despite high demand, the market has subsequently experienced a major downturn, with housebuilding completions in 2008/09 having declined by over 40% from 2007 peak levels.
- However, since mid-2009, there has been some recovery with a modest upturn in sales and price levels, which fed into more housing starts in 2010 – though this levelled out in late 2010 and early 2011 remains only marginally more positive.
- In 2000, flats accounted for around 19% of total completions in Great Britain, but by 2009 this figure has grown to almost 50% - and was well over 50% in the densely populated South East. However, 2010 has seen the first reversal in this trend for a decade, due to a surplus of apartments in some Northern urban areas, partly reflecting a slowdown in the “buy-to-let” sector. However, our view is that the share taken by flats is likely to rise further in the longer term, reflecting acute shortages of land for development in many parts of the UK.
- House price inflation was very high over the 2000-07 period. However, since mid-2007, prices have been generally falling and by February 2009 were down by around 25% since the late-2007 peak. While further falls of around 10% had been forecast for 2009, prices surprisingly increased from late-2009 and were up by around 10% up to April 2010 – though this rate of increase has now stopped with prices again falling since late 2010, with further uncertainty over the medium term as to whether prices will fall back again.
- Housemoving activity levels have fallen strongly since 2007 – by almost 50% by 2009 and have remained relatively flat in 2010/early 2011 due to mortgage difficulties and lack of consumer confidence. This will impact on many key sectors closely linked to house moving.
- In the medium term, however, housebuilding volumes are likely to recover, though budgets for affordable homes have been cut in the Spending Review. However, some incentives for first time buyers and changes to Planning processes were announced in the Budget, which may have some impact in the medium term.
- In the non-housing sector, construction output increased steadily in 2001-08. Government investment in health and education had been substantial, while the commercial market also experienced strong growth. However, new order levels fell rapidly in some sectors, such as offices, retail and industrial, with output levels in these sectors in rapid decline in 2009 - mid 2010, though early 2011 has seen some stabilisation and tentative recovery.
- Sectors that benefited from increased commitment by the Government included health, education and infrastructure. The Government’s commitment was driven by a combination of direct funding and also through higher private sector funding through PFI, PPP projects and other initiatives such as **LIFT** or **ProCure 21**, while the **Building Schools for the Future (BSF)** programme also offered major opportunities.

- However, many sectors have suffered due to the fallout from funding problems, either through difficulties in raising finance for PFI schemes or from declining business confidence in 2009-10. Sectors initially adversely affected were office and retail developments, though more recently the public sector has also experienced some problems.
- Medium term prospects in these sectors are looking increasingly difficult with major cutbacks in capital spending announced in the CSR. Education, for example, will see a decline of 60% in capital funding, with social housing also seeing a significant fall. Transport / infrastructure have been less affected with cutbacks of around 10% in real terms over the next 4 years, while health capital spending will also fall by around 15%. The BSF programme has been the major casualty with the announcement of the cancellation of the forward programme, while cuts in other public sector programmes are becoming clearer following the CSR announcement in late 2010.

3.6 Sterling

- Sterling has experienced a volatile period in recent years. Having risen strongly against the Dollar in late 2007/early 2008, this trend reversed in 2009/10. Sterling's depreciation, particularly against the Euro, improved competitiveness of UK companies.
- However, recent trends have reversed this situation, with the Greek, Portuguese and Irish crises now threatening other economies with high deficits and impacting on the Euro in particular. As a result, Sterling has strengthened marginally against the Euro and increased against the Dollar – though still remains around 20% down on 2007 levels on a trade-weighted basis.

Table 4: Exchange Rate Fluctuations 2006-2011 - Sterling To The Dollar, And The Euro, Spot Rates

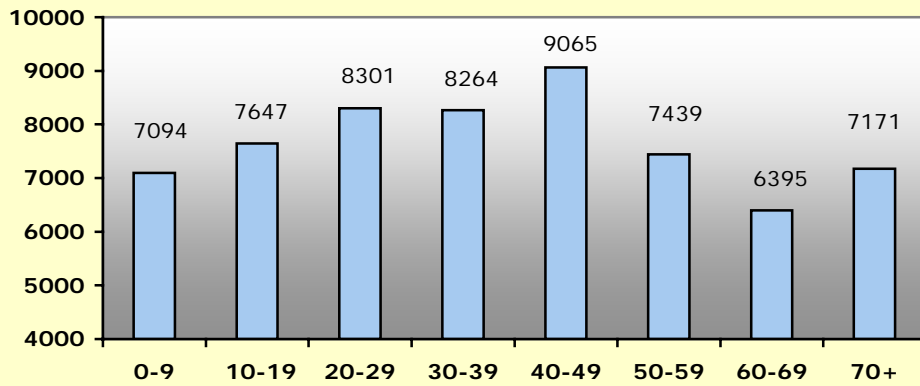
Year	USA (Dollar)	Euro
2006	1.85	1.43
2007	1.95	1.40
2008	1.70	1.28
2009	1.57	1.11
2010	1.55	1.15
2011	1.70	1.18

Source: ONS / RBS / AMA Research

3.7 Population Profile

A review of the age distribution of the resident UK population is illustrated in the following chart.

Chart 5: Age Distribution of the Resident UK Population Mid-2008 ('000)



Source: ONS Mid-2008 Estimates

- The 40-59 age group predominantly consists of people entering a stage in their life when their mortgage is limited, they may receive inheritances, and females returning to work may increase income. All of these factors result in this group having the largest potential disposable income.
- As the profile of the UK population changes, it will have implications for suppliers of all products. During the next decade, there will be a smaller proportion of younger, more price-orientated buyers in the market. These developments should benefit suppliers of building and home improvement products in all price segments of the market.
- In overall terms the UK population is now over 61 million – an increase of over 2m since 2001. Population growth and profile has been impacted by the increasing levels of net immigration in the UK, longer life-spans and a recovery in birth rates in recent years. The rate of immigration has slowed down in 2008-09, with some migrant workers returning 'home' and reduced numbers entering Britain, driven by the more difficult economic climate and the introduction of 'caps' announced by the Coalition Government.

3.8 Conclusions

- In summary, despite the green shoots of recovery and modest growth in 2010, the prospects for the UK economy in 2011 have been adversely affected by declining business and consumer confidence, in Q2 2011 particularly, and the recent social unrest and also the Euro crisis. As a result, the outlook remains uncertain, particularly as the impact of the CSR spending cuts begin to impact in terms of public sector job cuts and wage freezes.

- Following the outcome of the Autumn Spending Review in October, and the subsequent March 2011 Budget, there is now considerable debate on the impact of the cuts on the underlying performance of the economy. Confidence remains fragile and 2011 will undoubtedly prove to be a difficult year as disposable incomes fall, inflation remains high, tax rises are implemented, and unemployment may rise. Growth forecasts from OBR (Office for Budgetary Responsibility) have already been downgraded to 1.7% for 2011 and this is regarded as optimistic by many observers.
- Government borrowing rose to over £155 billion in 2009-10, with only a marginal fall in 2010-11 before the impact of the cuts announced in the CSR take effect from 2011/12 - 2014/15.
- While there are some anecdotal signs of stabilisation, neither housebuilding nor housemoving are expected to see any substantial recovery in 2011, and this will continue to impact on a wide range of products.
- In the non-domestic sector, investment in health and education spending will see some decline from 2011 in certain sectors. Education will be particularly affected, though Infrastructure will continue to provide some significant opportunities.
- The impact of the slowdown on the building and home improvement sector was initially strongest in housebuilding, domestic RMI and spending on 'higher ticket' deferrable projects, but larger scale projects were then severely affected, initially in the private sector, but more recently in the public sector, driven by the budget cuts and resultant lack of funding.
- Given this background, short term prospects are uncertain for many construction/home improvement sectors, with medium term recovery now dependent on an upturn in the private sector (housebuilding, RMI, offices, retail, leisure etc) offsetting the decline in public sector.

4. KEY MARKET INFLUENCES

4.1 National Housebuilding

The housebuilding sector is a substantial user of a wide range of building products constructed from timber, consequently the number of new housebuilding completions and house moves also has an effect on the overall performance of the sector.

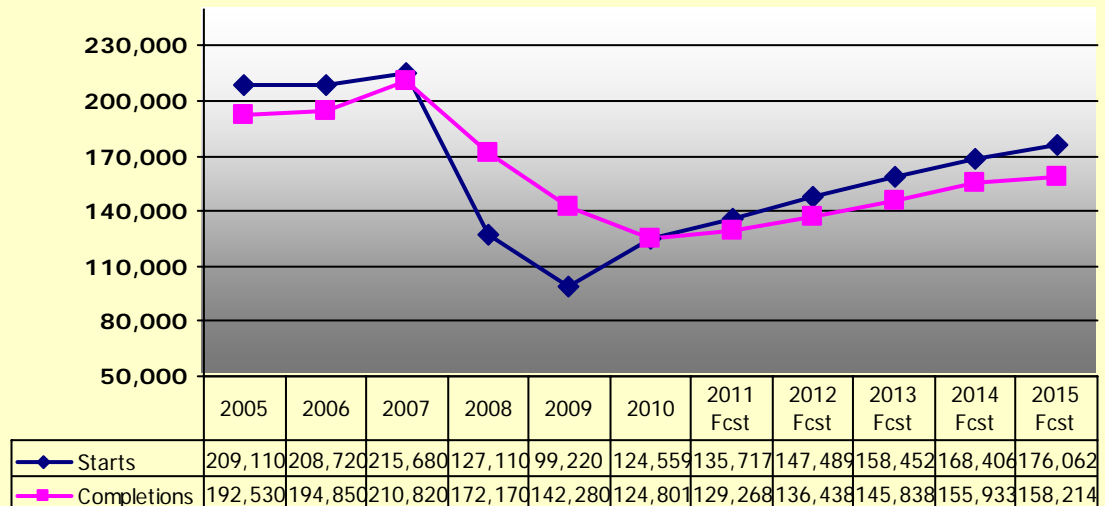
The timber merchants market relies heavily on key sectors such as:

- New Housebuilding - Public Sector
- New Housebuilding - Private Sector
- Home Improvement - Private and Public Sectors

Housing completions in the UK private sector grew at a modest rate from 2005 up to late 2007 before going into rapid decline throughout 2008 and into 2009. In the public sector new housing has seen steady growth averaging about 10% since 2005 – a growth rate which has continued into 2008 owing mainly to the political drive attached to increasing the supply of affordable housing, though output levels towards the end of 2008 were beginning to fall due to the general slowdown in the number of new housing projects. Repair and Maintenance in both the private and public sectors have seen growth of just over 60% since 2000, although growth has slowed considerably since 2005, averaging between 3%-5% p.a.

In 2009, housing completions in were down around 18% and this was followed by a further decline of around 15% in 2010, with RSL's accounting for around 20% of output. Outlined in the table below is the total number of **housing starts and completions in the UK** between 2005-10, with forecasts through to 2015:

Chart 6: Housing Construction Starts & Completions and Forecasts 2005 to 2015 by Volume



Source: DCLG / AMA Research

A driver for a more optimistic forecast is the positive outlook in terms of housing starts in the private sector in 2010, which should help towards some recovery in the demand for timber products such as roof trusses, floors, windows and doors in 2011.

In value terms, **construction new work output** rose 23% in 2010, from the very low level experienced in 2009, reflecting increased product and raw material prices and a mix change in the type of homes being built, with a continued shift away from flats. Output in this area is expected to continue to grow throughout 2011-2015.

RMI output has been much less volatile than new build – and is forecast to remain relatively stable with very low level decline in 2011 and 2012, reflecting a difficult consumer environment in the private and public sectors, followed by a return to moderate growth from 2013.

The medium term forecast suggests a steady recovery from 2011. However, public sector cuts may see this recovery slow in the short to medium term. Forecasts for 2011 are therefore very low, with volume forecasts showing very modest recovery in 2012. High and continuing underlying demand is an indication that the market will recover but the actual **timing and scale** of recovery is difficult to forecast. However, our view is that recovery is likely to be gradual as developers are slow to commit funding to speculative developments on a significant scale, as indicated above.

Within the social housing sector, RSL's have a leading role, accounting for nearly 99% of completions in the sector in 2010. Social housing output was in decline in the early 2000's but is now growing steadily due to increasing levels of government investment in this sector. In 2010, the number of social housing completions in England alone were around 21,000, some way below the previous two years figures of 26,000 and we estimate the 2011 level to be about 23,000 – given the increase in public sector housing starts in 2010.

Government led initiatives and commitment to ensuring social housing targets are met mainly through the National Affordable Housing Programme and have underpinned the more positive growth seen in the public sector. However, cuts in public spending and the lack of new developments by the major builders has impacted on the social /affordable housing targets.

4.2 Regional Housebuilding

The following table indicates regional trends for housing **starts** within the **public sector** between 2004-10.

Table 7: Public Sector* House Building Starts 2004-2010 English Regions by Volume								
Region	2004	2005	2006	2007	2008	2009	2010	2009/10 % Change
North East	490	520	610	680	840	780	1,220	+ 56
North West	640	1,360	180	130	570	1,090	960	- 12
Yorks & Humbs.	320	350	470	310	880	540	1,160	+ 115
East Midlands	530	710	940	690	1,450	1,140	830	- 28
West Midlands	570	880	760	1,210	1,480	1,570	1,490	- 5
East of England	1,710	2,170	2,250	2,520	2,430	2,260	2,390	+ 6
London	5,470	5,360	6,450	3,730	5,790	4,180	6,690	+ 60
South East	3,610	3,580	3,950	3,970	3,940	3,640	3,180	- 13
South West	1,100	1,130	1,790	1,610	1,370	2,300	2,520	+ 10
TOTAL	16,444	18,065	19,406	16,857	20,758	17,580	20,440	+ 16
<i>* Data -includes starts for Registered Social Landlords (RSL) and Local Authority Housing</i>								
<i>Source: DCLG/AMA Research</i>								

As the table above shows, housing starts in the public sector increased by 10% overall in 2010 compared to the previous year - which compares with a private sector increase in housing starts of 36%. Although there were positive signs in parts of the North it is only London where reasonable volumes at high growth were seen in 2010 and it is too early to estimate the regions which will see growth in 2011.

Private sector starts are shown in the table below for each of the English regions over the last 6 years.

**Table 8: Private House Building Starts 2005-2010
English Regions by Volume**

Region	2005	2006	2007	2008	2009	2010	2010-09 % Change
North East	7,480	7,680	7,980	3,310	2,450	3,430	+ 40
North West	21,740	19,720	18,650	7,590	4,660	7,890	+ 69
Yorks & Humbs	15,480	15,940	17,990	6,730	4,830	7,760	+ 61
East Midlands	16,800	17,010	15,270	6,840	5,560	8,030	+ 44
West Midlands	14,500	14,010	14,260	6,000	5,570	6,700	+ 20
East of England	19,460	18,300	19,820	10,280	7,860	11,520	+ 47
London	16,560	12,250	15,840	9,780	7,290	9,760	+ 34
South East	23,950	25,630	27,250	15,910	13,490	16,230	+ 20
South West	16,850	18,690	17,900	9,740	8,980	11,400	+ 27
TOTAL	152,820	149,230	154,960	76,180	60,690	82,720	+ 36

Source: DCLG/AMA Research

As can be seen from the table above, housing starts by the private sector had fallen back considerably between 2007/09. In particular, the northern regions had seen housing starts decline between 69%-75% in the 2 years, whereas in the south and east of England there had been less of a decline in the range 50%-60%. These declines were significant and illustrated the traditional divide between 'North and South'.

In 2010 there was some 'catching up' with the northern regions showing much higher growth rates in housing starts than many of those in the south. It remains to be seen in 2011 whether the stronger underlying demand for housing in southern regions will result in housing starts similar to 2007 although it is unlikely in the short term and overall a more realistic forecast would be that volumes are around 100,000 in 2011.

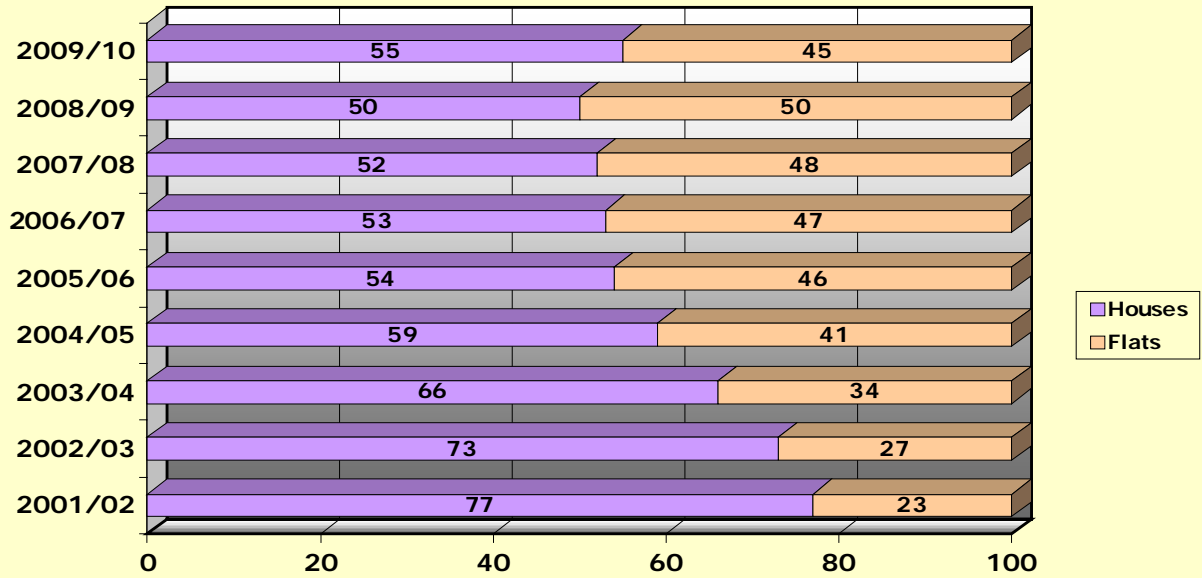
4.3 Mix of Housebuilding Starts and Completions

The recent recession in housebuilding has meant lower volumes in the construction of housing units and a change in the housing mix.

The volume of flats constructed in the UK rose considerably from 2003 to 2007 and, by the end of 2008, the share of completions of flats to total housing was 50%. The majority of this growth has been in England and is a result of the need to build at higher densities because of land price and availability.

The chart below indicates that the share taken by flats being built doubled between 2001 and 2006, representing a high pace of change. Figures for 2008/09 showed the share of flats peaked at 50% nationally, and at 53% in the South-East.

**Chart 9: Housebuilding Completions - % Mix By Houses / Flats
England 2001-2009**



Source: DCLG

In 2009/10 there has been a reversal of the trend **for the first time in a decade** with houses representing 55% nationally and with many housebuilders reporting a shift in the mix of sales towards houses. This also reflects the problems of substantial volumes of unsold apartments in major centres – particularly in Northern conurbations which will take time to clear in the current climate.

The flats market in the UK as a whole grew rapidly, with total completions rising towards 100,000 dwellings in 2007, but in 2010 we estimate that it has dropped back to about 25,000, as illustrated in the table below:

Table 10: Estimated Number of Flats Built in UK – 2003-10 ('000s)	
Year	Number of Flats Built
2003	61
2004	75
2005	86
2006	95
2007	95
2008	85
2009	57
2010	25

Source: AMA Research/Trade Estimates

In overall terms, the volume of flats increased by over 50% in the 2003-07 period, though the growth rate started to slow down in 2007 for reasons outlined previously and fell back significantly in 2010.

Key factors influencing the market are a mix of legislative, environmental and social issues, including:

- **Cost of land** and **planning pressures** on housing densities have resulted in house builders making increasing use of available land and maximising the number of properties. However the Coalition government have now relaxed the rules on housing densities and house builders are now choosing to alter the housing mix in favour of more traditional housing and away from flats
- The increasing emphasis on **affordable housing**, a high proportion of which is delivered via the construction of flats/apartments etc, primarily due to the high cost of land
- A growing niche market for **retirement homes** is expected to increase as the UK population ages - the number of over 65-year olds is forecast to be over 12 million by 2020. The demand for smaller, retirement flats and sheltered accommodation will be fuelled by increasing consumer downsizing and will be largely unaffected by interest rate rises and mortgage lending
- The market for **flats** and **apartments** is being driven by an increase in single person households underpinning growth in **mixed-use**, city centre developments on brown-field sites.
- Influence of the buy-to-let market in recent years

There are, however, some negative views on the potential for further growth of apartments. Many are purchased for the 'buy-to-let' market which is showing signs of saturation, with many mortgage lenders having withdrawn or reduced their involvement in this sector in the last 3 years.

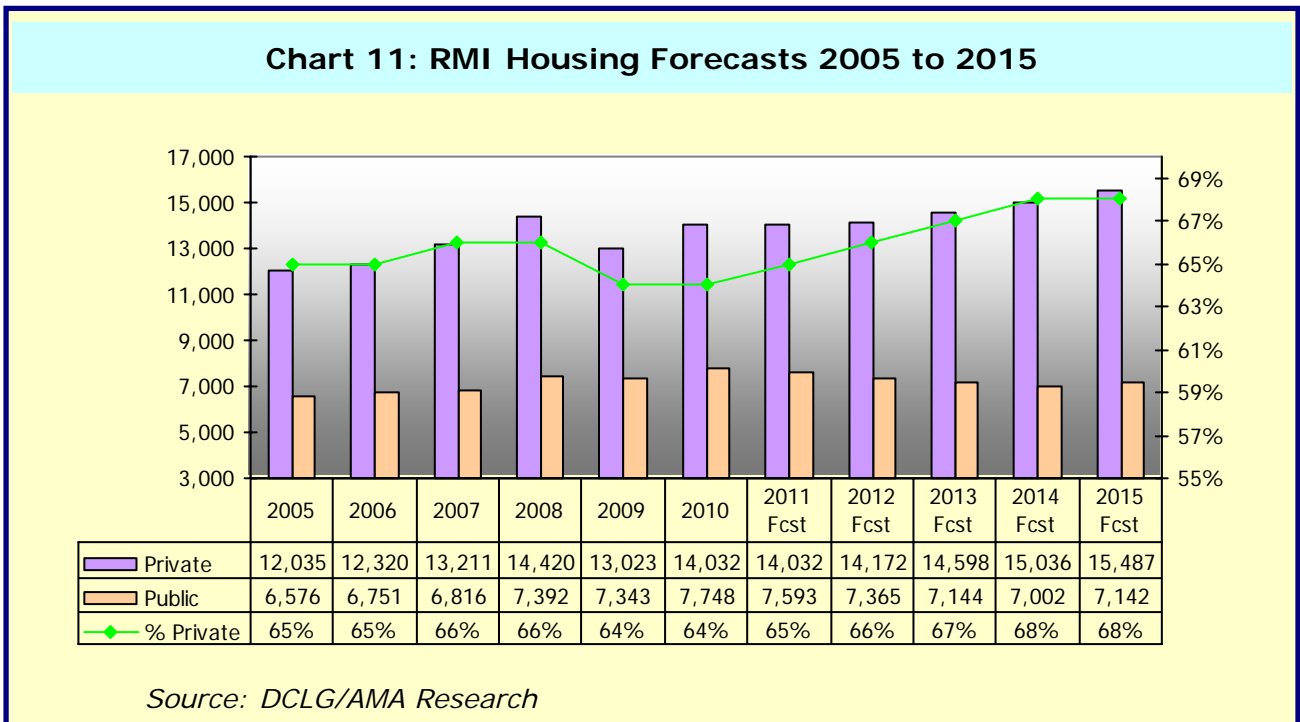
In addition, a significant share of apartments currently built, particularly in London and other metropolitan centres are luxury dwellings at the top end of the market, although there is a great need for smaller affordable dwellings. In some areas, as indicated above flats have remained unsold for a significant length of time and apartment building is associated with a higher risk requiring more capital investment, with demand for detached suburban properties remaining high.

It is difficult to forecast changes in mix between houses and flats over the next 5 years, and although there are pressures on land availability there is some relaxation on the rules regarding the need to achieve higher densities. There are definite signs that the share of apartments is falling but, although the rate of growth may be slower in future, apartments will continue to represent a significant share in Southern England and in larger cities as a primary means of increasing volume completions on a major scale.

4.4 Contractors Output Housing Repair and Maintenance

In addition to new housebuilding, sales of timber also rely heavily on replacement timber products in the social sector and home improvement in the private sector.

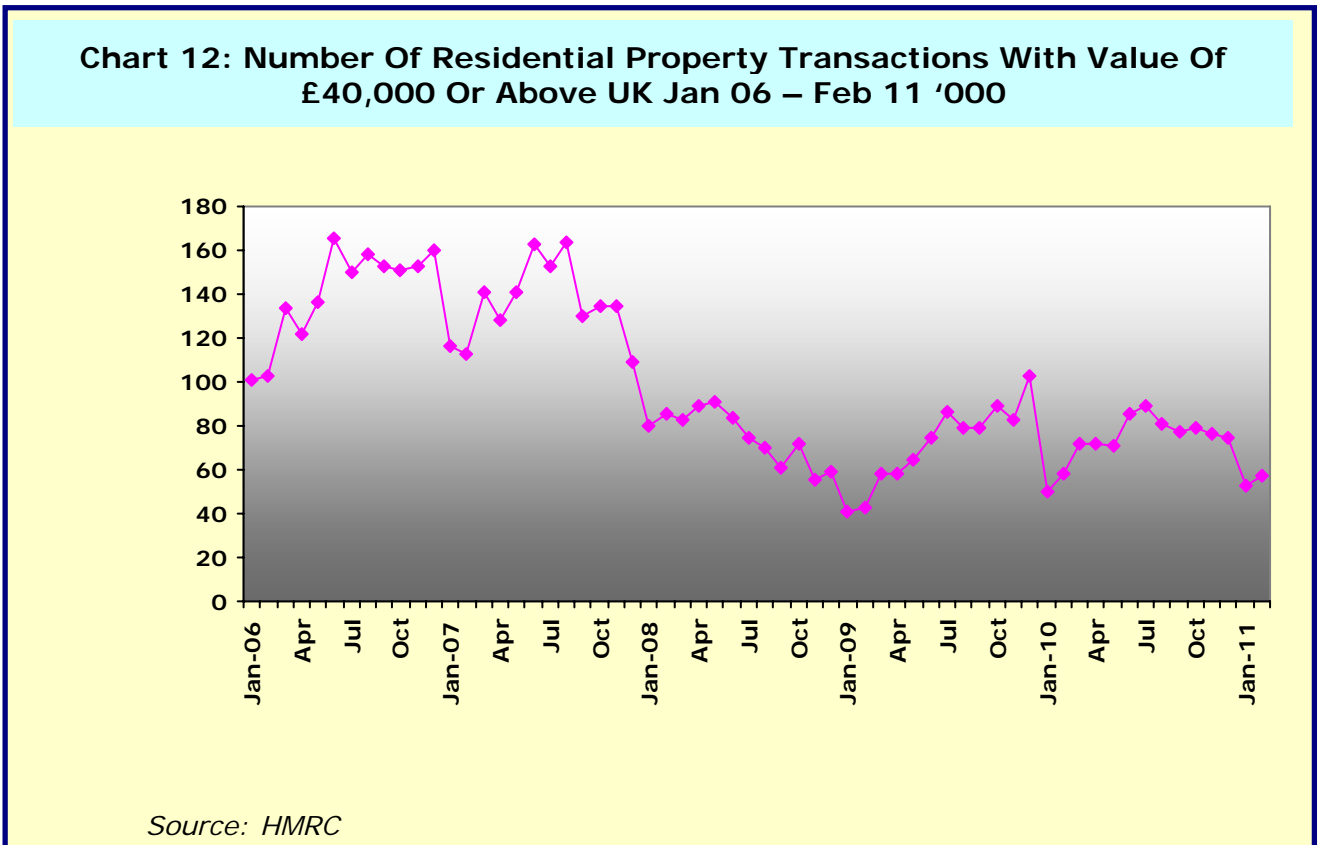
The table below shows how contractors output for repair and maintenance in value terms has changed in the public and private housing sectors between 2005 and 2010, with forecasts through to 2015.



In 2011 the public housing sector is likely to experience some downturn compared to previous years as the cuts in public expenditure begin to take effect, although given the political drive to ensure safe, secure and decent homes, timber products such as floorboards, joists, windows, doors, skirting boards and architrave should see some benefit from this sector.

Estimates for 2011 indicate low or no growth in RMI in public and private housing in value terms and the timber sector may face a challenging year of reduced margins and low volumes. Growth in repair and maintenance output for the private housing sector could well be static as long as the uncertainty in the housing market continues and consumer spending remains at a low level.

Another influencing factor on sales of timber products is the number of residential property transactions which are shown in the chart below.



Current house-moving levels are still well below the boom period of the late 1980's when peak volumes reached 2 million. **Estimates for 2011 indicate the number of transactions for properties with a value over £40,000 to be just in the range 850,000-900,000 – a decline of almost 50% over 2006.**

High prices are still making it difficult for first time buyers to enter the housing market together with increased difficulty in obtaining credit which was brought about as a result of the 'credit crunch' in the latter half of 2007. With a large number of timber product replacements undertaken within in a short period of homeowners moving into a new house, the slowdown in the market will again have a negative effect on the timber sector.

4.5 Raw Material Prices

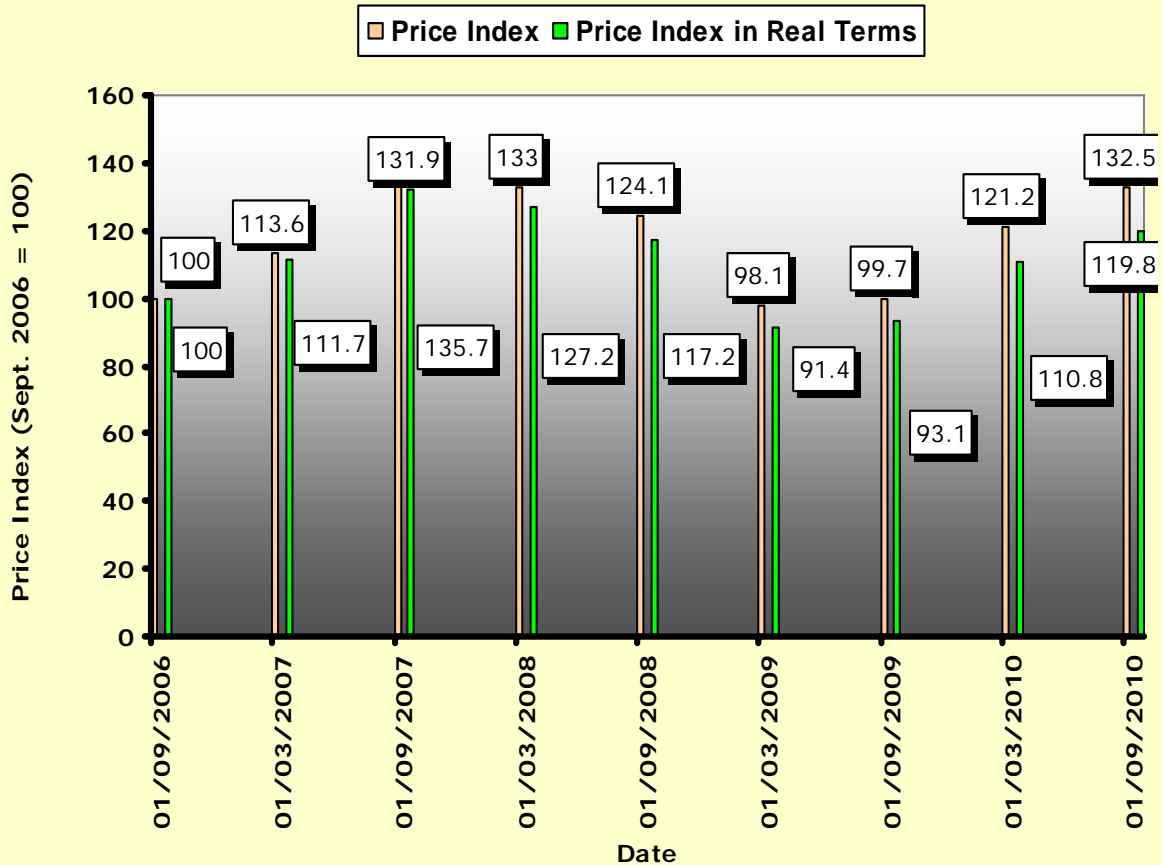
The cost and availability of raw materials has been a significant factor in the timber merchants market in recent years, with price inflation having affected the market since 2005. Raw materials price inflation has affected the entire construction industry, but particularly those involved in wood or metal-based products. Over the last 2-3 years, timber merchants have regularly faced the dilemma of whether or not to pass these price increases onto their customers. Timber raw materials prices are affected by a number of factors including:

- Supply and demand in the UK market.
- Supply and demand in overseas markets.
- Exchange rates.
- Transportation costs.
- Energy costs.

These factors in turn are dependent on other issues. For example, the level of supply in the UK market is heavily dependent upon harvesting levels in the UK and overseas, whilst other significant factors such as the weather conditions and demand levels can also affect harvest yields. In recent years a number of these factors have combined to drive up the costs of timber.

The chart below shows the softwood sawlog price indices for the UK, from late 2006 to late 2010: -

Chart 13: Softwood Sawlog Price Indices per m³ in the UK, Sep 2006- Sep 2010, (2006 = 100)



Source: Forestry Commission

The above chart shows that the value of UK grown timber rose between Sept 2006 and March 2008 due to shortages in the winter of 2006 and early 2007 indicating a c.35% increase in real terms. However prices then started to fall by 25% to March 2009 before steadily rising in Sept 2010 to their March 2008 level.

4.6 Environmental Issues

Environmental issues have greatly increased in significance in recent years, which have had far-reaching effects not just for timber merchants, but for the construction industry as a whole. The majority of these environmental issues are covered by new or updated legislation, which highlights their importance and makes compliance compulsory. These issues largely surround the areas of sustainability and the environmental impact of construction.

Sustainability

The largest environmental issue currently facing the timber merchants is the issue of sustainability. Sustainable timber is regarded as timber sourced from a responsibly managed forest, meaning that it is harvested while ensuring the economic, environmental and social value of the forest in the long term, and includes issues such as ecological integrity and respect for indigenous peoples' rights. Included within the area of sustainability is the continued problem of illegal logging since it undermines efforts to create and manage sustainable forests. The focus of the sustainable forestry legislation has therefore been concentrated on the eventual eradication of such illegal logging activities.

One tool being used by the European Union in the fight against illegal logging is the "Forest Law Enforcement, Governance and Trade (FLEGT)" action plan. This plan seeks to: -

- Encourage the private sector to adopt purchasing policies that exclude illegal timber from their supply chains.
- Encourage measures to avoid investment in activities that encourage illegal logging.
- Provide support to governments who want to ensure that illegally-harvested timber from their territory is not admitted to the EU market.

As part of this plan developed countries, such as the UK, are encouraged to enter *Voluntary Partnership Agreements* (VPA's) with developing (timber producing) nations. These VPA's are designed to provide assistance to the developing nation to help them combat illegal logging. Under this agreement, any unlicensed wood products from the partner country will not be allowed to enter the developed nation's market. Currently, the UK has VPA's in place with Ghana and Malaysia.

In addition the regulation adopted in 2005 a 2008 Implementing Regulation, allowed for the control of the entry of timber to the EU from countries entering into bilateral FLEGT Voluntary Partnership Agreements (VPA) with the EU. The VPAs include commitments and action from both parties to halt trade in illegal timber, notably with a license scheme to verify the legality of timber exported to the EU. The agreements also promote better enforcement of forest law and promote an inclusive approach involving civil society and the private sector.

The implication for merchants and the rest of the timber industry is that government departments in the UK will only purchase products that are derived from sustainably managed forests or are licensed under the FLEGT act.

4.7 Certification

The area of certification is comprised of the following two elements: -

- **Forest Certification:** This ensures that the forest of origin has been independently certified to confirm that it is being managed in accordance with the requirements of a recognised forest management standard.

- **Chain of Custody (CoC) Certification:** A scheme that provides independent certification ensuring that each stage of the timber's journey, from certified forest to consumer meets the requirements of the certification scheme. Each stage of the journey is inspected and monitored by an independent certification panel. Both the FSC and PEFC run their own CoC certification schemes. Each stage/organisation involved in the process needs to possess its own CoC certificate.

Forest Certification

The Central Point of Expertise on Timber Procurement (CPET) is a service of the UK Government. CPET has been set up by the Department for Environment, Food and Rural Affairs (DEFRA), and is operated by Proforest, a company with wide experience in advising on responsible purchasing.

According to the CPET a new EU Timber Regulation which came into force in Dec. 2010 will, as of 3 March 2013, make it illegal to place illegally harvested timber and timber products on the EU market. The legislation will require that due diligence is applied to all timber first placed on the EU market and that traders, also further down the supply chain, keep track of what timber or timber products was bought from whom, and where applicable, who it was sold to.

A Due Diligence system requires information on species, volume, country of harvest and where applicable concession of harvest, name and address of your supplier and most importantly evidence of legality. The system also require application of a risk assessment and, where high risk is identified, mitigation to eliminate any potentially illegal timber.

The two major forest certification schemes covering the UK timber market are:

Forest Stewardship Council (FSC): an international, non-governmental organisation dedicated to promoting responsible management of the world's forests, founded in 1993. There are national working groups in 28 countries including the UK and it is supported by NGO's including **WWF**, **Greenpeace**, **Friends of the Earth** and **The Woodland Trust**.

Programme for the Endorsement of Forest Certification (PEFC): a voluntary private sector initiative, launched in 1999. It was developed to endorse national certification initiatives, and its statutes allow national initiatives to vary greatly in terms of development approach, standards, certification process and governance. However, the timber source must be a sustainably managed forest, to independently certified standards.

Other significant schemes include:

- The Canadian Standards Association (CSA), which certifies logging operations in Canada
- The Malaysian Timber Certification Council (MTCC), responsible for certification of Malaysian forests
- The Sustainable Forest Initiative (SFI), responsible for the certification of forests in both the US and Canada

Compliance with the UK government's timber procurement policy is mainly demonstrated by certification under either the FSC or PEFC schemes and the schemes are very important for the implementation of the policy.

Merchants have also begun to rapidly increase the share of certified timber that they stock, with some going so far as to only stock wood from sustainable sources. This has made it increasingly difficult for non-certified wood products to enter the UK market. Increasingly, the reputation of a firm is linked with their procurement policies and dealing in illegal products could adversely affect the reputation of a merchant – a reputation that may have taken decades to establish.

Chain of Custody (CoC) Certification

The numbers of UK companies holding CoC certification has been steadily increasing since 2004. In 2007, the number of organisations holding the certificate was 1,046, up from around 700 in the previous year and by 2010 there were over 2,000 companies holding FSC Chain of Custody (CoC) certification in the UK. More than 12% of all the FSC certificates held by companies around the world are held by UK businesses, and WWF have reported that FSC is the fastest growing forest certification scheme in the world.

A key factor for this rapid increase was an insistence from some customers for the supply of certified timber. This is particularly the case for larger industrial customers such as timber frame manufacturers and large housebuilders striving to improve their environmental credentials.

This insistence for certified timber has yet to filter down to smaller end users, partly due to a lack of awareness, although there is evidence this is beginning to change. As a result of this many timber merchants have become much more rigorous in scrutinizing their supply chains. A number of merchants have ceased importing plywood from Indonesia as a result of this, while others continue to import such plywood but work closely with their suppliers in order to maximise the probability that their imports are legal.

4.8 Legislation and Policy

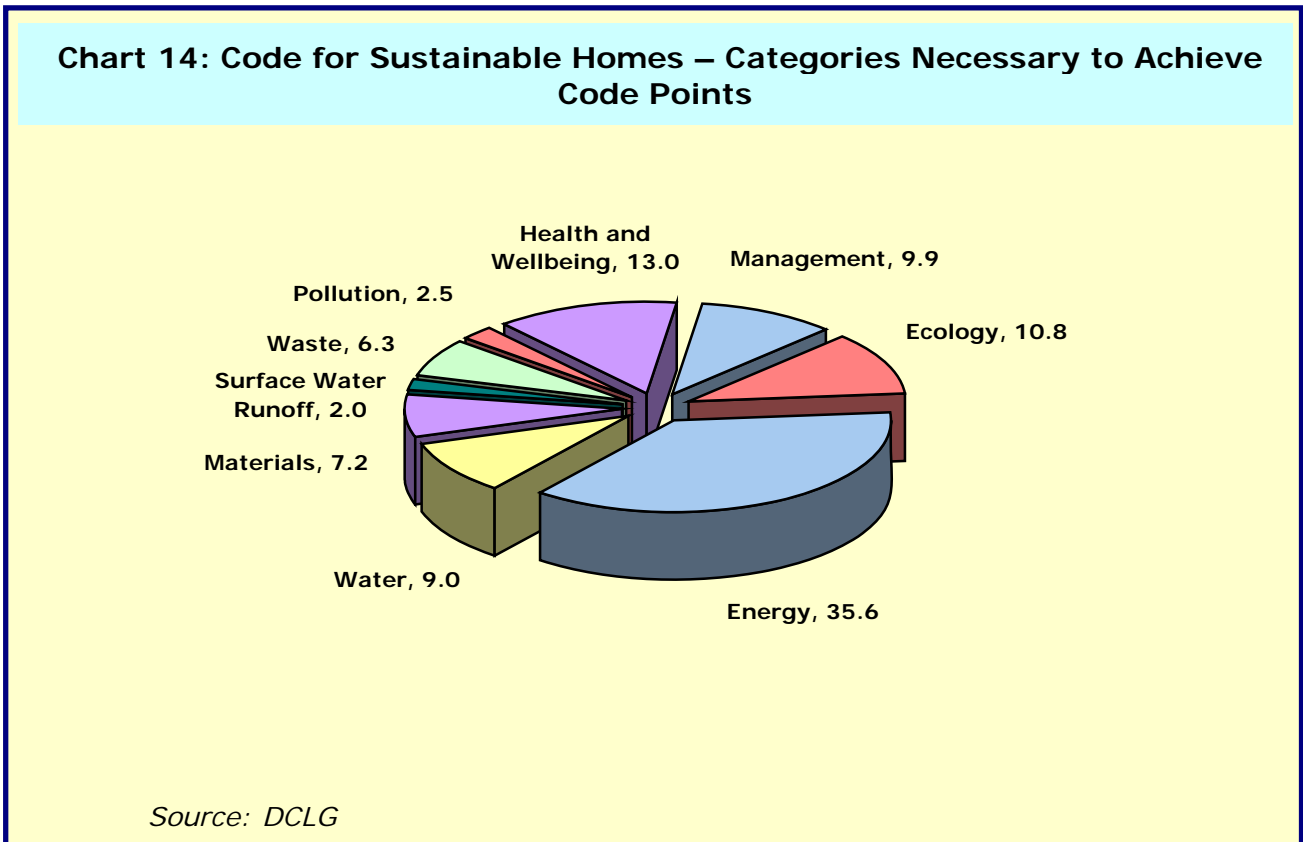
An overall increase in awareness of sustainability, and other environmental issues, is reflected in new Government legislation that has come into effect since 2005.

Code for Sustainable Homes

The Code for Sustainable Homes which assesses new housing and replaces Eco Homes, came into force in April 2007 - EcoHomes 2006 will continue to be used for refurbished housing in England and for all housing in Scotland and Wales.

Code assessments are carried out in two phases. Firstly, an initial assessment and interim certification is carried out at the design stage, which is based on design drawings, specifications and commitments and results in interim certificate of compliance. Secondly, final assessment and certification which is carried out after construction and requires confirmation of compliance including site records and visual inspection.

The code points available total 96.3 across 9 categories which are illustrated in the chart below:



The above chart highlights the relative importance of various categories. However, achieving Code 6 will require major changes in design and specification over the next decade particularly in relation to energy-saving elements. Timber frame as a build material offers some significant benefits in helping to meet these targets, though competing systems are also improving performance.

It is not just the finished home that needs to be environmentally-friendly, but also the building processes involved. A significant part of this is related to responsible sourcing of materials, including timber, for both basic elements (such as roofing & windows) and finished aspects (such as skirting & staircases). This will make proof of CoC certification very important for merchants to demonstrate the environmental profiles of timber products used in new housebuilding. This presents a significant opportunity for the industry to add value to UK-grown timber, the majority of which is sourced from sustainably managed forests.

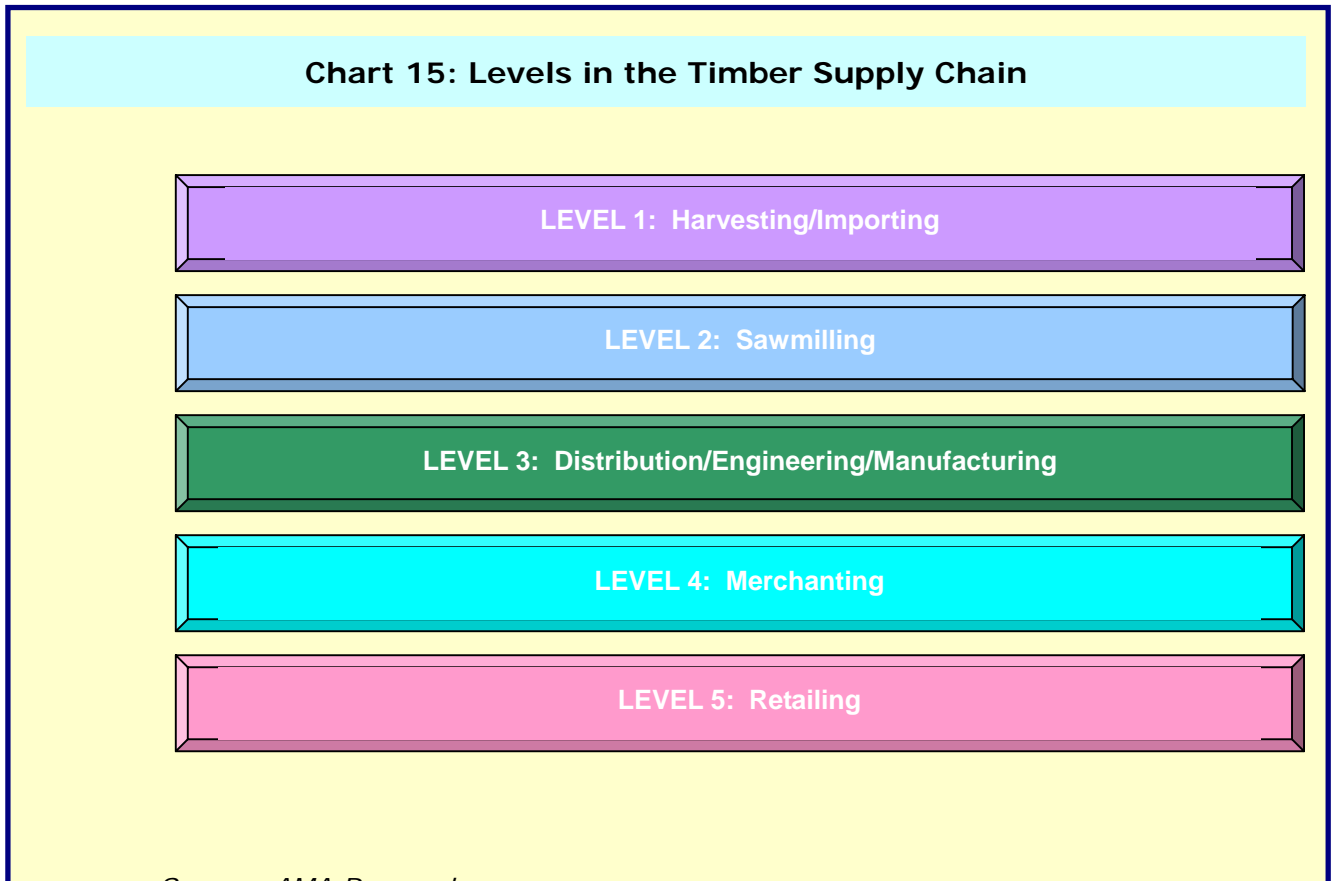
Building Regulations

Updates to Part L of the Building Regulations, introduced in April 2006 aim to set out even tighter thermal insulation standards than used previously and aim to make homes as energy efficient as possible. Part L is specifically designed to increase the thermal and energy efficiency of all new buildings and to ensure that they achieve required standards in terms of reducing air leakage and carbon dioxide emissions. The implication for merchants is the fact that timber frame systems respond well to these new standards, which should continue to increase their popularity among housebuilders striving to comply with the new regulations.

5. THE TIMBER MARKET

5.1 Market Structure

There are several levels in the supply chain for timber and wood products, as shown in the chart below: -



From the above chart, it can be seen that there are five levels to the timber supply chain, from harvesting/importing to retailing. In recent years, there has been significant vertical integration of the supply chain, with most companies now operating at more than one level. For example, several timber merchants now have engineering/manufacturing capabilities, allowing them to produce goods such as roof trusses and I-joists – while several leading groups operate at multiple levels in the chain. Also, end users can be found at any one of the above five levels.

At Level 1, **softwood** deliveries to the wood processing sector are shown in the table below between 2005/09:

Table 16: UK Softwood Deliveries 2005-2010 000' green tonnes									
Year	Deliveries to Sawmills and annual growth in Deliveries to Sawmills		Pulpmills	Wood-based panels	Fencing	Woodfuel	Other	Softwood exports	Total
2005	4,924		500	1,502	317	100	95	705	8,143
2006	5,210	+ 6%	481	1,365	274	100	114	643	8,187
2007	5,590	+ 7%	472	1,362	294	200	113	759	8,790
2008	4,954	- 11%	515	1,219	339	300	128	733	8,187
2009	5,154	+ 4%	511	1,135	347	650	160	347	8,304
2010	5,562	+ 8%	428	1,375	349	1,050	135	467	9,366

Source: Forestry Commission/ AMA Research

As can be seen from the table above there were almost 9.4m tonnes of UK grown softwood deliveries to the wood processing sector in 2010. There are a number of primary wood processors within the sector, however deliveries to sawmills in the UK account for around 60% of the total and although softwood deliveries for woodfuel represented only 11% of total in 2010 at 650,000 tonnes, the figure is over 60% higher than the previous year and more than 5 times the 2007 figure, indicating the growth and interest in renewable energy using biomass.

Softwood deliveries to sawmills saw low growth of 1% - 3% p.a. in the years to 2007. However, as the housing recession began to impact on the sector later in that year the decline in softwood deliveries began and reached -11% by the end of 2008. There was modest growth of 4% during 2009 however fairly substantial growth of 8% was achieved in 2010 bringing total softwood deliveries to UK sawmills of 5.562m tonnes.

Deliveries of UK grown **hardwood** are small by comparison, totalling just over 0.5m tonnes in 2010 of which only 71k tonnes was delivered to UK sawmills, although it is interesting to note that 75% (400,000 tonnes) of the 532,000 tons of hardwood delivered to wood processors in 2010 was for the use of woodfuel or biomass energy which is double the figure of 5 years ago.

The table below illustrates the number of establishments involved in the primary wood sector and, in particular, illustrates the decline in the number of sawmills in the 10 years to 2009.

Table 17: Number of Establishments in the Primary Wood Processing Industries using UK-grown Roundwood					
Year	Sawmills	Pulp and Paper Mills	Woodbased Panel Mills	Roundfencing Manufacturers	Total
2000	297	4	10	93	404
2001	271	4	10	86	371
2002	249	4	10	74	337
2003	240	3	8	68	319
2004	224	3	8	69	304
2005	213	3	8	65	289
2006	213	2	8	69	292
2007	206	2	8	74	290
2008	198	2	8	66	274
2009	196	2	8	67	273

Source: Forestry Commission

The table above shows the number of primary wood processing sites, using UK grown timber, and not the number of businesses - in addition a single mill may be recorded twice, as a sawmill and a round fencing manufacturer. In 2009, the consumption of UK grown softwood by the 196 UK sawmills was around 5.1m green tonnes in addition to 73k tonnes of UK grown hardwood with imports of both types fairly small and accounting for around 177 tonnes or just over 3% of total. In addition to producing sawn wood, sawmills also produce other products, including chips and sawdust, which go mainly to woodbased panel and pulp/paper mills.

Although the UK is not reliant on imports of grown softwood it is heavily reliant on imports of **sawn** softwood importing some 5.7m m3 in 2010 as the table below illustrates.

Table 18: UK Sawmill Production and Imports of Sawnwood 2006-10 '000 m3						
Year	Sawnwood		Total UK Sawnwood	Sawnwood Exports	Sawnwood Imports	Total UK Consumption
	UK Softwood	UK Hardwood				
2006	2,859	45	2,904	415	7,963	10,452
2007	3,099	44	3,143	346	8,469	11,266
2008	2,771	44	2,815	222	5,886	8,479
2009	2,844	48	2,871	203	5,240	7,908
2010	3,032	46	3,078	172	5,684	8,590

Source: Forestry Commission

In 2010, the UK production of wood products which includes sawnwood, woodbased panels and paper and paperboard reached 10.8m m³ of which total softwood and hardwood **sawnwood** accounted for 3.1m m³, as the table above shows - an increase of 7% on the previous year. In the 5 years to 2010, sawmill production grew by 6%, whereas imports of sawnwood declined by almost 30%.

Exports of sawnwood have been steadily declining in recent years from 415m³ in 2006 to 172m³ in 2010 and accounted for only 2% of total consumption in 2010.

Sawmillers usually use timber sourced from UK forests they either own or harvest themselves. They may also purchase wood ready-harvested from growers. Where wood is imported from overseas, it too can be distributed via sawmills, but is often sourced directly from the timber importers by merchants or manufacturers. Sawmills are often small, family-run operations, specialising in a particular type of wood, usually from the local area.

However, the number of small sawmills in the UK - those with sawnwood production of less than 1,000 m³ - totalled 259 in 1994 and by 2010 that number had declined to just 73. Consolidation throughout the sector over the years has resulted the number of large sawmills i.e. more than 50,000 m³ p.a. increasing from 8 to 19 in the same period. In addition there are a handful of larger sawmilling operations, occasionally with sites outside the UK, in countries such as Latvia or Finland. **BSW Timber** is the largest sawmilling business with six sawmills in the UK and one in Latvia and a production capacity of over 1,000,000m³ of sawn timber a year.

5.2 Timber Merchants Market Definition

Defining *'timber merchants'* is relatively complex. Our definition of the timber merchants market is restricted to include only merchant companies that focus on the sale of wood and wood products, or for which wood makes up a 'significant majority' of their turnover. This definition excludes 'builders merchants', unless a significant proportion of their turnover is derived from the sales of wood and wood products – a distinction that is often difficult to quantify particularly as some timber merchants are part of builders merchant groups.

Other companies involved in the timber industry who may have a significant timber sales operation, such as importers and sawmillers, are also excluded, as are companies that sell largely manufactured products only, such as **Howdens Joinery** and **XL Joinery**.

The value of the timber merchants market is derived from total sales by companies that fall within our definition detailed above. We have attempted to remove any turnover deriving from auxiliary operations or subsidiaries a merchant may have, such as importing or sawmilling.

In summary, the timber merchants market is fairly complex and includes significant overlap between different supplier sectors. As such, estimating market values is extremely difficult, and any figures should be regarded as **guidelines estimates only**.

Products sold by timber merchants have been grouped into the following categories;

- Sawn & Planed Timber.
- Sheet & Board Materials.
- Manufactured/Semi-finished wood products.
- Other products.

These product categories are further defined in the following section of this report. Finished timber products, such as fitted kitchens and bedroom furniture, have been **excluded**.

Sawn & Planed Timber

The sawn and planed product category consists of softwood and hardwood sold by timber merchants, and includes timber sold as machined mouldings and beadings. Hardwood is generally more durable than softwood and is usually more difficult to collect and fell, making it more expensive. This is particularly the case for tropical hardwoods such as Mahogany or Teak. It is primarily used for flooring, high quality joinery and interior fittings, and is supplied sawn or machined.

Softwood is more widely available and is used for a range of purposes such as carcassing, scaffold boards, fencing, timber frames, joinery, skirting, architraves and other mouldings. Examples of softwoods are Pine, Fir and Cedar.

Major groups of end users, purchasing sawn and planed timber from merchants include:

- Small, medium and large general builders.

- Housebuilders.
- Shopfitters.
- Joiners, furniture manufacturers and kitchen manufacturers.
- Other merchants, often with machining services.
- Timber engineering companies (manufacturers of timber frames, trusses & floors).
- Individual DIYers.

Sawn and planed timber is often treated for a particular purpose, usually by the on-site treatment facilities owned by many larger timber merchants. These treatments range from the kiln drying of hardwood or softwood for flooring or fencing, to chemical treatments to prevent against rot or boring insects.

Our definition of the market includes all timber sold by timber merchants, although this does not generally include timber sold for use in pallets and packaging or for use in manufacturing. However, the market size figures may incorporate some sales of timber into small scale manufacturing operations.

Sheet & Board Material

This category consists of wood-based panels and sheets manufactured primarily from wood fibres, strands, chips or particles, veneers or strips. They are used by a wide variety of end user sectors, depending upon their characteristics and performance capabilities.

The following wood panel product categories have been included in this report: -

- Oriented Strand Board (OSB).
- Particleboard (including chipboard, flaxboard and cement-bonded particleboard).
- Plywood (including blockboard and laminboard).
- Fibreboard (including MDF).
- Decorative Panels (for example, melamine faced chipboard (MFC), veneered plywood).

The most significant of the end user sectors for wood panels are construction and housebuilding (including timber frame manufacturers), furniture manufacture (both fitted and freestanding), shopfitting and individual DIYers. This range of end users is attracted by the low cost, high strength to weight ratio and environmental credentials wood-based panels provide.

Manufactured Products

There are a number of manufactured products sold by many timber merchants, including:

- Doors.
- Window, door and conservatory frames.
- Staircases.
- Trussed rafters.
- Timber frames/kits.
- Decorative timber finishing products (MDF mouldings etc.).
- Fencing, gates, pergolas.
- Decking.
- Prefabricated/semi-finished buildings (including garden sheds, log cabins etc).
- Flooring (including laminate).
- Worktops.

Our definition does not include any furniture (domestic or commercial) or manufactured kitchens/bathrooms. However, a small share of timber merchants do sell manufactured kitchens and bathrooms and, therefore, a small amount of these products might be included in the market value figures.

Customers and end users for these manufactured products include double glazing companies purchasing doors, windows and conservatory frames, as well as small, medium and large contractors, housebuilders, self builders and individual DIYers etc.

Other Products

As timber merchants come under increasing pressure from other retailers, such as builders merchants and DIY multiples, many have extended and diversified their product ranges outside of the traditional area of wood and wood products. Some merchants now try to offer their customers a 'one stop shop' where they can purchase everything for a new build or renovation project at a single source.

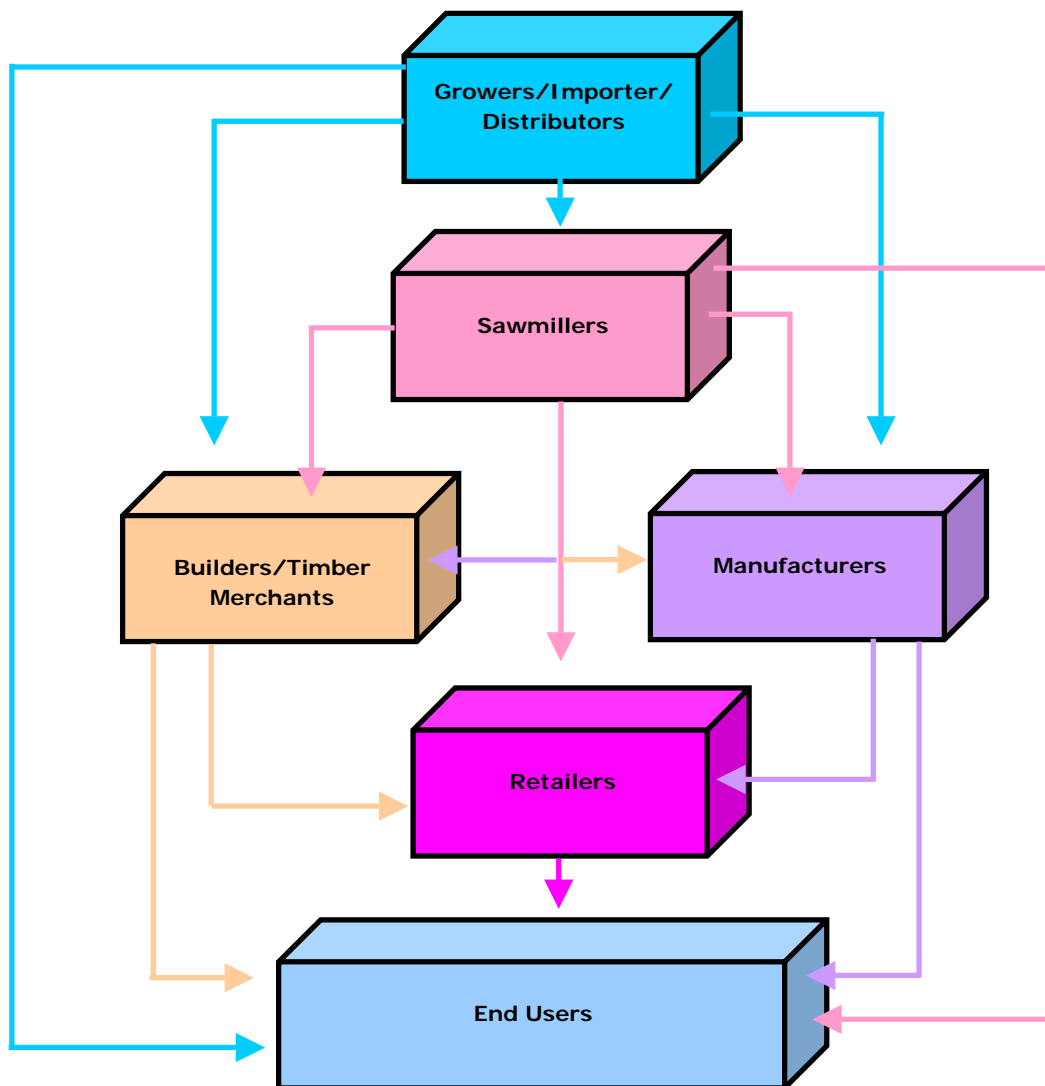
Additional products on offer vary widely, but may include products typically sold at builders merchants, such as bricks, blocks and tools, as well as manufactured products such as furniture or fitted kitchens. Products that can be offered as additions to core wood offering may also be sold, such as ironmongery to accompany doors and windows, or adhesive and sealants alongside flooring ranges. In recent years, there has even been evidence of some merchants stocking products as diverse as stone paving or washroom cubicles.

5.3 Distribution Structure

Many companies within the timber products distribution market operate at more than one level in the distribution chain, making it difficult to differentiate between different varieties. This is partly due to the fact that products within the market are very wide ranging, with a many specialist suppliers being complemented by several general timber merchants. Sawn and planed timber has a slightly different distribution structure to panel or manufactured products.

The chart below shows the key elements of the distribution structure for sawn and planed timber: -

Chart 19: Distribution Structure - Sawn and Planed Timber



Source: AMA Research

UK-grown wood is usually distributed from growers through sawmills and onto merchants, manufacturers and end users. Most UK-grown timber is then sold directly to manufacturers and shopfitters. Hardwood goes into joinery and furniture manufacture as well as shopfitting, whereas the major customers for UK grown softwood are the pallet and packaging industry, and fencing manufacturers.

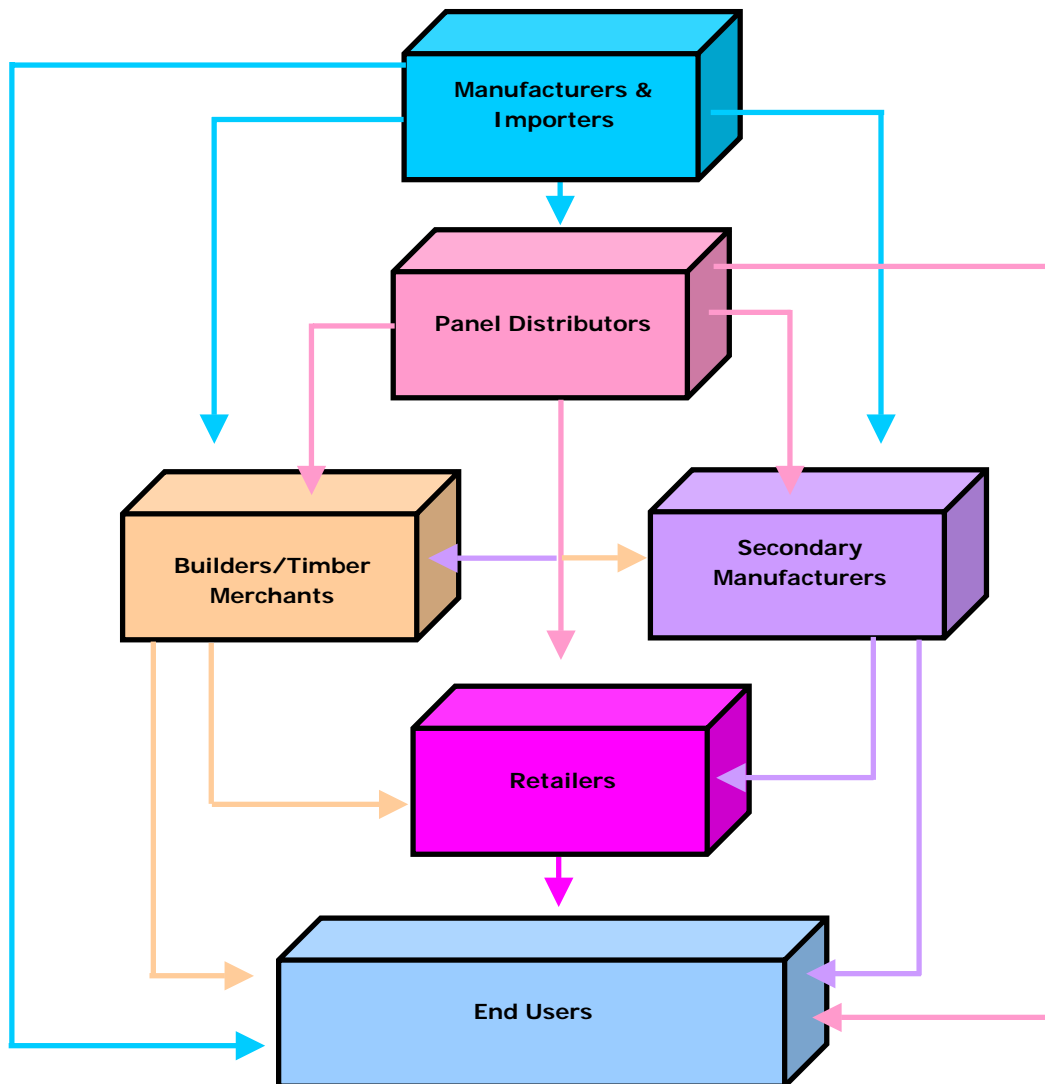
Imported timber is usually sourced from Scandinavia, Russia and the Baltic States in the case of softwood, or from equatorial Africa, South America or South East Asia, in the case of tropical hardwoods and is usually brought in by timber importers, distributors or large merchants. Importers and distributors are usually large firms, who may be part of an international company, operating in or near to UK ports, and supply a range of both hardwoods and softwoods. Larger timber merchants offering importing/sourcing services often work alongside distributors, whose international network means that they can source a wide range of wood types to suit specific customer needs.

Manufacturers are often those involved in the production of any wood-based product, including furniture, joinery, trussed rafters or even timber frames for houses. Larger manufacturers often source from a timber importer/distributor, while some even import directly from the overseas supplier. It is the smaller or more specialist manufacturers who tend to source their timber from merchants.

Retailers of sawn/planed timber include both builders merchants and DIY multiples such as **Wickes** and **B&Q**. Smaller builders merchants or independent DIY retailers may purchase from a timber merchant, while larger ones will typically deal directly with an importer/distributor. Some larger builders merchants are also part of a buying group, giving them enhanced negotiating and purchasing power, for example **H&B Group**, which consists of over 70 independent builders merchants.

An outline of the distribution structure for panel and board products and other manufactured products is shown in the following chart: -

Chart 20: Distribution Structure - Sheet/Board Materials and Manufactured Wood Products



Source: AMA Research

Sheet and board material is typically distributed to end users from importers, manufacturers and board mills via panel distributors, merchants and retailers. Larger, secondary manufacturers, such as those producing furniture tend to source their panels directly from the importers, manufacturers or mills.

Other secondary manufacturers include those producing trussed rafters and joinery. These products are either supplied directly to large end users such as housebuilders, or are shipped to merchants, where they are sold on to general builders, amongst others.

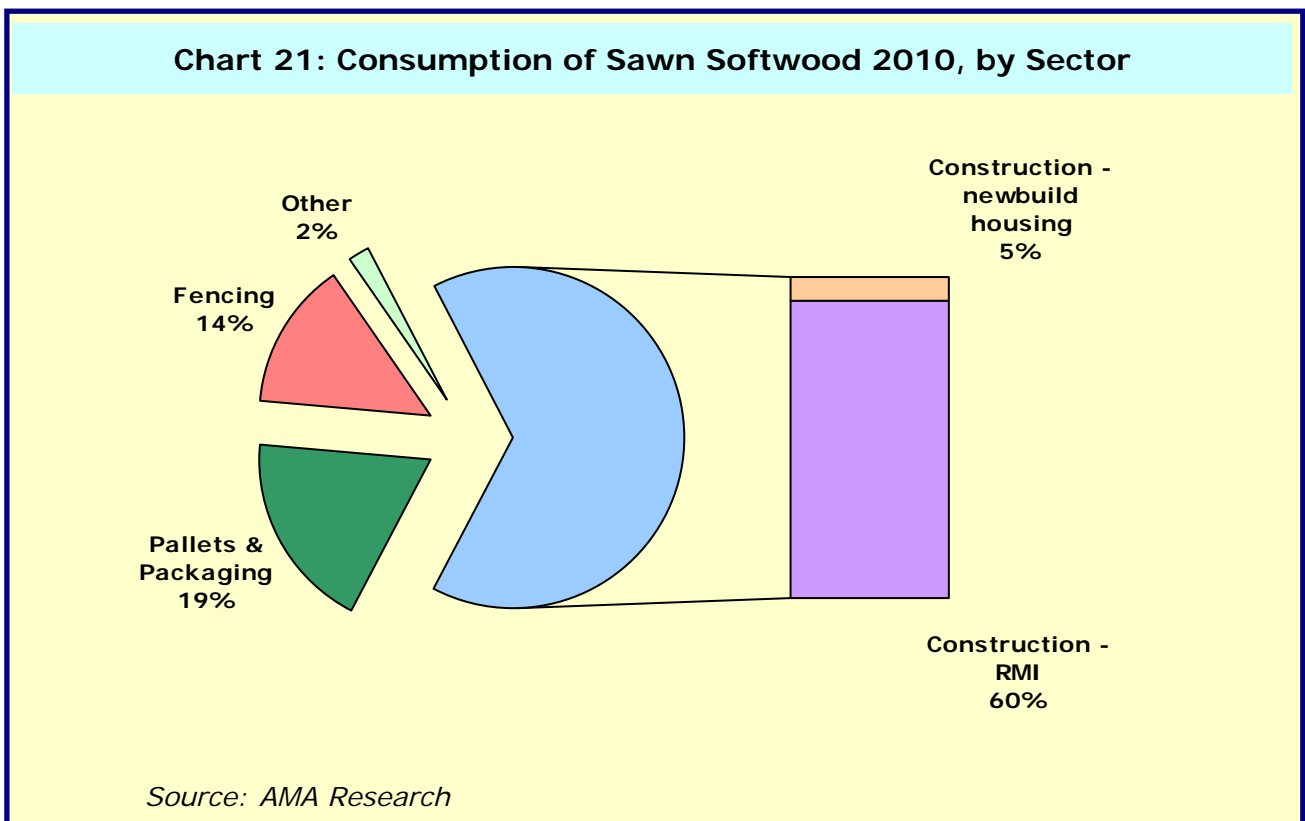
Retailers of panel and board products include DIY multiples, garden centres and double-glazing or other building installation companies. DIY multiples sell a range of panel products, including MDF, fencing and decking. Garden centres are also large distributors of fencing and decking. Doors are sold via DIY outlets and builders merchants, as well as double-glazing and building installation companies.

As with sawn/planed timber, many companies operate at several levels of the distribution structure. For instance many timber merchants manufacture products such as roof trusses or joinery and may sell these products on to small builders merchants.

5.4 Timber Market Sector Overview

Total consumption sawnwood (softwood and hardwood) in the UK in 2010 was around 8.6m m3 of which an estimated 98% was softwood as indicated earlier in our report.

The performance of the timber market and in particular the consumption of softwood relies heavily on key markets such as construction, pallets and packaging and fencing although it is the construction industry which is the main recipient of sawn softwood as shown in the chart below.



As can be seen from the chart above the construction sector is by far the largest market for softwood with around 5.5m m3 going into the sector of which over 5m m3 goes to construction repair, maintenance and improvement and .4m m3 into the new housing sector with the other large markets of fencing, pallets and packaging sharing about 33% of the total.

5.5 Market size

The following table gives an indication of size of the timber merchants market, with forecasts to 2015 included. It should be noted that the figures relate to sales by companies defined as specialist timber merchants only, i.e. merchants that totally or predominantly focus on the sales of timber and wood products (as indicated in our definition) and does not include timber products traded by builders merchants.

Table 22: UK Timber Merchants Market and Forecasts 2005-2015 – By Value (£m at Merchants Selling Prices)		
Year	Value £m (Merchants Prices)	% Change
2005	1266	+ 8
2006	1356	+ 7
2007	1447	+ 7
2008	1537	+ 6
2009	1350	- 12
2010	1230	- 9
2011 Fcst.	1200	- 2
2012 Fcst.	1210	-
2013 Fcst.	1234	+ 2
2014 Fcst.	1270	+ 3
2015 Fcst.	1325	+ 4

Source: AMA Research/Trade Estimates

Market performance in the timber merchants sector has been volatile over the last decade reflecting a combination of key factors:

- Volatility of demand in key end use markets – eg: housebuilding
- Volatility of raw material import prices, exchange rate fluctuations
- Changes in attitudes towards wood in key markets
- Industry restructuring – vertical integration, acquisitions
- Expansion of product ranges
- Environmental issues

While the above list is not exhaustive, they highlight the key factors influencing the market and, in some cases, have resulted in significant short term changes in market performance.

For example, volatility in global prices and the value of Sterling has a significant impact on market prices, which can result in switches in material usage and pressures on margins in the supply chain.

The sector has also seen significant rationalisation as a large number of merchants, many operating from single sites, were acquired by larger builders merchants or ceased trading. In addition, companies who may once have been considered 'specialist timber merchants' (by our definition) were absorbed into the branch networks of national builders merchants, thereby removing their turnovers from the market.

Environmental issues have also grown exponentially over the last decade, with key issues outlined earlier in the report. In many cases, this has led to increased costs with some investment in new systems required, for example in order to acquire *Chain of Custody* certification – and also proved to be a major burden for small independent companies.

As the credit crunch and the housing recession began to take hold during the latter half of 2007, consumption of both timber and panel products began to decline to the extent that by the end of 2008 UK production of sawn wood had fallen by 11% and imports had decreased by a significant 30% on 2007 levels. Wood-based panel production (particleboard and fibreboard) fell by 14% between 2007/09 and imports fell by 35% over the same period. However, there was some recovery during 2010 as housing starts in both the private and public sectors increased volumes by 25,000 units. Unlike previous years any increases in raw material costs were generally borne by the merchants anxious to preserve their competitiveness, rather than passed on to customers.

As a result, in 2010, the timber merchants market is estimated to be worth around £1,230m – an estimated decline of 9% on the previous year. There were strong annual increases up to 2007/08 reflecting a mix of growth in underlying demand in key sectors together with strong global raw material prices.

However, since 2008, the market has declined - reflecting a virtual 50% decline in housebuilding - resulting in a fall of -12% in 2009 and an estimated further decline of 9% by the end of 2010. In addition, domestic RMI work has also been in decline, impacting on a range of timber products, such as doors and windows etc, in recent years.

Although new housebuilding had seen some return to growth during 2010 recent indications suggest that housing starts in 2011 could again decline by around 5%. In the short term, the outlook is relatively neutral suggesting nil or very low growth in 2012 for the sector, given that the fragile state of the economy as at mid-2011 continues to impacting on consumer confidence and any recovery in both housebuilding and housemoving levels is likely to be slow and 'patchy'.

However, as outlined in the previous section of the report it is the non domestic and RMI construction markets that are the key drivers and far more influential on the performance of the timber market.

The outlook for non-domestic RMI is mixed with 2011 expected to see 4% output decline to around £19bn followed by annual growth rates of 2-4% to 2015 when value is forecast to reach around £21bn. A key factor to the rate of recovery for non-domestic construction remains the fragility of the UK economy, following negative GDP growth in Q4 2010 - although there are signs of recovery in early 2011 it remains fragile. In addition, business confidence and investment levels remain subdued – reflecting a mix of fragile confidence levels and difficulties in raising finance and securing loans from financial institutions.

The timber merchants sector relies heavily on new construction and RMI within key sectors such as offices and retail which are expected to experience good growth from 2012 onwards as business and consumer confidence improves, whilst the industrial sector is forecast to recover from 2013 but at somewhat reduced growth rates than the other 2 sectors.

New construction work in some non housing sectors such as factories and warehouses has seen some growth in 2010 over the previous year following steep decline in the previous years, however many more sectors such as health, offices and shops have seen two or three consecutive years of declining growth.

In addition, new orders obtained by contractors in 2010, indicate that recovery could be some way off. In the private sector factories and warehouses, schools, universities and offices have all seen new orders decline by at least half of their 2008 value. Short-term forecasts for the non-domestic construction market remain relatively pessimistic with current forecasts of 6% decline in 2011, followed by more moderate 2% decline in 2012. However, medium-term prospects are more positive with forecasts of recovery in key sectors expected from H2 2012 resulting in annual growth of 1-5% to 2015. The pessimistic view of short-term prospects is based on the sustained lack of recovery in new order values 2009-10 and the timing of public sector budget cuts from April 2011 onwards, before recovery in key commercial sectors is likely to begin.

Rates of growth over the 2011-2015 period are difficult to assess and will primarily be dependent on the general performance of the economy, housebuilding, construction and RMI in the non domestic sectors and consumer spending in general. In overall terms, forecasting the **timing, speed and scale of recovery is difficult**, with 2011/12 expected to be difficult years, though a steady recovery is anticipated in the medium term.

6. THE TIMBER MERCHANTS

6.1 Merchant Companies

As indicated previously, there are a wide range of companies supplying timber and wood products in the UK. Key channels include: -

- Timber importers and agents.
- Timber distributors.
- Sawmill operations.
- Builders merchants.
- Timber merchants.
- DIY retailers.
- Manufacturers.
- Joiners.

As previously discussed, few companies in the timber industry can be defined as specialist timber merchants. This is largely due to the fact that many have expanded their operations into areas traditionally occupied by other firms in the timber supply chain, such as sawmillers or importers, as well as into sectors usually the reserve of builders merchants. As a result, companies that have expanded so significantly that the majority of their turnover is no longer derived from timber sales are **excluded** from our market definition.

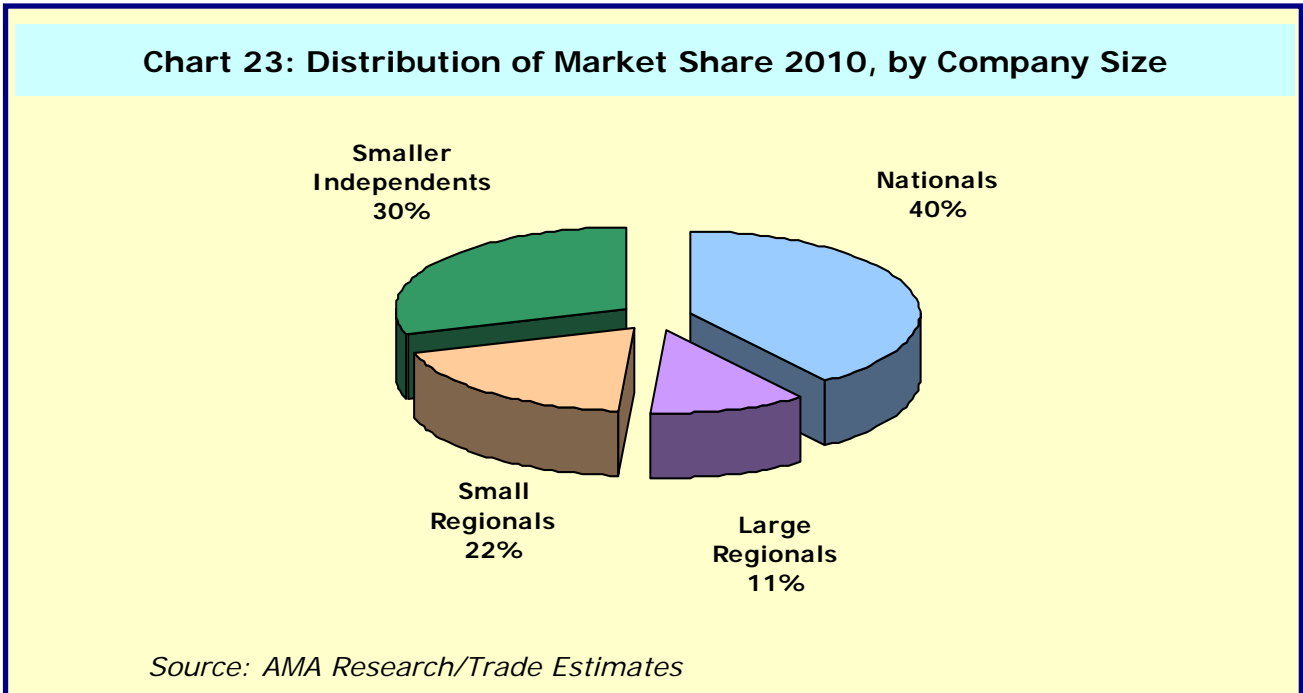
As well as product diversification, another feature of the market in recent years has been consolidation within the timber merchants sector. The early 2000s saw a substantial level of industry consolidation by major distribution groups (such as **Wolseley**, **Travis Perkins** and **Saint-Gobain**) expanding into the timber industry via acquisitions of merchants such as **Merton Timber**, **R K Timber** and **O J Williams & Son**. Although Merton Timber were part of **Saint-Gobain**, Merton along with Castle Timber were purchased by Jewson in 2011 and are to be rebranded as part of the Jewson network adding a further 15 branches in the London area.

6.2 Market Shares

The timber merchants market is highly fragmented and whilst there are a few large, national chains, the majority of firms operate on a local/regional basis. This means that they do not view other timber merchants in other areas of the country as competitors, but rather see other timber suppliers in the local/regional area as competitors regardless of whether they are builders merchants or importers etc. As a result, the timber merchants market has been examined from two different perspectives.

To gain an overall feel for the largest firms in the market, national merchants will be reviewed separately from smaller, regional merchants. These smaller firms will be examined on a regional basis, and their market share measured against other wood suppliers in their area, whether they are specialist timber merchants or not.

In terms of an **overall perspective** of the market, the chart below shows the distribution of market share relative to company size in terms of turnover: -



The largest timber merchants, those with nationwide coverage, account for around 40% of the market, by value. The companies that make up this category are specialist timber merchant companies owned by **Jewson**, as well as **Wolseley (Build Center – Timber)**, **Arnold Laver (Timber World)**, **Arbor Forest Products (Howarth)**, **Brooks Bros** and **Timbmet**.

Large regional firms such as **Lawsons/Sharvatt Woolwich** and **Alsford Timber** account for a further 11%, with smaller regional and local firms contributing the remaining 19%. This demonstrates the highly-fragmented nature of the market, with smaller firms accounting for the majority share.

The following table shows our estimate for the market shares held by various companies of the total timber merchants market in the UK: -

Table 24: Major Timber Merchants – Estimated Market Shares – UK 2010	
Major Suppliers	Estimated Market Share %
Timbmet Group Arnold Laver Arbor Forest Products	25-28
Jewson Build Center-Timber (Wolseley) Brooks Bros.	12-14
Alsford Timber Lawsons	10-12
MGM Timber Rembrand Timber Rowan Timber Firwood Timber & Plywood Harlow Bros Pontrilas Champion Timber	18-20
Others – largely smaller independents	30
<i>Source: AMA Research</i>	

The above figures are based on the estimated turnover derived from sales as a specialist timber merchant. However, because several of these companies are also heavily involved in other activities relating to the distribution of timber products, these figures should be used as **guidelines only**.

These figures demonstrate the highly fragmented nature of the specialist timber merchants market. Even with the consolidation and acquisition activity that has occurred over recent years, the leading companies still individually hold less than 10% of the overall market. It should be noted that there are numerous other large timber merchant operations that account for less than 1% of the overall market but are still significant players in their local region. These include **North Yorkshire Timber, Alloway Timber, Roger Haydock & Co, Sykes Timber, T Brewer, Robert Duncan Timber** etc.

6.2.1 National Merchants

There are a small number of specialist timber merchants who have a national coverage. As indicated above, these merchants account for between an estimated 45%-50% of the total market value and there are significant differences between the national timber merchant chains, in terms of their branch network.

Wolseley operates a network of specialist timber retailers under their *Build Center* brand. *Build Center - Timber* have a large number of outlets spread across the UK, ranging from smaller premises supplying timber, to larger branches with milling, treatment and I-Beam production facilities.

In comparison, **Timbmet** operate from a small network of very large distribution and processing sites spread across the country, giving each site a substantial average turnover when compared to other national firms. More recently, Timbmet's strategy has moved to wanting its image to be less of a traditional hardwood trader and more as a multi-product and service business.

Jewson supply timber at a large number of their builders merchant sites across the UK and through their specialist timber merchants **Merton Timber** and **Morgan Timber & Boards**.

Details of the main national timber merchant chains can be found below.

Wolseley (Build Center - Timber) - is involved in the supply and distribution of building, plumbing and heating products in Europe, USA and Canada with a global sales turnover of £13.2bn. The group achieved sales in the UK and Ireland of approximately £2.4bn for the year to July 2010. Their presence in the UK comprises largely of a number of specialist "Centers", each a separate brand operating in a separate sector, eg *Plumb Center*, *Pipe Center* and *Build Center*. As detailed above, a proportion of these *Build Centers* specialise in the production and distribution of timber products, and are marketed as *Build Center – Timber*, of which there are around 12 in the UK. These outlets provide timber products including softwoods, hardwoods, sheet materials, joinery, doors, windows, I-beams and roof trusses. In addition, they offer a wide range of services including sawing, machining and timber treatment.

Jewson are a general builders merchant and the largest UK brand of the **Saint-Gobain Building Distribution Group**. The Jewson certified timber service is available through 150 branches out of the more than 500 branches across the UK, supplying timber & building supplies and covering sectors such as tool hire and landscaping. The largest of their timber specialists are believed to be **Merton Timber** and **Nixon Knowles**. In addition, Jewson have expanded into the manufacturing area of the timber industry with the acquisition in 2007 of **Pasquill Roof Trusses**, a specialist supplier of timber engineered roofs and flooring. **Merton Timber** is a London-based timber and builders merchant, now operating from 9 locations after recent expansion into Twickenham and Weybridge. In addition the company have acquired **Castle Timber** in 2011. They stock a range of timber products including flooring, sawn timber and sheet materials, as well as manufactured products such as doors and kitchens.

Arnold Laver - the company, established since 1920, has over 500 employees and 13 branches predominantly in the Midlands and North of England, and other branch locations including London and Reading, which stock hardwoods, softwoods, panel products, decorative surfaces, joinery products and kitchens. They offer next day delivery, direct to site and can schedule deliveries to the customers build programme, including 'plotted' house packs, delivered Just In Time. Turnover for the company was £89.3m in 2009, a marginal increase on the previous year of £88.9m.

Arbor Forest Products - part of the **Howarth Timber Group**, the company undertakes a range of operations including merchanting and timber importing, and supplying more than 250,000m³ a year of timber to the building, DIY and construction trades. Key products supplied include Arbordeck, Aberflor, machined timber, carcassing, fencing, and sawn joinery. The Howarth Timber Group has been trading for over 170 years and is the UK's largest privately-owned timber company with a sales turnover of £107m to March 2010, over 1,000 employees and a network of 28 timber and builders merchant branches. They also manufacture and supply windows and doors and specialist timber engineering products and services.

Arbor Forest Products sales turnover to March 2010 was £37.4m which was down from £42.1m in the previous period, though profits increased in the year to £3.1m from £1m in 2008/09 - they have 100 employees.

Timbmet Group is a leading distributor of hardwoods, panel products and other timber related products. Founded in 1942, Timbmet is a family business and encompasses Timbmet, Timber Depots and Timbmet Global. The group offers a wide range of wood products from sawn timber to mouldings and decking, as well as a variety of panel products including MDF, plywood and OSB. Timbmet also offer a range of 'innovative' wood products including a selection of interior decorative panels.

Group turnover was £85m in 2009, down from £98m in the previous year, a decrease of over 13% although pre tax profit was £1.2m - up from a loss of -£7m in 2008.

Brooks Bros. is part of the **GA Sherriff Group**, and is a distributor of softwoods, hardwoods, mouldings, flooring and panels. They operate from 5 sites - Maldon, Danbury, Skelmersdale, Sunderland and Nottingham - each with a different speciality. For example, their site in Maldon specialises in hardwoods, flooring and doors and the Danbury site majors on joinery and clear softwoods, decking and BrooksTech laminated timbers and components. The company have a staff of 170.

The company achieved a turnover of £32m in 2009 - down 28% from the £41m in the previous year. Pre-tax profits for the company were just over £900k in 2009 - down from 960k in the previous year.

6.2.2 Regional Timber Merchants

As indicated above, many companies do not view other timber merchants in other areas of the country as direct competitors due to their regional focus. Their direct competitors are often other firms in the region who supply timber and timber products such as builders merchants, timber importers or timber engineer which is the reason why the remainder of the market is analysed on a regional basis by looking at the main timber merchants in a particular region, as well as their perceived competitors. The regions analysed are:

- Scotland
- North West England
- North East England & Yorkshire
- The Midlands

- South West England
- South East England, East Anglia & London
- Wales
- Northern Ireland

It should be noted that only details of timber merchants will be given in this section. Details of other types of firms such as builders merchants and importers will be included within the 'Competitors' section of this chapter.

Scotland

The table below shows who we believe to be the largest distributors of timber and timber products in Scotland: -

Table 25: Overview of Leading Timber Suppliers in Scotland			
Company	Type	Branches	Est. Turnover from Timber Sales £m
James Jones and Sons Ltd.	Sawmiller	2	59
MGM Timber*	Timber merchant	8	29
Rembrand Timber	Timber merchant	18	27
Rowan Timber	Timber merchant	4	20
Thornbridge Sawmills	Sawmiller	8	21

Source: AMA Research/Trade Estimate

**Part of the James Donaldson Group*

As can be seen from the table above, **MGM Timber**, **Rembrand Timber** and **Rowan Timber** are the largest timber merchants in Scotland, but their sales are less than **James Jones and Sons** sawmillers. It should be noted that Scotland is also home to 3 sawmills, a port facility and the head office of **BSW Timber**, one of the UK's largest sawmilling operations. However, because the company also operates mills and port facilities across the UK, they have not been included in the review of the Scottish market.

MGM Timber is the merchandising subsidiary of the **James Donaldson Group**, which also includes **James Donaldson Timber** (importers & sawmilling), **Donaldson Timber Engineering** and **Parker Kislingbury** hardwood specialists and have a network of 8 branches across Scotland. Their product offering includes timber, sheet materials, manufactured products, flooring and kitchens. Turnover for the company was £29m in 2009, about the same as the previous year. In 2010, turnover was down slightly but profits increased marginally.

Rembrand Timber is a timber merchant and importer with 18 branches in 2009 - an increase from the 13 branches in 2006. They supply a range of products including sawn timber, cladding and sheet materials, as well as a selection of insulation materials and have specialised in supplying to kit manufacturers and as a result have become a leader in the timber frame housing market. The company achieved sales of £27m in the 12 months to September 2009, with pre-tax profits of £720k.

Rowan Timber operates from 4 locations across the central belt of Scotland, with their head office in Lanarkshire. The company offers sawmilling facilities, as well as manufacturing prefabricated and portable buildings and their joinery workshops supply bulk orders for staircases, doorsets and JJI-Joists to major house builders. Like many timber merchants, Rowan Timber offer a range of other building materials, including roof tiles, sand and cement, from one of its branches.

In 2009, the company achieved a turnover of £20.4m down 35% on the previous year of £27.6m and made a loss of -£200k from a previous years' profit of £100k.

Thornbridge Sawmills are a timber sawmillers and merchants, based near Falkirk, with a further 4 branches across Scotland. In 2008 the company announced a strategic partnership with **Steico AG**, a wood-based insulation company. Turnover for the company declined in 2009 to £21m from £23m in 2008 whilst pre tax profit fell to just over £720,000.

James Jones & Sons is one of the largest suppliers of British timber in the UK. Its 6 sawmilling sites are located across Scotland and provide timber for the construction, packaging and fencing markets. The company also includes a *Timber Systems Division* that supplies and manufactures joists, Stella-Jones Inc. - a joint venture between James Jones & Sons and Stella SpA, a Canadian company specialising in the production of railway ties and timbers, and wood poles for electrical utilities and telecommunications companies. In addition they have an equity stake in the Scott Group who specialise in packaging and have a subsidiary company, Unit Pallets. In 2009 company turnover was £72.6m down from £76.1m in the previous year. Other Scottish timber merchants include **Paterson Timber Limited** and **Amara Timber**.

North West England

The table below shows who we believe to be the largest distributors of timber and timber products in North West England which is defined as the following areas: Cumbria, Lancashire, Cheshire, Merseyside and Greater Manchester: -

Table 26: Details of Top Timber Suppliers in North West England			
Company	Type	Branches	Est. Turnover from Timber Sales £m
GE Robinson & Co*	Timber importer	1	15
Firwood Timber & Plywood Co	Timber merchant	10	12
Beesley & Fildes	Builders merchant	7	10
C W Berry	Builders merchant	1	8
Roger Haydock & Co	Timber merchant/ importer	3	8

Source: AMA Research/Trade Estimates

* Part of Haldane Shiells Group

The wood distribution market in the North West includes just two specialist timber merchants in its main players; **Firwood Timber and Plywood Co** and **Roger Haydock & Co**. Large regional builders merchants occupy a significant share of this market, alongside timber importers **GE Robinson**.

Firwood Timber & Plywood Co is a timber and builders merchant, with 10 branches across the North West including their head office in Burscough. As well as merchandising operations, the company acts as an importer of timber and wood products. In 2009, the company recorded a turnover of £12.1m, down 20% from the £15m recorded in the previous year and turnover declined further in 2010 to £10.1m. Pre tax profits have continued to fall from £1.6m in 2008, to £1.1m in 2009 and in 2010 to £510k.

Roger Haydock & Co. is a timber importer and merchant, based at three locations across the North West of England and North Wales and part of **Illingworth Ingham** since 2011. They offer a range of timber products, including sawn wood and sheet material, as well as manufactured products including kitchens, bathrooms and doors. The company also offer timber treatment and cutting facilities. Roger Haydock also supplies timber flooring kits to manufacturers and repairers of truck and van trailers. Turnover for 2009 was £7.8m down from £10m in 2008 and the company made a loss of £790k compared to a pre tax profit of £300k in the previous period.

Beesley & Fildes are a Liverpool-based builders/timber merchant, importer and sawmiller, with 8 branches located across Merseyside and Cheshire. The group's timber offering includes sawn and sheet material, as well a range of doors, timber and flooring products. Turnover for the company was £22.2 in 2009 down from £26.4 in the previous year.

C & W Berry operates from 2 sites in Leyland, Lancashire, offering a wide range of timber and building materials, including a selection of specialist wood products such as worktops, decking and mouldings. The company also offers sawmilling facilities and has a timber importing operation. Sales turnover in 2009 was £8m.

G E Robinson & Co including Garstang Timber and Makerfield Timber is a timber importers and merchants based in North West England and an annual turnover of £21m, who were acquired by the Haldane Shiells Group in October 2006. As well as offering a range of imported hardwoods and softwoods, the company stock a range of decking and mouldings.

Other North West timber merchants include **Anthony Axford** and **Laycocks Timber Merchants**.

North East England

The table below shows who we believe to be the largest distributors of timber and timber products in the North East of England and Yorkshire. This region is defined as the following areas: Northumberland, County Durham, Cleveland, Tyne & Wear, North Yorkshire, West Yorkshire, South Yorkshire, and East Yorkshire & Humberside: -

Table 27: Details of Top Timber Suppliers in North East England			
Company	Type	Branches	Est. Turnover from Timber Sales £m
North Yorkshire Timber	Timber merchant	4	14
MKM Building Supplies	Builders merchant	23	10
J T Dove	Builders merchant	8	6
C R Taylor Timber	Timber merchant	2	5
Robert Duncan Timber	Timber merchant	3	6
<i>Source: AMA Research/Trade Estimates</i>			

The table above shows that there are three major timber merchant operations covering the North East and Yorkshire, with large builders merchants taking a significant share of the market in this area.

North Yorkshire Timber, established in 1979, are an independent timber merchants and importers based in North Yorkshire and the North East of England. As well as the more typical products such as sheet materials and sawn timber, the company appears to have a reasonably strong focus on the DIY market, by offering not only doors, flooring and stone paving, but also a home installation service. Turnover for 2009 was almost £14m and pre-tax profits were £360k.

Robert Duncan Timber is a Gateshead-based timber merchant providing sawn and sheet material, the company also has on-site sawmilling facilities. In 2009, the company achieved a turnover of £5.6m.

C R Taylor Timber is a Bradford-based family run timber merchant, with 2 branches, established in 1960. Their offering largely consists of engineered timber products such as roof trusses and joists, as well as carcassing, mouldings, doors, flooring and stairparts. The company also has two trade centres, supplying both the trade and DIY communities.

JT Dove is an independent builders merchants, with 11 branches located across the North of England, with a particular focus on the North East. Their timber offering includes sawmilling and treatment services, facilitated by on-site mills. They are also involved in the direct importation of timber and sheet materials, which is then distributed via their branch network. In addition, the company offers engineered and manufactured products such as trusses and staircases. Turnover for the company as a whole was £24.6m in 2009.

MKM Building Supplies was established in 1995, and now operates 36 branches across England and Scotland. As well as a range of sawn and sheet material, MKM offer joinery products and a broad range of kitchens and bathrooms. Turnover for the company was approximately £129m in 2009, making them one of the largest independent builders merchants in the UK.

Other specialist timber merchants in Yorkshire and the North East include **Westbank Timber, Kirkstall Timber**.

The Midlands

The table below shows who we believe to be the largest distributors of timber and timber products in the Midlands. This region is defined as the following areas: Shropshire, Staffordshire, Derbyshire, Nottinghamshire, Lincolnshire, Leicestershire, Warwickshire, Birmingham, Herefordshire, Worcestershire and Northamptonshire: -

Table 28: Details of Top Timber Suppliers in The Midlands			
Company	Type	Branches	Est. Turnover from Timber Sales £m
Harlow Bros	Timber merchant	5	22
Pontrilas	Sawmillers / Timber merchant	1	17
Carvers	Builders merchant	2	14.5
W J Handrahan & Son	Timber importer	2	12
George Sykes	Timber merchant	1	8

Source: AMA Research/Trade Estimates

The Midlands includes several large timber merchant operations who dominate the market in this area, with **Carvers** the only non-timber specialist in the largest companies list.

Harlow Bros are an independent company that has been established for over 70 years as a timber importer based near Loughborough with branches at Derby, Coalville, Burton on Trent, Leicester and Nottingham. The company supplies joinery timber, doors, windows, floors, roof trusses and claim to offer a timber frame house. Turnover for 2009 was £22.2m, down from £26.7m recorded in 2008.

Pontrilas Timber & Builders Merchants are a family-owned firm, established in 1947. They operate a sawmilling and merchandising business from their 24-acre site in the Herefordshire village of Pontrilas, supplying softwood carcassing and fencing products, as well as sawn hardwood. The company has recently acquired a former garden centre site to allow them to expand their product range. An additional operation is the harvesting department which purchases British hardwoods and softwoods. Major products cut include: oak beams for oak frame builders, oak fencing and decking boards, kiln dried oak, ash and beech furniture boards. Mixed hardwood Pallet, Dunnage, Spacer and Chock material for heavy industry. Sales for 2009 were down 10% from 2008 to £17m, with a net profit of £950k.

George Sykes trade under the name *Sykes Timbers* and are a specialist hardwood merchant based at a single site in Atherstone, Warwickshire. As well as a range of sawn hardwood and softwood, the company supplies flooring, cladding, decking and beams, which they hope to extend with the planned opening of a new customer showroom in 2008. They also provide a coatings service via their associated company **Abbott Coating Supplies**. Estimated turnover in 2009 is in the range £7m-8m.

Carvers are a Wolverhampton-based builders and timber merchants, established in 1896 and owned by the same family. As well as their main site, the company have a timber production facility where they produce engineered products such as roof trusses and flooring. Carvers' timber offering also includes sawn and sheet materials, as well as decking, joinery and full machining services. In addition the company have a tool hire centre and the builders' merchant business includes specialist bathroom and kitchen departments.

WJ Handrahan is an independent softwood importer, with 2 locations in Nottinghamshire and Kingswinford. As well as supplying a range of softwoods, the company also stock flooring and decking systems, as well as softwood mouldings and wood shavings. In 2010 the company's turnover is estimated at £8m-£10m.

Other Midlands-based timber merchants include **Avon Timber Merchants, Venables Oak and Listers Timber and Builders Merchant**.

Wales

The table below shows who we believe to be the largest distributors of timber and timber products in Wales: -

Table 29: Details of Top Timber Suppliers in Wales			
Company	Type	Branches	Est. Turnover from Timber Sales £m
Huws Gray	Builders merchant	34	10
TimberMart	Timber importer/agent	1	7
Robert Price	Builders merchant	15	5
C L Jones	Builders merchant	5	1
LBS Builders Merchants	Builders merchant	13	3

Source: AMA Research/Trade Estimates

The Welsh timber distribution market appears to be dominated by several large builders merchants, with **TimberMart** the only timber specialist large enough to compete directly. Major timber importers such as **Premier Forest Products** and **International Timber** operate from Welsh ports, seemingly restricting the local market for specialist timber merchants.

Established in 1990, **Huws Gray** now operates 34 branches across North Wales and the North West of England. As well as a range of timber products that includes joinery and sheet material, the company manufacture roof trusses and have kitchen and bathroom showroom facilities as well as a specialist brick distribution business at Warrington and Queensferry. Turnover for the company rose by £3m during 2008, reaching £59m in 2009.

TimberMart (UK) is an independent timber importer/agent, based in South Wales but with sawmilling and other operations located in Latvia. Via their subsidiary, **Thomson & Son**, they distribute a range of wood products, including sawn timber, sheet materials, fencing and decking. Turnover for 2009 is estimated in the range £5m-£7m.

Robert Price is another Wales-based merchant, who were established in 1847. From their 15 branches they supply a range of timber products, including sawn, sheet, mouldings, joinery and doors. The company achieved a turnover of just under £25.4m in 2009 which was down on the previous year of £32.7m.

Carmarthenshire-based **LBS Builders Merchants** was established in 1931, and now has 13 branches across South Wales. LBS offer sawn, sheet, engineered and manufactured timber products, as well as a selection of bathrooms and kitchens. They also offer machining facilities via their on-site sawmills. Turnover for the group was approximately £23m in 2009.

C L Jones is an independent builders merchant with four sites across the Gwynedd & Conwy area with 5 branches and a sales turnover of just over £3m. They supply timber and sheet materials as well as decking and roof trusses.

There are however, a number of smaller, independent timber merchants based in Wales, including **Nottage Timber** and **Gower Timber**.

South West England

The table below shows who we believe to be the largest distributors of timber and timber products in South West England. This region is defined as the following areas: Gloucestershire, Bristol, Wiltshire, Oxfordshire, Berkshire, Hampshire Dorset, Somerset, Devon and Cornwall.

Table 30: Details of Top Timber Suppliers in South West England			
Company	Type	Branches	Est. Turnover from Timber Sales £m
International Plywood	Panel importer	1	72
Snows Timber*	Timber importers / engineers	1	35
Sydenhams	Builders merchant	17	24
RGB Building Supplies	Builders merchant	11	20
Payne Timber	Timber merchant	4	2
<i>Source: AMA Research/Trade Estimates</i>			

** Part of *Bradford & Sons*

The timber merchant market in the South West is dominated by large, regional builders merchants such as **Sydenhams** and **RGB Building Supplies & Supplies**, as well as importers such as **International Plywood** and **Snows Timber**.

This region is typified by a high number of smaller, independent, single site timber merchants, such as **Joseph Griggs & Co**, **Brookridge Timber** and **Clarks Wood Company**.

One exception is **Payne Timber**, who have four branches across Devon, Cornwall and Somerset. The company offer a range of more traditional products, such as sawn timber and sheet material, as well as a selection of windows and conservatories via their subsidiary **Payne Windows & Conservatories**. They also offer a number of domestic products including flooring, garden buildings and decking. The company had and turnover of £3m in 2009.

Sydenhams are an independent builders merchants and timber importers, operating across Southern and South West England with 17 branches and hire centres. The company supplies joinery, carcassing, sheet material and manufactured products. In addition, their timber engineering division design and manufacture both roof trusses and timber frame buildings. In 2007, the company acquired both ATF Shearn Building and Timber Supplies and PPS Softwoods, a Hampshire-based merchants and sawmillers. This was followed by the acquisition of KN Tools and, in 2008, Mitchells Hire & Sales with a chain of Hire Centres based at Blandford, Dorchester, Swanage and Weymouth providing tools and equipment for hire and purchase. In 2009, the company's sales turnover was £42.6m.

Snows Timber is a division of **Bradford and Sons** builders merchants and is a leading importer and processor of timber, with head office based in Glastonbury. In addition to importing Scandinavian softwood, Snows have a sawmilling site offering planed, moulded and decking timber. Following Bradford's 2007 acquisition of **Crendon Timber Engineering**, the company now offers timber frame buildings, engineered floors and roof trusses.

RGB Building Supplies are an independent builders merchants, based in the South West of England. Established in 1850, they now operate 14 branches across Devon, Cornwall and Somerset supplying timber and sheet materials that include carcassing, I-beams, fencing and wooden buildings. In addition, a number of their branches include kitchen and bathroom showrooms. In 2009/10 the company's turnover was £35.3m compared to £36.6m in the previous year - they have over 200 employees.

International Plywood is a panel and plywood importer, based in Gloucester. Established in 1981, the company imports a range of wooden panel products, including MDF, OSB and tropical plywoods and are wholesalers and bulk distributors of wood-based panel products to the trade. In the year to April 2010, the company achieved sales of £78.8m up from £72.3m in the previous period.

South East England, East Anglia & London

The table below shows the companies we believe to be the largest distributors of timber and timber products in the South East, East Anglia & London. This region is defined as the following areas: Bedfordshire, Hertfordshire, Essex, Middlesex, London, Surrey, West Sussex, East Sussex, Kent, Cambridgeshire and Norfolk and Suffolk: -

Table 31: Details of Top Timber Suppliers in the South East, East Anglia & London			
Company	Type	Branches	Est. Turnover from Timber Sales £m
Lawsons	Timber merchant	13	30
Alsford Timber	Timber merchant	20	26
Covers	Builders merchant	11	25
A W Champion	Timber merchant	9	19
Alloway Timber	Timber merchant	5	9

Source: AMA Research/Trade Estimates

The South East, East Anglia and London area includes some of the largest regional timber merchants in the UK. It is these merchants who dominate the local market, as shown in the table above.

Lawsons (Whetstone) Ltd., founded in 1921, has 13 branches and specialises as a timber, building and fencing merchant supplying mouldings, decking and sheet material, as well as more general building materials such as bricks and blocks. As part of its timber offering, the company has on-site machining and treatment facilities. In 2009, the company achieved sales of £30m, down 10% on the previous year of £33m.

Alsford Timber is one of the largest independent timber merchants in the UK, with 20 branches located across London and the South East, including a specialist fencing division. As well as offering a wide range of timber and joinery goods, Alsford Timber also offer a range of general building products, including aggregates and cement, as well as a range of insulation materials. Annual turnover decreased from £32.5m in 2008, to £25.5m in 2009.

A W Champion Timber is a family-run firm, who were established in 1929 and have 9 branches. Along with a range of timber products, - mouldings, decking, flooring, buildings, as well as sheet, sawn and roofing, **Champion Timber** offer a range of ancillary products including ironmongery, tools and fixtures & fittings as well as offering timber cutting and machining services. Sales turnover declined around 5% from £20m to £19m in 2009, while net profits were £400k.

Alloway Timber was established in 1971, and now operates from 5 locations in the South London area. They stock a range of timber, sheet and flooring products, as well as a selection of heavy and light building materials. Turnover for 2009 was £8.7m and pre tax profit was £50k.

David Cover & Sons are a timber and builders merchant operating from locations across Southern England and the Channel Islands, with 11 depots following the recent acquisition of 2 new sites in Southampton and Alresford, Hampshire which were formerly operated by MSR Builders Merchants. They operate timber importing and sawmilling facilities, and supply a range of hardwood and softwood products, including decking and flooring. Their subsidiary, *Covers Timber Structures*, manufacture timber frames, roofing systems and beams, as well as providing design and erection services. Turnover for the company in 2009 was £55m.

Other timber merchants operating in this region include **Mid-Sussex Timber Co**, **Watford Timber Company**, **T Brewer**, **Buttle plc** and **Thorogoods**, **English Woodlands Timber**

Northern Ireland

The table below shows who we believe to be the largest distributors of timber and timber products in Northern Ireland. This region also includes the Isle of Man.

Table 32: Details of Top Timber Suppliers in Northern Ireland			
Company	Type	Branches	Est. Turnover from Timber Sales £m
James McMahon Group	Timber importers/building suppliers	4	30
Haldane Fisher*	Builders merchant	9	26
RTD Crawford	Timber importers/sawmillers	2	13
IJK Timber Group	Timber importers	1	13
R&D Aiken Group	Timber importers/building suppliers	1	5

Source: AMA Research/Trade Estimates

* Part of the Haldane Shiells Group

The market in Northern Ireland is dominated by two firms; builders merchant **Haldane Fisher** (part of the **Haldane Shiells** group) and the **James McMahon Group**. It should be noted that, in the case of the **James McMahon Group**, we have attempted to isolate the company's activity in Northern Ireland and recognise they have significant operations in the Irish Republic.

The **James McMahon Group** was founded in Limerick in 1832, and has now expanded to 13 locations, 4 of which are located in Northern Ireland, with a further 9 based in the Republic. The group includes a timber importer and distributor, **James McMahon Limited**, a timber engineers, **Integrated Timber Engineering Company (ITEC)** and a builders merchants, **Keys McMahon Limited**. Through these operations, the group can offer a wide range of timber and joinery products, as well as a range of general building materials. Their turnover in Northern Ireland is estimated to be around £30m.

The **Haldane Shiells Group** was founded in 1948 now includes 9 **Haldane Fisher** builders merchants located across Northern Ireland and the Isle of Man. They offer a range of timber products that include sheet, engineered and manufactured goods, as well as kitchen and bathroom ranges. Haldane Fisher had a turnover of £26m in 2009, down from £26m in 2008.

IJK Timber Group is a Belfast-based organisation, consisting of **Irvin & Sellers** and **Keizer Venesta** and **William Davidson**. Irvin & Sellers are importers of hardwood, softwood and sheet material, while Keizer Venesta imports a range of sheet material, decking and flooring. Turnover for 2009 was £13.3m down slightly from £13.7m in the previous year.

Other players in the Northern Ireland market include the Wolseley-owned **Brooks Group**, the Saint Gobain-owned **JP Corry Group**, **Newry Building Supplies** and **A. Diamond & Son**.

6.2.3 Competitive Environment

The timber market includes a wide range of different products, used by an extremely diverse variety of end users. As such, the supply structure for timber products is very complex, and can vary depending on the product area. As a result, the role of the timber merchant also varies considerably depending on the product category. In general though, timber merchants face direct competition from a range of channels including:

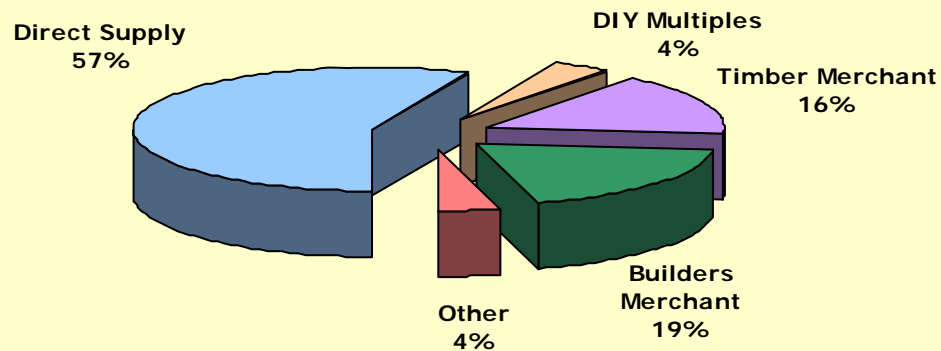
- Direct supply
- general builders merchants,
- timber importers,
- panel distributors,
- DIY retailers and other retail outlets selling kitchens, bathrooms and furniture.

The market for sawn/planed timber and sheet material is dominated by large importers, who often supply manufacturing industries, such as furniture and partitioning, directly. DIY multiples also have a presence in this market, albeit very small. Timber and builders merchants have a significant presence in both of these product areas, although competition between them is fierce, and margins are usually quite small; a situation set to be exacerbated by increasing energy and transportation costs.

This has placed an increased emphasis on both manufactured and engineered timber products, including doors, windows, roof trusses and mouldings. Distribution of such products allows timber merchants to expand their customer base to include groups such as domestic customers and timber frame manufacturers. However, as with sawn/planed timber and sheet material, competition in these product areas is fierce with DIY multiples, builders merchants, joiners, replacement window companies and other retail outlets ensuring highly competitive trading conditions.

As indicated above. distributors in the timber products market include timber merchants, builders merchants, timber & panel importers, DIY retailers, panel manufacturers and other, more specialist companies such as self-build specialists. The chart below shows the estimated distribution mix for timber and wood products: -

Chart 33: Timber Products Market by Distribution Channel 2010 - % by Value



Source: AMA Research/Trade Estimates

The chart above shows that direct supply still dominates the timber products distribution market, accounting for around 57%. Timber and builders merchants hold similar shares, with DIY multiples accounting for 4%. The 'Others' category includes specialist suppliers such as timber frame specialists, and their share has remained constant since 2005, at 4%. The share of direct supply has declined very slightly since 2005, as has that of DIY multiples, with the gains going to both timber and builders merchants. A summary of the most important channels is presented in the following section.

6.2.4 Builders Merchants

Builders merchants provide considerable competition to timber merchants, as they often stock a majority of the same wood-based products, as well as a broad range of more general building supplies. For many customers, this makes them convenient for customers who can purchase a range of materials from a single retailer. Many builders merchants are either part of a national/regional network, or a member of a buying group, allowing them to offer similar products to timber merchants, but at a lower cost and/or over a wider area. Also, many builders merchants have extended their product ranges to include items such as roof trusses, joinery and decking, traditionally the reserve of timber specialists. Timber merchants continue to expand their offering to include products such as bricks, blocks and aggregates, bringing them into even more direct competition with builders merchants. It should be noted that while the larger companies are detailed below, the majority of builders merchants will stock at least a small amount of timber.

Typical of the offering by large builders merchants is:

- Sawn and planed timber
- Dec. mouldings
- Skirting
- Architrave
- Forest Fencing
- Planters
- Cladding
- Dado rail
- Featheredge
- Insulation board
- Panels
- Decking
- Angle fillet
- Gravel board
- MDF
- Particleboard
- Posts & Metposts
- Roof trusses
- Blockboard
- Chipboard
- Hardboard
- Plywood
- Trellis
- Truss joists

In addition, many large builders merchants have specialist timber branches and provide a timber machining service where timber and sheet materials can be sawn and planed.

Many builders merchants such as **Gibbs & Dandy** and **Ridgeons** have expanded their timber products offering via acquisitions activity. Such acquisitions allow builders merchants to enter specialist timber market by acquiring the reputation and expertise of existing timber companies.

Two of the largest builders merchants (with timber merchandising operations) in the UK are **Wolseley** and **Jewson**, and other builders merchants with significant timber trading activity include: -

Travis Perkins is a major builders merchants/DIY group in the UK market, with a total annual turnover of over £3.15bn in 2010, up from £2.93bn in 2009 –with around 600 branches selling around £190m of timber. The company is engaged in the supply of building materials and specialist construction products to the construction trade and retail DIY customers through a number of specialist divisions. Operations that supply the timber products market include: -

- **Travis Perkins** – involved in the supply of lightside and heavyside products and general builders merchants activities
- **Keyline** – builders merchant specialising in heavyside products
- **Wickes** – retail DIY operation, acquired in 2005

The Republic of Ireland-based **Grafton Group** had a sales turnover of €2.00bn in 2010 - up from €1.98bn in the previous year and is involved in the supply and distribution of building products through merchant activities in the UK and Ireland. In 2006, the company expanded its presence in the timber market by acquiring **John Fleming & Co**, an 8-branch timber merchant and importer, specialising in the self-build market, which was integrated into their *Buildbase* branch network. In 2006, the company acquired **Total Timber and Building Supplies**, with 2 branches in Peterborough and Whittlesey, Cambridgeshire, as well as the purchase of Ipswich-based **Holden Timber**.

Ridgeons are a large regional merchant, with 22 branches across the East of England. They offer a range of timber products including sheet material, roof trusses, carcassing and decking. In addition to the upgrade of their timber processing plant, the company acquired Suffolk-based **Chignell Buildings**, a timber frame manufacturer, in 2006 thereby expanding their *Forest Products and Engineering Division*.

6.2.5 Importers/Distributors

Timber/panel importers and distributors not only supply timber merchants, they are also often in direct competition with them. Users of large volumes of wood products, such as large housebuilders and furniture manufacturers tend to source directly from timber importers. These companies have the advantages of both specialist knowledge and access to products and buying power.

The companies described below are among the largest and tend to deal in a wide range of products, from timber to panels and manufactured products. However, panel distributors are also included in this category. Importers and distributors sell to end users and contractors, although they do not tend to cater for smaller builders and the DIY market.

Finnforest UK, are part of the Finnish company **The Metsäliitto Group**, one of the world's largest timber companies. They import and manufacture a wide selection of engineered timber products for a range of applications including home and domestic applications, building systems and construction elements such as beams and trusses. The company operates from 8 locations across the UK, including 2 **Burt Boulton & Haywood (BBH)** sites in Fife and South Wales. These BBH sites offer wood treatment and preservation services for domestic and industrial timber products. In 2009 Finnforest UK achieved sales of £218m.

James Latham plc was founded in Liverpool in 1757 as a timber importer and distributor covering England with 11 trading sites. The group consists of **Lathams Limited**, a timber importer and distributor, and **Advanced Technical Panels (ATP)**, a distributor of sheet & plywood products. Lathams Limited supplies a range of hardwood and softwood products, including joinery, decking and flooring, while ATP stock specialist plywood products such as slip-resistant and bullet-proof panels.

In 2011, the company completed the acquisition of DLH, a UK based importer and trader in hardwood, from Dalhoff Larsen & Horneman A/S. In the year ending 31 March 2010, DLH had sales of £15m (£4.5m of which was attributable to James Latham) with profits before tax of £86,000. DLH is a major supplier in the UK market of tropical hardwoods, particularly from Africa and Asia, and an important supplier to James Latham. The company is planning to develop the business by building on existing trading relationships with both customers and suppliers and is proposing to invest £4.2m into DLH. Turnover for the group was £115m in 2009, up marginally from just under £114m in 2008.

Meyer Timber (formerly Montague L Meyer (MLM) and WT Eden) is the UK's largest importer and distributors of wooden panels and laminate flooring products. They operate from 12 locations around the UK, ensuring nationwide coverage and delivery. Their product offering includes a wide selection of wood-based panels, including plywood, fibreboard and OSB, as well as decorative goods such as laminate flooring and worktops. In early 2007, the company's holding company, **Sylvan International**, acquired **Panelco Ltd**, a leading wood panel distributor and in 2011 MLM amalgamated with sister company W T Eden and relaunched as **Meyer Timber**. The new brand is expected to strengthen the company's marketing and product offering. Turnover for the company in 2009 was £97.7m, having fallen from £114.7m in 2008.

BSW Timber, founded in 1848, is the largest sawmilling business with six sawmills in the UK and one in Latvia and a production capacity of over 1,000,000m³ of sawn timber a year.

The Latvian operation supplies timber to BSW's 2 port facilities in England and Scotland. In the UK, BSW supply timber to the construction, pallets & packaging, fencing, decking and cladding industries. Since 2005, the company has invested heavily in upgrading their existing sites at Carlisle, which has an annual input of 305,000 m³ of roundwood producing 178,000 m³ of sawn timber, Fort William with an annual input of 160,000 m³ of roundwood and producing 95,000 m³ of sawn timber and Boat of Garten producing 50,000 m³ of sawn timber. In 2009, company turnover was £109.7m, up from £101.9m in 2008.

One of the leading importers and panels and timber, **Premier Forest Products** was established in 1993, with their headquarters in Newport, South Wales. The product range includes softwood and hardwood products, as well as a selection of sheet material, including veneered and laminated products.

Crown Timber was founded in 1983, and now import and distribute Scandinavian softwoods and US-produced engineered wood products to the roof truss and timber frame manufacturing industries, as well as to timber and builders merchants.

The company consists of a head office in Cirencester and 3 other regional distribution centres in Scotland, Humberside and the Republic of Ireland in addition to a distribution terminal at Sheerness. In 2009, the company recorded a turnover of £51m, down from £64m in 2008.

Other key importers/distributors include **Rowlinson Timber**, **John Brash Timber** and many others either specialising in certain wood species or in regional locations.

6.2.6 DIY retailers

DIY multiples compete with timber merchants in certain product areas, mainly those used in RMI projects by DIY customers and small, independent contractors and tradesmen. As DIY multiples have increasingly targeted trade customers, their range of timber products has increased to include a wider selection of sawn and sheet material. Competition has also been intensified by timber merchants expanding their offering to include products such as kitchens, bathrooms and garden buildings, traditionally sold via DIY multiples.

A key advantage for DIY customers is that they can purchase everything they need for a project from a single (DIY multiple) location, that often has long opening hours. Most DIY multiples are open for over 12 hours on a weekday, all day Saturday and for several hours on Sunday offering greater flexibility for domestic DIY customers.

B&Q is part of the **Kingfisher Group**, and has 330 branches across the UK and Ireland. The group also holds a leading market position in the home improvement markets in France, Poland, Italy and China, although have recently sold-off their branch network in Taiwan. Their timber range includes a small amount of sawn wood, as well as sheet material, mouldings, garden buildings, doors, flooring and kitchens & bathrooms. The company achieved turnover of £3.9bn in 2010.

Since divesting **Wickes** in 2005, **Focus** has been through a branch restructuring and divestment programme, following its acquisition by private equity firm **Cerberus**. However, at the time of this report Focus has been taken into administration and **Wickes** have agreed to buy 13 Focus stores in addition to **B&Q / Kingfisher** agreeing to purchase 31 of the 178 stores.

Wickes is now owned by leading builders merchant, **Travis Perkins**, and is described as the retail DIY division of the group. Wickes is focused on serious DIY customers and tradesmen and as such, its network of 177 stores stock a wide range of timber products, including sawn & planed timber, sheet material, cladding and flooring. The company has also shown the importance of kitchen and bathroom sales, by recently launching dedicated websites to both, including design and fitting services.

Homebase is part of the **Home Retail Group**, and is the second largest DIY retailer in the UK with a sales turnover exceeding £6bn. In late 2007, the company acquired 27 Focus DIY stores, in a £40m deal, taking the total branch network to over 300. The company's timber product range includes sheet materials, cladding, sawn timber and worktops. In addition, early 2005 saw the company become the first UK DIY retailer to achieve *FSC* and *PEFC CoC* certification.

6.2.7 Other

Timber agents and brokers tend not to compete with timber merchants, as they supply a sourcing service to larger organisations such as the timber merchants themselves. Significant agent companies include **UCM Timber**, **Ecotimber** and **Hargrave Timber**.

Given that the product areas are so diverse, there are many types of companies competing with timber merchants for sales, particularly of manufactured products of all kinds. Direct sales from manufacturers are common for roof trusses, timber frames and joinery. There are also other distributors aimed at various corners of the market, such as self-build specialists.

7. PRODUCTS

7.1 Timber Products Market Definition and Size

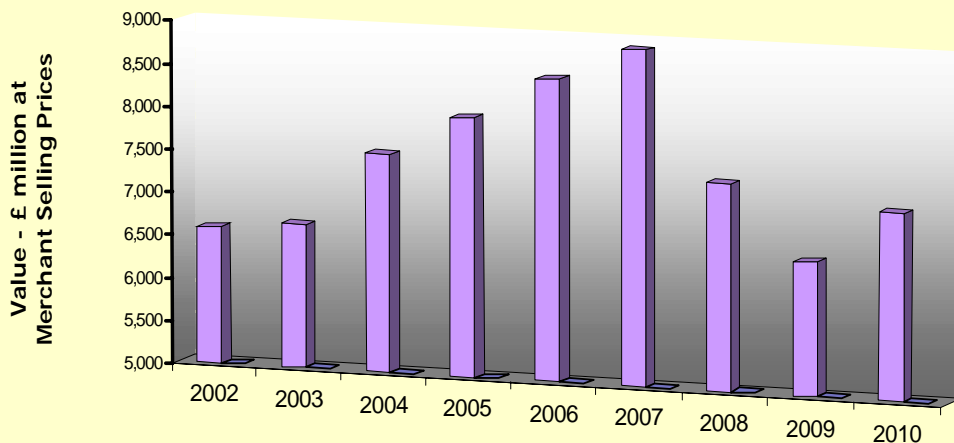
As mentioned earlier in the report, our definition of the timber merchants market includes the following product areas:

- **Sawn/planed timber** - including mouldings and beadings
- **Sheet material** - including plywood, chipboard, MDF & OSB
- **Engineered and manufactured products** - including doors, windows, joists, trusses, timber frames staircases and timber buildings

The definition specifically **excludes** wood for pallets, packaging, pulp, sawdust, woodchips and paper manufacturing. Finished manufactured products such as furniture and kitchens are also **excluded**. However, laminate products such as worktops and flooring are **included**.

The following chart outlines our estimate of the performance of the total UK market for timber products, as outlined in the above definition, between 2002-09, with estimated value for 2010 also included: -

Chart 34: UK Market for Timber Products 2002-2010 – By Value £m at Merchants' Selling Prices



	2002	2003	2004	2005	2006	2007	2008	2009	2010
£m	6,583	6,672	7,546	8,011	8,514	8,902	7,410	6,555	7,180
% Change	0%	1%	13%	6%	6%	5%	-17%	-12%	10%

Source: AMA Research/Trade Estimates

The UK timber products market achieved only modest growth during the 1990's when there was an increase in use of substitute materials such as PVC-u for products, such as windows & doors, in addition to tight profit margins. In the following years between 2002-07, the market experienced significant growth, with overall value rising by around 35%. However, following the start of the downturn in the housing market in 2007 there was a significant decline of 17% as demand reduced and raw material price increases were borne by the manufacturers and distributors, rather than being passed on to customers.

Key features of the timber merchants market over recent years are varied and include:

- Variable levels of Sterling affecting imported woods
- Performance of key end-use markets - general construction and housebuilding – good growth up to 2007 – furniture decline, growth of wood flooring/decking, recovery in timber windows etc,.
- Marketing campaigns - eg launch of the *Wood for Good* campaign.
- Major increases in global demand, from nations such as China and UAE pushing ahead with major building projects – resulting in material shortages
- Environmental issues gain real significance - the expansion of certification schemes run by the **FSC** and **PEFC**. Recycling issues
- Competition with other materials (eg: PVC-U, composites)
- Effects of supply shortages.

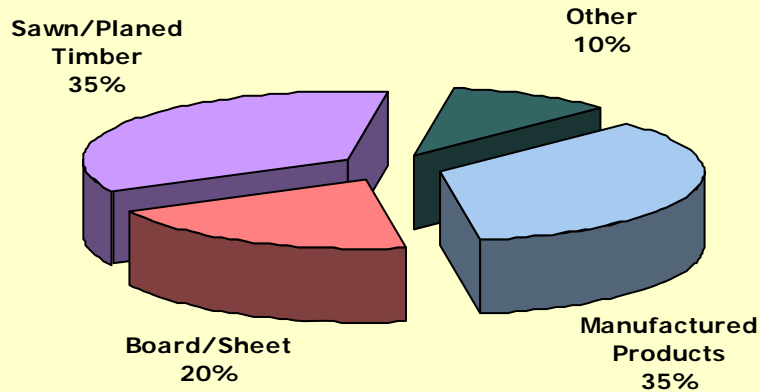
These factors will continue to influence the market over the next 4-5 years. The key driver in the short term will be the underlying performance of the economy which will impact on all end-use sectors. Underlying forecasts for housing and construction are relatively flat at best, with housebuilding showing steady recovery, while the non-domestic sector experiences a slowdown as public sector capital spending cuts impact on activity levels.

Home improvement markets are more dependent on consumer confidence levels, which are deteriorating in line with falling real incomes and concerns over employment level. As a result, replacement window markets, furniture, decking etc are unlikely to experience buoyant conditions in 2011 at least, though some marginal recovery is forecast for 2012-2015 – though this is unlikely to be particularly strong.

7.2 Product Mix

The chart below shows our estimate of the mix of timber merchants sales by major product groups for 2010:

Chart 35: Timber Merchants Sales by Major Product Groups 2010 - % by Value



Source: AMA Research/Trade Estimates/ONS

Firstly, it should be emphasised that these are **broad indicative estimates only** and individual companies and branches will vary considerably, reflecting a mix of local demand, local competition (from other timber merchants and other channels), company history/strengths etc.

Given these limitations, the chart above indicates that, according to our definition, sawn and planed timber holds similar shares with manufactured products share in value terms. This sector has continued to grow share in recent years with imports dominating the sector, although import share has reduced from 76% in 2006 to 66% in 2010. Major product applications for this sector include carcassing, flooring, rafters, cladding, joists, beading, mouldings and fascia boards, with softwoods dominating the market.

Board and sheet materials account for around 20% of the market, a figure that has declined slightly since 2006. Products in this category include hardboard, chipboard, interior and exterior plywoods, wallboards and insulation boards, with application areas including cupboards, flooring, roofing, shelves and wall linings.

The share taken by manufactured products has grown since 2006, now accounting for around 35% of the market by value. While the markets for doors, conservatories and other manufactured timber products have fallen recently, demand for engineered items has shown an increase, helped in part by product development and innovation. Demand for wooden windows and doors has also shown an increase, particularly in the replacement market, as customers look for higher quality, natural materials at the expense of UPVc. The prospects for engineered wood products appear relatively attractive in the medium term, with several merchants identifying them as a key growth area.

The 'Others' sector includes products sold by timber merchants that cannot be classified into any of the other categories - this includes general building supplies, tools and ironmongery.

7.3 Sawn and Planed Timber

7.3.1 Market Size

The sawn and planed timber category includes the following products:

- **Sawn or planed softwoods** - eg hemlock and pine
- **Sawn or planed hardwoods** - eg oak or maple

The table below shows our estimate of the performance of the sawn/planed wood sector 2002-10: -

Table 36: UK Sawn/Planed Wood – 2002-2010 (£ m at Merchants Prices)		
Year	Total Market (£m)	Change %
2002	1861	-
2003	1950	+ 5
2004	2168	+ 11
2005	2501	+ 15
2006	2856	+ 14
2007	3066	+ 7
2008	2330	- 24
2009	2190	- 6
2010	2387	+ 9

Source: AMA Research/ONS

Although the market for sawn and planed timber rose significantly between 2002-06, the housing downturn and a decline in construction generally impacted severely on the market in 2008/09 resulting in an overall decline of over 25% in this period.

In 2010, housing starts began to show signs of recovery particularly in England in the private sector where there was an increase of 36% year on year, and although public sector volume increases were more modest at 16% in the period, nevertheless there has been a positive effect on the demand for timber.

Despite rising input costs (energy, transport etc), merchants selling prices are unlikely to rise in 2011 given the fragile state of most end-use markets. Any growth in the market will depend on how the housing and RMI markets perform during 2011 –while early 2011 was relatively positive for the housing market, consumer confidence is falling in mid 2011 reflecting global economic uncertainty.

Sawn and planed timber can be supplied to customers direct, although it is most commonly supplied through agents (such as **UCM Timber**, **Ecotimber**, etc), distributors/importers (**Finnforest**, **James Latham**, **International Timber**, etc), builders or timber merchant branches or retail outlets.

7.3.2 Product Mix

The production and growth of sawnwood and the mix of both softwood and hardwood is shown in the table below.

Table 37: UK Production of Sawnwood 2005-09 (-000' m3)				
Year	Softwood	Hardwood	Total	Growth p.a.
2005	2,727	53	2,780	
2006	2,859	45	2,904	+ 4.5%
2007	3,099	44	3,143	+ 8.2%
2008	2,771	44	2,815	- 10.4%
2009	2,825	48	2,872	+ 2%
2010	3,032	46	3,078	+ 7%

Source: Forestry Commission

As the table above shows, some 2.8m m3 of sawnwood softwood was produced by UK sawmills in 2009, together with 48,000 mt3 of hardwood giving a total of 2.872m mt.3 - an increase of 2% on the previous year. Whilst sawn softwood accounts for the majority of the sawn sector - about 98% and hardwood just 2% by volume - the value mix is much higher for the more expensive hardwood at about 10% and 90% for sawn softwood.

The product mix has altered little in volume terms since 2005, although softwoods have marginally increased their value share of the market due to supply issues. However, there have also been supply problems and price increases in the hardwood sector, caused in part by a lack of certified tropical sources which has meant that price rises for hardwoods have kept pace with rises in the cost of softwoods.

Hardwood

Hardwoods are distinguished from softwoods by their increased density and resistance to decay. They are commonly used for high quality joinery such as external and internal doors or interior fittings such as flooring or worktops.

The sector had experienced increased demand in the years up to the housing recession in 2007/08, particularly for joinery applications such as windows and entrance doors, where customers prefer higher quality, more durable materials. This trend for higher quality products has also been seen in the flooring market, where growing numbers of consumers are moving away from laminates, in favour of solid/engineered wood flooring. Hardwood decking has also been a good growth market since 2000, though recent growth rates have slowed as the market matures.

Although there is still strong demand for some quality UK-grown hardwoods such as oak, sycamore and chestnut, less than 2% of hardwood consumed in the UK is British-grown and over the last 5 years the trend has been mainly static. In the 10 years between 2001 -2011 production of hardwood has declined from 91,000m³ to 46,000m³ with about 10 sawmills specialising in hardwood only and a further 50 sawmills producing both hardwood and softwood.

The majority of sawn hardwood is imported from the USA (26%) and other non-EU countries (37%). Within the EU, Germany is also a prominent provider of hardwood. The remainder of imports come from Africa, South America, Russia, the USA and Canada. It should be noted that, in order for these imports to continue, particularly from tropical regions, they will need to be sourced from legal, sustainable forests.

Softwood

Softwoods are widely used for construction purposes in flooring joists, carcassing and timber framing. Redwoods and whitewoods are extensively used for general purpose joinery.

Traditionally, the sawn/planed softwood sold by merchants is used for: -

- Carcassing
- Flooring
- Joinery
- Fencing
- Timber frames
- Prefabricated buildings
- Other (pallets, packaging etc)

This listing reflects the demands of the building and construction industry which are the main end users for sawn and planed timber sold through merchants. Production of UK sawn softwood has seen growth in all but 1 year in the 6 years between 2005 -2010 reaching just over 3m m³ however imports have declined over the same period and now account for around 65% of UK softwood consumption compared to 75% in 2006 and sourced mainly from Sweden, Finland and Latvia.

The decline in imports in recent years has been brought about primarily as a result of the housing recession and falling construction markets. Although the growth in sawmill production of sawn softwood has been largely static in recent years UK market share has grown significantly as imports have declined considerably particularly from the onset of the housing recession and decline in RMI in late 2007/early 2008.

7.4 Wood Based Panels

Wood based panels are used extensively in construction sector for a number of applications, including: -

- Roofing
- Partition walling
- Shuttering
- Flooring
- Exterior cladding
- Structural components
- Boarding up

Plywood, OSB, particleboard and MDF are the most important wood panels types used in construction, with decorative panels used primarily for “finishing” applications, including fitted furniture and other decorative elements.

7.4.1 Market Size

The estimated market for wood based sheet/board materials 2002-10 is indicated in the following table: -

Table 38: UK Sheet/Panel Products 2002 to 2010 – By Value (£m at Merchants' Prices)		
Year	Total Market (£m)	Change %
2002	2,277	-
2003	2,322	+ 2%
2004	2,578	+ 11%
2005	2,629	+ 2%
2006	2,681	+ 2%
2007	2,761	+ 3%
2008	2,430	- 14%
2009	2,065	- 13%
2010	2,292	+ 9%

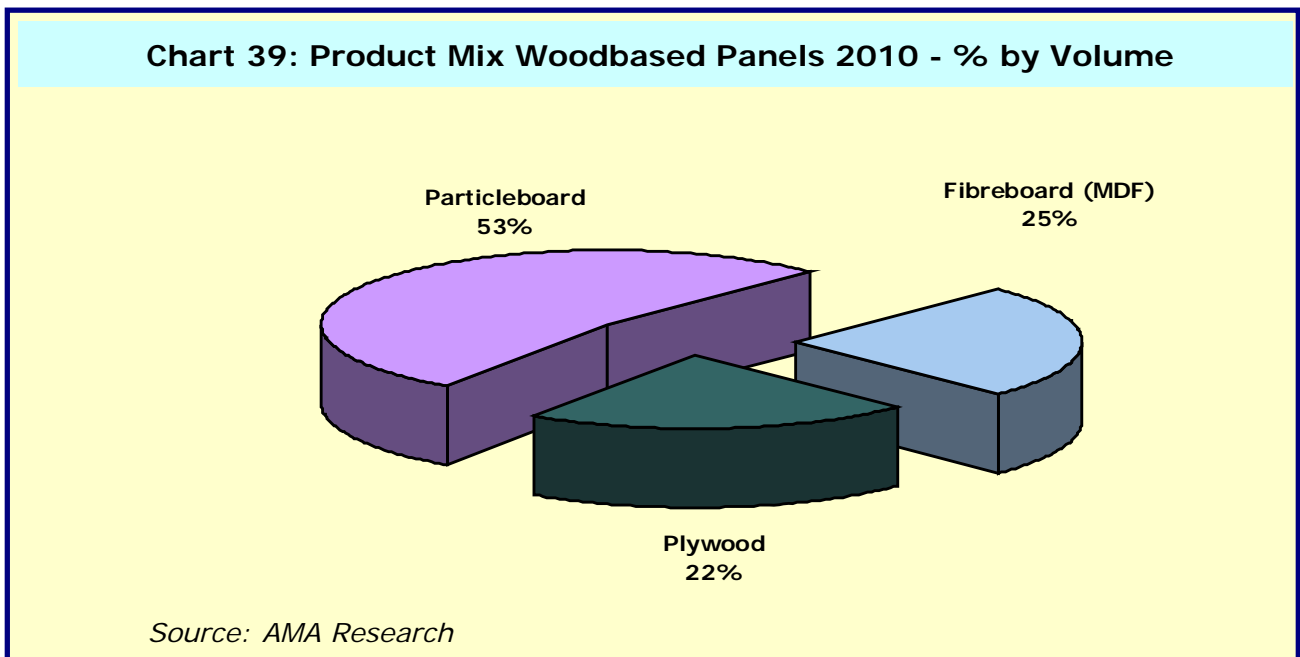
Source: AMA Research/Trade Estimates

The table above shows that the wood panels market experienced strong growth from 2002 to 2007, reaching a value of over £2.7bn, at merchants selling prices. Annual growth over this period was fairly stable, with the exception of 2004, which saw a rise of approximately 11%.

The decline in both new housing and RMI in 2007 saw growth rates decline in both 2008/09 however as new housing starts began to rise in 2010 the sector resulting in an estimated growth rate of 9% in that year.

7.4.2 Product Mix

The product mix within the woodbased panel market is shown in the chart below: -



As the table above shows, **particleboard** with 53% has the largest share of the woodbased panel market with only particleboard and fibreboard produced in the UK which in 2010 amounted to 3,370m³ - an increase of 11% on the previous year - though the total market for woodbased panels in 2010 in volume terms is around 6,500m³. Within the particleboard category is Oriented Strand Board (OSB) which holds a small percentage of the market, approximately 4%, but this share has increased in recent years.

The **plywood** sector is estimated at 22% of the market in 2010, following erratic performance 2002-07 and, in recent years, all plywood consumed in the UK has been imported with no UK production and no indication that this will change in the foreseeable future. Around 20% of plywood comes from the EU with more than half coming from Finland. Outside the EU, China and Brazil are the dominant suppliers and account for about 25% each with Malaysia also significant. All of the particleboard imported into the UK comes from within the EU with the dominant supplying country being Ireland at around 40% of total - with Germany, France and Belgium accounting for a combined share of around 50%.

In 2007, plywood consumption was 1,624,000m³ declining to 1,164,000m³ in 2009 however it is estimated that in 2010 that figure will rise to 1,300,000 m³ along with increases in other woodbased panels. Plywood is used largely in timber construction projects and is therefore dependent on that sector's performance.

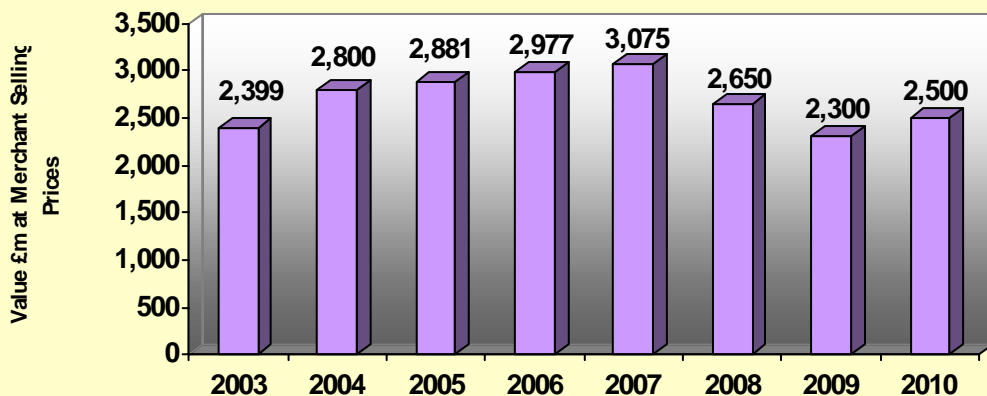
Fibreboard, including MDF, holds 25% of the overall market volume. Following a rapid increase in demand for fibreboard (particularly MDF) between 2000 and 2004, market growth slowed during 2005 and 2006. This was caused by sluggish construction output and falling consumer expenditure, although a buoyant housing market and increased demand for laminate flooring did help the market. Product innovation has seen MDF being developed with special properties, such as sound-absorption or anti-bacterial capabilities, which should expand the use of the material as the construction and joinery sectors begin to recover.

In addition, almost all of the Fibreboard imported also comes from the EU with the dominant supplier again being Ireland (c.35%) together with Germany and Spain supplying about 40% of total.

7.4.3 Manufactured Products

The performance of the manufactured products sector is outlined in the chart below: -

Chart 40: UK Manufactured Timber Products – 2002 to 2010 (£m at Merchants Selling Prices)



Source: AMA Research/Trade Estimates

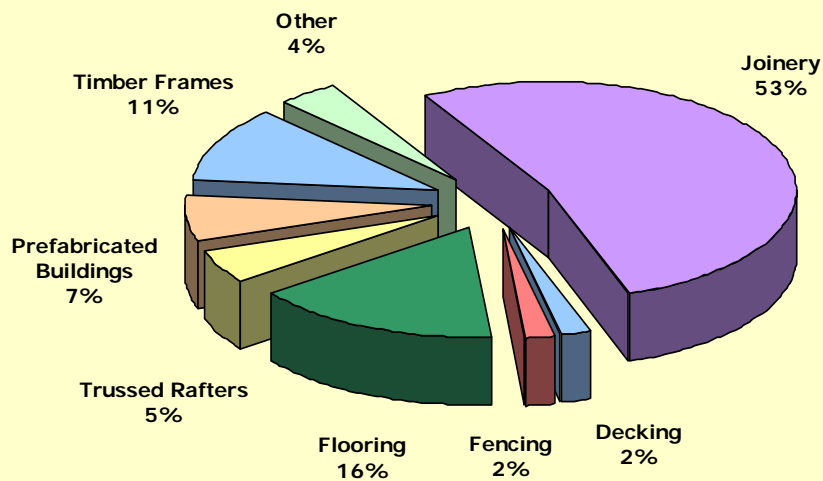
Although the performance of the manufactured products market was fairly strong during the 4 years to 2007, the onset of the housing recession which impacted on both newbuild and RMI affected all products manufactured from timber.

Between 2003/07, the joinery sector started to pick up slightly, driven by a combination of construction sector growth and timber regaining share in some key sectors as a natural material and increasingly being seen as a premium product. There was also a strong new-build market with increasing usage of wood being used in *Modern Methods of Construction* (MMC), such as timber frame housebuilding.

The estimated sales mix of different manufactured products by value, at merchants selling prices, is shown in the chart below. It should be noted that there may be an element of double counting as, for example, timber frames include roof trusses, floors and walls, and therefore this product area overlaps with other product areas.

As a result of this overlap and the fact that statistics on timber usage in many of these product areas are unavailable, these figures are **guideline estimates only**: -

Chart 41: Manufactured Products Sales by Major Product Groups 2010 - % by Value



Source: AMA Research/Trade Estimates/ONS

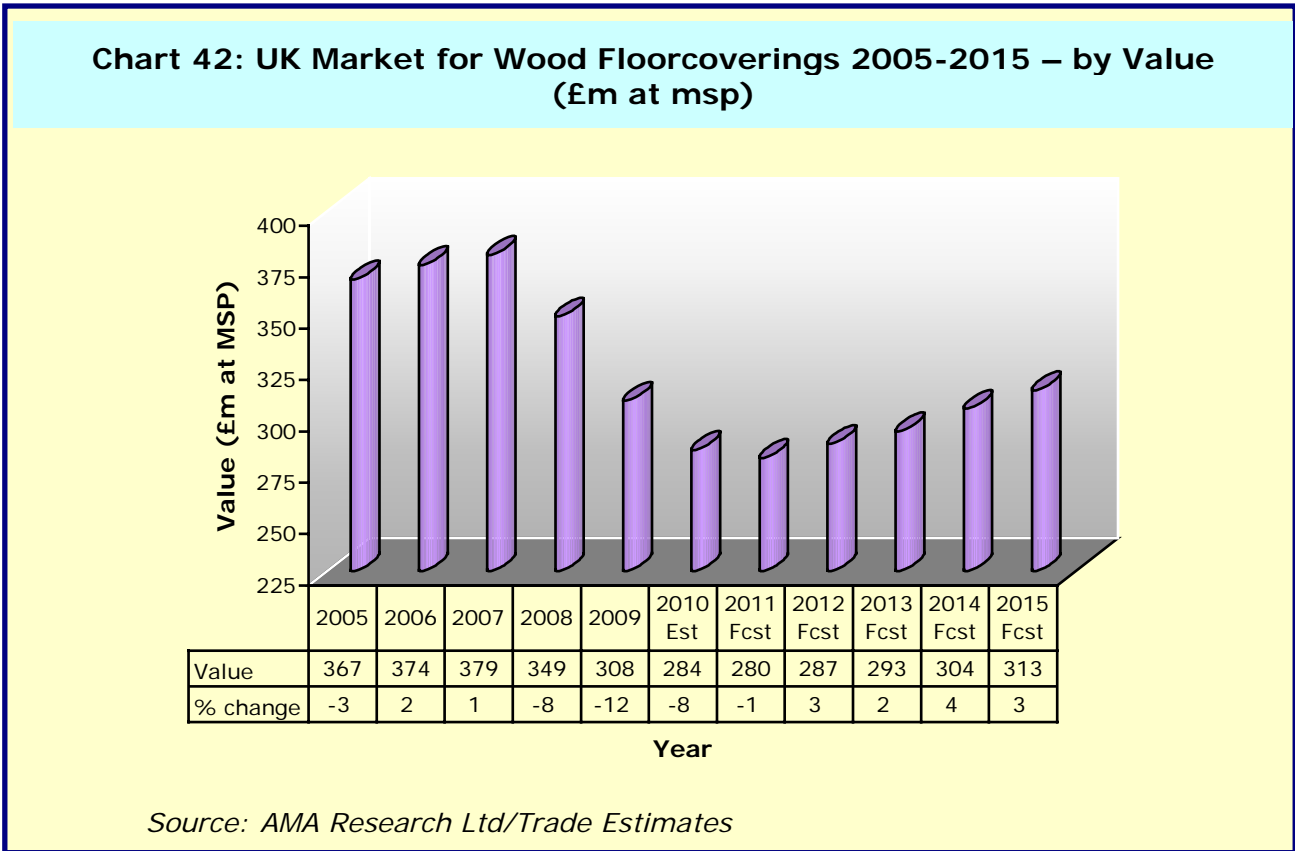
The above chart suggests that builders and carpenters joinery is the largest product sector for merchants, with over 50% of the market by value. This sector includes doors, door frames, windows, staircases and stairparts.

Since 2005, there has been a growing trend for windows in particular to be made from timber, particularly in the replacement sector. Overall, the market is thought to have risen by 15-20% in recent years. Manufacturers of timber doors and windows are increasing their focus on environmental and sustainable issues to capitalise on rapidly growing public awareness and media coverage of these issues.

As indicated earlier, the introduction of the government's *Code for Sustainable Homes* may also help this sector increase significantly in the near future. The joinery sector has also seen an increase in demand for timber fire doors; with as much as a three-fold increase since 2003. This is largely due to new government legislation and new building regulations regarding fire safety in new buildings.

Timber flooring experienced strong growth from the mid-1990s through to 2007, but has declined in the last 2-3 years as illustrated below.

The following chart provides our estimate of the performance of the total woods market since 2005, with current estimates of future performance to 2015 also included: -



Initially, the market was driven by rapid consumer acceptance of low-cost laminate flooring. Laminate flooring continues to occupy a strong position in the market due to its low cost, though stronger growth in recent years has been experienced by both solid and engineered wood flooring, as customers look to trade up to higher quality products.

Domestic laminates in particular have been affected by the reversal of the buoyant new build market with the slowing of the house moving market also affecting laminate sales as new home owners no longer undertake installations following a move.

In contrast, the performance of the solid/ engineered wood sector has been more favourable with demand from both the contract and domestic sectors being less volatile than for laminates. Although faced with falling values, the dominance of contract applications for solid wood in particular, has meant that this sector has been less vulnerable than laminates to the decline in the domestic sector.

A fashion trend towards natural interior decoration has also helped growth in this sector. Overall, flooring is estimated to account for around 16% of the manufactured timber products market, making it the second largest by value.

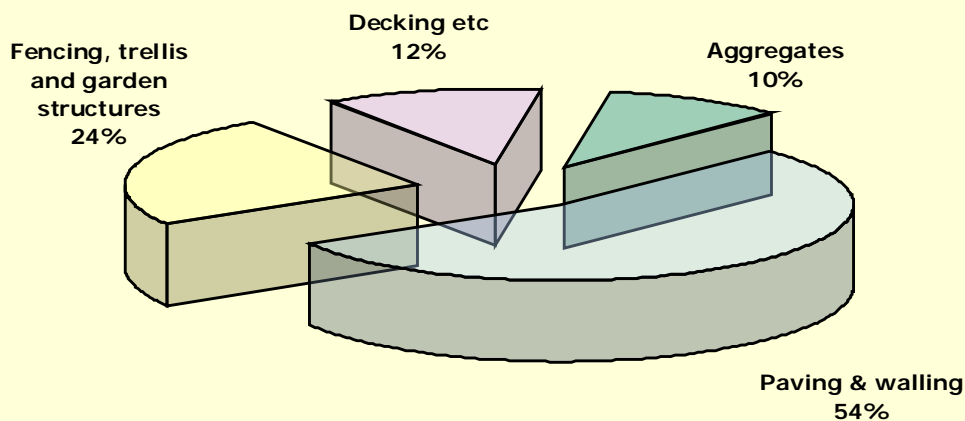
Timber frame housing has also been a key growth market up to 2007, driven by the pressure to increase new housing levels and to use sustainable construction methods. However, timber frame housing declined in 2008/09 and in 2010 it was 22% lower than the previous year following the severe downturn in newbuild housing - market share was also lost to an increase in traditional masonry.

The performance of this sector, along with roof trusses, is heavily reliant on levels of new housebuilding; however with the levels of flats/apartments being built decreasing in favour of more traditional family housing, this may have a positive effect on the roof trusses sector, as flat roofs are popular, particularly in larger blocks.

Prefabricated buildings, accounting for 6% of the market, include structures such as garden sheds, log cabins/chalets, modular garden rooms and other timber buildings such as saunas and insulated tree houses. The market for garden sheds is mature, and has experienced good growth in recent years, with approximately 10m UK homes now estimated to own one. The market for other prefabricated timber buildings is still developing in the UK, with sales still relatively low, but growing steadily – a trend that is expected to continue.

Landscaping is a key sector for timber products, with the **domestic hard landscaping materials** market estimated to be worth around £330m in 2009/10. The following table shows the key sectors in the domestic hard landscaping materials market and our estimates of their share of the market by value in 2009:-

Chart 43: Product Mix - Domestic Hard Landscaping Market, 2009 (% By Value) – Decking, Paving & Walling, Aggregates, Fencing / Trellis etc



Source: AMA/Trade Estimates

The above market estimate and mix only relate to domestic applications and will therefore understate the overall market for these products, but they provide an overview of the sector. Paving remains the largest sector in the domestic hard landscaping materials market, accounting for an estimated 54% of the overall market; however, as mentioned previously, this sector has lost share since 2007. Fencing accounts for around 25% of the market share, while decking accounts for an estimated 12%.

The decking market in the UK has begun to mature and demand has levelled off, as saturation sets in, and media coverage decreases. Both the fencing and decking markets are strongly affected by weather conditions. Also within this sector, demand for complementary products such as pergolas and arches have risen in future years. The 'Other' category, also accounting for 4% of the market, consists of products such as laminate and wood worktops, bars and counter tops.

In terms of distribution, manufactured products are sold through a wide variety of merchants and retail outlets. The majority of these are sourced directly from manufacturers, or from larger distributors. Many distributors, such as **Finnforest**, also manufacture their own decking and flooring products.

As indicated above, the level of involvement of timber merchants in the various product sectors varies enormously. Some of the leading merchants are heavily involved in specific sectors, such as wood flooring, while others are more vertically integrated with separate timber frame housing divisions, for example.

7.5 Other Products

The most significant types of "other products" sold by timber merchants can be grouped into the following categories: -

- **General building supplies** – bricks, blocks, roofing felts, insulation materials etc.
- **Kitchens** – manufactured kitchens, flatpack or rigid, often including appliances.
- **Tools** – power tools and hand tools.
- **Ironmongery** – door/window fittings, locks, screws, bolts etc.
- **Furniture** – kitchen, bedroom furniture, garden furniture.
- **PVC-u products** – windows, doors, conservatories, mouldings.

Some timber merchants also offer associated products such as paints, stains, other wood treatment products and adhesives. Conservatory and decking sales may be associated with sales of blinds and awnings, while sales of roof windows and garage doors are also increasing. Significant sales of garden products, such as decking, fencing or buildings, may be supplemented by associated products such as decorative paving.

As a result, defining a 'timber merchant' becomes more complex as companies broaden their range into related 'building products' – particularly for the larger builders merchants groups, such as Jewson and Travis Perkins, who operate a mix of general merchanting outlets and more specialist timber merchants branches.

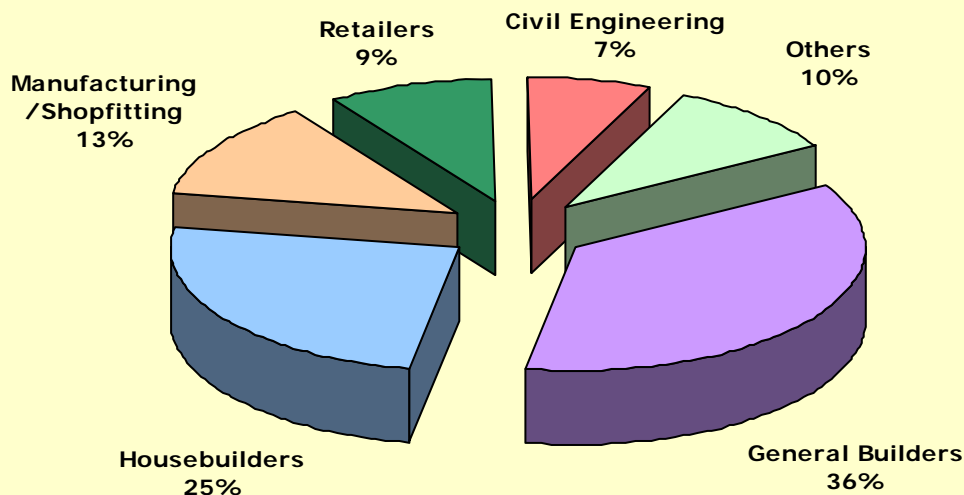
8. TIMBER MERCHANTS CUSTOMERS

8.1 Background and Current Distribution

The customer base for timber merchants is very fragmented and includes a mix of builders, shopfitters, housebuilders, manufacturers, retailers and domestic consumers.

The chart below shows the estimated sales distribution by customer group for the timber merchants sector. It should be emphasised that the figures below are based on merchants sales **of sawn/planed timber and panels** only. As a growing number of companies also stock a range of other products, these figures should be used as **broad estimates only**:

Chart 44: Merchants Sales Distribution by Customer Group 2010 - by Volume m³



Source: AMA Research/Trade Estimates

Timber merchants' main customer groups are the general builders and housebuilders, who between them account for around 60% of sales by volume. The manufacturing and shopfitting sectors are the next largest sector, accounting for an estimated 13%. This sector includes furniture makers, joinery firms and manufacturers of engineered wood products. Key retailer customers include a mix of DIY stores and smaller builders merchants, and account 9% of the total market, while civil engineering holds a further 7%. Other customers of timber merchants include individual DIYers and pallet manufactures etc - accounting for the remaining 10% of the market.

The distribution of sales appears as such due to trends in the products stocked by timber merchants. For instance, it is estimated that as much as 75% of the total hardwood volume is sourced directly by furniture, shopfitting, joinery and other manufacturing markets, bypassing the merchants sector altogether. However, a greater proportion of the total softwood volume does pass through merchants to be sold directly to builders, housebuilders and manufacturers. Merchants also distribute a significant share of imported sheet materials to manufacturers of furniture and joinery firms, whereas a large proportion of UK-produced goods are sold directly by panel distributors.

8.2 Builders

Builders represent a large proportion of merchants' customers, ranging from sole traders to larger national organisations. The role played by the builder in the specification of building products will depend upon the size of the organisation, the scope of the project and the type of building product involved. Large building firms will often deal directly with importers/distributors for their timber, or will even import their own. Small/medium organisations can often use builders merchants when a small amount of timber is required, as they can purchase everything needed for a project from one location.

However, timber merchants are increasingly striving to become 'one stop shops' by stocking general materials, such as aggregates and bricks. Small/medium builders will tend to use a specialist timber merchant when either large quantities or specialist products are required.

The overall construction sector is very large, with timber merchants supplying to a number of sub-sectors including housebuilding, commercial construction and civil engineering.

The supply structure for the UK housebuilding market is highly fragmented and includes a large number of very small companies, many of whom specialise in repair and maintenance activities. According to DTI figures, there are more than 20,000 contractors in Great Britain that consider housebuilding as their main area of activity. The National Housebuilding Council (NHBC) is an independent regulatory body for the housebuilding industry and an authority for standards of new home construction and homebuyer protection. It has over 17,000 members, which together are responsible for the construction of approximately 85% of all new homes in the UK. The remainder is built by smaller building companies, or by individuals as self-build projects.

In general, there has been an increased concentration of larger companies in recent years due in part to the effects of consolidation within the major housebuilders. This trend may well continue throughout 2011 if housing starts continue to decline. In addition it is noticeable that the number of smaller registered builders completing up to 10 units per annum has declined in 2010 having been static for the previous 5 years.

General builders are involved in both the new housebuilding and RMI sectors of the construction industry. This sector tends to be the mainstay of timber merchants customers in terms of number of organisations involved, but value of orders again tends to be dictated by the size of project undertaken. There are a considerable number of registered builders who are not involved in new housebuilding but focus on RMI, sub-contracting, renovation and other building work. Examples of RMI work include home extensions, loft conversions and house renovations. In such projects, the tradesman is likely to exert substantial influence on the more technical/structural elements (trusses, joists etc), whereas the customer will have more influence on the choice of aesthetic materials such as decking and flooring.

Projects in the commercial construction sector vary from small scale shop/office developments to much larger shopping centres and office blocks. The scale of merchant involvement will depend upon on number of considerations including size and coverage of the contractor and the use of supply agreements for building products. Smaller projects are likely to be reliant on one or two local merchants for products whereas larger projects may use a number of specialist suppliers, or rely on a single source merchant to supply all the building products needed to complete the project.

Larger firms, such as **national housebuilders** and **larger regional builders** tend to use negotiated purchase agreements which provide greater economies of scale, improved marketing support and easier installation (same product in all houses on a specific development). These national agreements may apply to both the manufacturer and the merchant, hence dictating supply and source of product. It should be noted that not all larger builders operate in precisely the same way.

The importance of direct supply from manufacturers has continued to gradually increase, first due to the adoption of working practices such as “just in time” in the housebuilding industry and later also due to the increase in contract sizes for in particular social housing and the growth in apartment building. Benefits include the ability to negotiate large supply contracts with guaranteed delivery periods, whilst costs are saved with a reduction in the amount of products stored on-site. Products sourced by housebuilders under this system include, roof trusses, timber mouldings, chipboard, kitchens and doors & windows.

Smaller and medium-sized housebuilders and general builders obviously don't have the purchasing power of their larger, national counterparts. They are therefore more likely to deal directly with a merchant to supply the particular products required for a project. As discussed earlier, when a significant amount of timber is required for a site, a builder may choose to use a specialist timber merchant for this, even if other materials are purchased elsewhere. However, many builders merchants extending their timber product range to include products such as trussed rafters and staircases.

8.3 Self Builders

Overall, the self build market in the UK is estimated at **around 12,000 units**, with a value of approximately £3bn. This gives the self-build sector around 8-10% of total housing output in the UK. The self-build market can be divided into 3 generic construction methods: -

- Timber frame housing.

- Traditional brick and block.
- Other new construction materials.

Share taken by timber frame is increasing and now accounts for around 20% of the market by volume, with the majority of installations using prefabricated kits. Timber products are also used for other areas of a self-build project, including joinery, cladding and flooring, as well as interior furniture such as kitchens and bathrooms.

Product supply in the self-build market is very fragmented. Suppliers operating in the self-build market range from timber frame kit manufacturers to producers of screws and fixings. In the private sector, the trend towards higher value products is expected to continue to add value to the sector, as self-builders look for more environmentally-friendly products, greater energy efficiency, enhanced aesthetic designs, functionality, and products which renders the overall self-build process less complex.

8.4 Manufacturers

Timber and wooden panels are used for various manufacturing applications. These include wooden buildings (sheds, portable buildings, and agricultural buildings), trussed rafters, furniture, joinery, timber frames, fencing and decking.

Larger manufacturers tend to source their key raw materials directly from growers or importers/distributors, although smaller companies (or smaller volume ranges) may will use some or all of their timber from a merchant. This is especially true if a long-standing relationship exists between the two organisations.

Manufacturing output for producers of wood and wood products grew steadily up to 2007. However, since 2007, most sectors have experienced a downturn, though Sterling's recent fall has had a positive impact on the sector to some extent.

Furniture production is in general decline in the UK, with sectors such as bedroom, dining/living room furniture largely supplied from imported sources. However, other sectors such as kitchen furniture output have remained more buoyant.

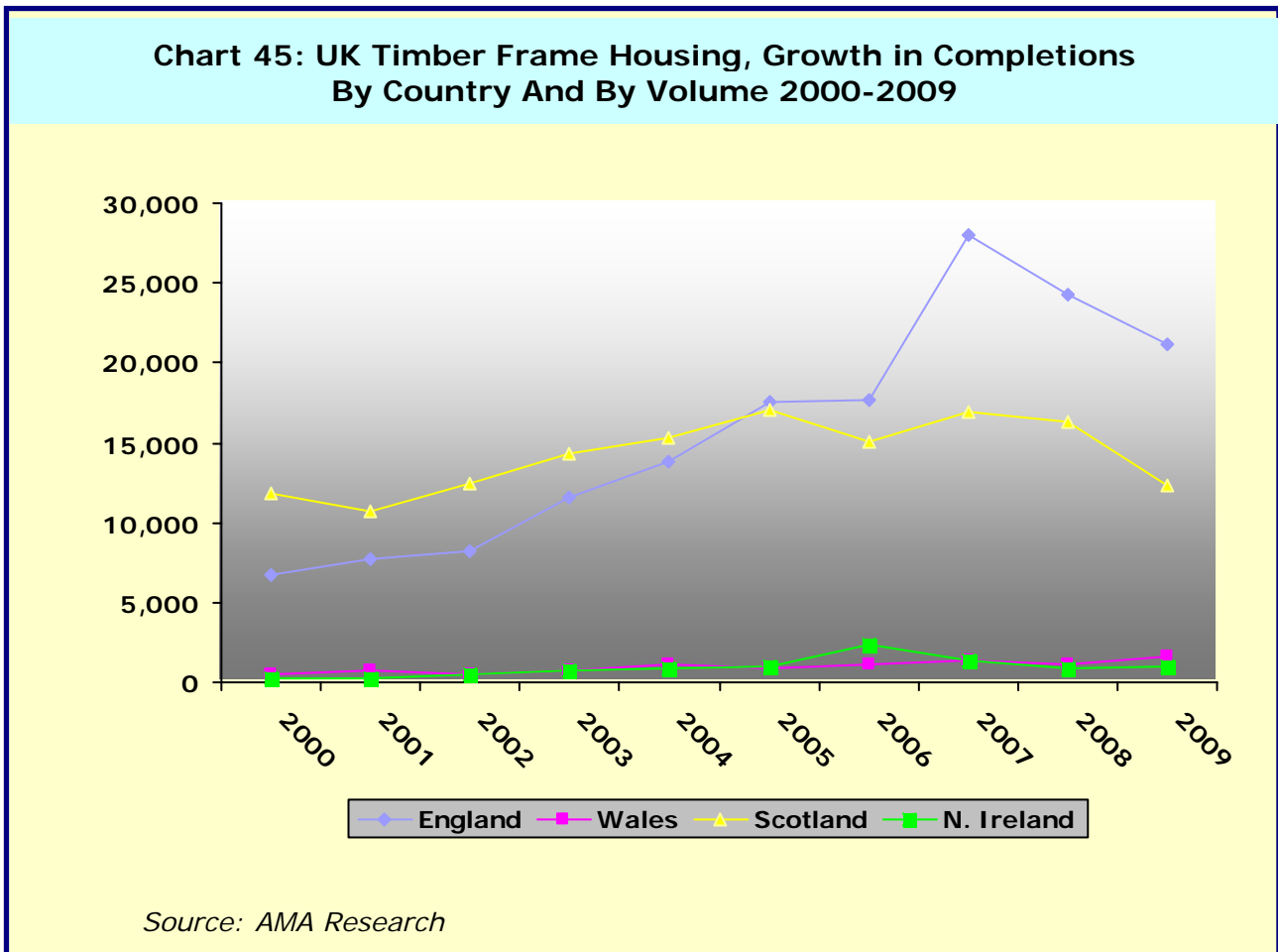
8.4.1 Timber Frames

Since 2000, the popularity of timber frame housing has increased rapidly to become a serious inner frame option for new houses. The main reason for the increase in timber frame in the last decade is due to its use as a factory component in "off site manufacture" which has become an important manufacturing process for the construction of residential homes. This gives the method a cost advantage over more traditional methods.

Increasing pressures on the government to increase housing output, acceptance of the method in the private sector and growth in the number of self-build housing starts have also had a positive effect on the market. In 2010 there were an estimated 30,000 timber frame housing starts in the UK.

As can be seen from the following chart, volume growth in timber frame in England increased significantly to 2007 – reaching around 28,000 units and due mainly to a buoyant housebuilding market coupled with a political drive for a greater use of modern methods of construction in the South of England. Volumes then started to decline as the recession began to impact on the housing market reducing to 21,000 units in 2009.

Although Wales has seen an increased market share, volumes have been relatively low at about 1,200 in 2008 although they reached around 1,600 in 2009 when share rose to 26%. In N. Ireland share and volumes have seen some decline in recent years.



Although volumes are down in England owing to the housing recession, market share has increased steadily in the last 10 years which indicates the growing pressure on site skills and affordability of housing as developers look towards timber frame (and other MMC) usage in both the private and social housing sectors. More specifically, timber frame is particularly attractive in the construction of new housing for social rent and affordable housing which can cover both private and social sectors.

Ultimately, medium-longer term growth prospects will be dependent on underlying growth in housing completions, particularly low-cost housing. In addition, prospects will also be dependent on overall acceptance levels of Modern Methods of Construction (MMC) and attitudes towards timber, steel and concrete in different applications.

Indications are that there are around 100 suppliers of timber frame housing in the UK, reflecting the highly fragmented supply structure of the whole sector. It is worth emphasising that several leading manufacturers are based in Scotland (**Stewart Milne, Walker Timber, Robertson**), reflecting the traditional dominance of the region in timber frame housing. However, there are some other significant players including **Space 4, Prestoplan, Pinewood, Kingspan**, etc.

8.4.2 Trussed Rafters

The advancement of MMC and OSM have led to an increase in the levels of prefabricated engineered wood products being produced, largely consisting of trussed rafters. These products are used extensively in the housebuilding market, as well as in the civil engineering sector, where there is a demand for trusses with large spans (greater than 11 metres).

As discussed earlier, many timber merchants now have the ability to produce engineered wood products, either via on-site facilities or through a partner/subsidiary company.

8.4.3 Joinery

Joiners and carpenters tend to source from both specialist timber merchants and builders merchants. Timber merchants tend to stock a range of joinery products, including the following: -

- **Windows** – made of both hardwood and softwood, supplied in either standard or bespoke sizes. Windows can also be supplied glazed or unglazed. Some merchants also stock ranges of PVC-u and aluminium windows.
- **External Doors** – including doors made of hardwood or softwood, as well as door frames. Many merchants also stock patio doors.

Timber merchants often stock a range of other joinery products, including internal doors, stairparts, fire doors and garage doors; however these products are **excluded** from our definition.

Replacement purchases represent the largest sectors of demand for both windows and entrance doors, while new installations into existing houses are the main area of demand for patio doors, particularly where conservatories are being added.

The table below shows our estimates for the **UK replacement door and window** market size between 2006 and 2014.

Table 46: UK Domestic Replacement Door & Window Market (£m RSP) 2006-2014		
Year	Value (£m RSP)	Change (%)
2006	2464	0
2007	2421	-1
2008	2146	-11
2009	1943	-9
2010 Est	1864	-4
2011 Fcst	1899	2
2012 Fcst	1935	2
2013 Fcst	1992	3
2014 Fcst	2010	1

Source: AMA Research/Trade Estimates
NB: Timber doors from Merchants and DIY outlets are included in the above market valuations

The replacement door and window market, in decline for over a decade now, suffered additionally from the effects of the credit crunch and recession in 2008 and 2009, with our estimate for a decline in the installed value of the market close to 10% in both years, and volume reductions even greater. Our estimates for 2010 are for a further, if smaller decline in 2010, and only modest growth in value for this market beyond that reflect the fact that this mature market has very little scope for volume growth.

Many of the factors which historically supported this market have now disappeared and the character of the market is changing. In the fairly recent past, the ready availability of credit, low interest rates, high employment, consumer confidence and a buoyant house moving market all contributed to supporting the replacement door and window market.

Even in the more recent past, when many of the above factors were in place, this market was declining. This is partly because many of the single glazed homes which had existed are now already double glazed and this market is, therefore, considerably smaller than it was. Total market penetration of double glazing is estimated at around 80%. There is a certain amount of re-replacement of windows and doors in this market – ie replacement of double glazing and replacement doors which were installed in the 1970s or 1980s with newer, higher specification products. This is estimated to represent as much as 20% of the current market, and is inevitably growing strongly, but this is not enough to prevent the overall decline in volumes.

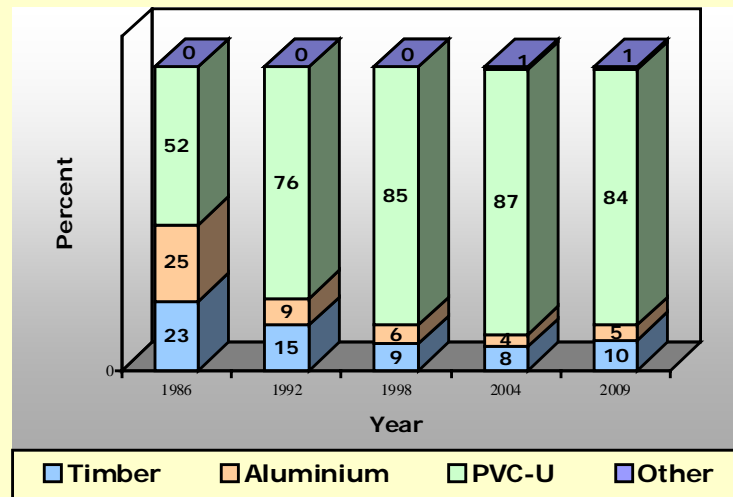
The dominant position of PVC-u, especially in the windows and patio door sector over the past few decades is undeniable, with the PVC-u dominated direct sell route to market particularly strong in these product sectors. The smaller shares of aluminium and timber primarily reflect some installers wishing to offer alternative materials, consumer preferences for aluminium or timber in certain applications, as well as the use of these materials in like-for-like replacements.

However, the rise of PVC-u has been halted, with a number of factors combining to put significant pressure on PVC-u in this market. The scope for PVC-u to increase share has slowed considerably in the recent past as it approached saturation level. At the same time, the market has matured and has begun to decline. The building industry has also re-focused to accommodate demands, which are driven by both end-users and legislation, for sustainability in building, which has caused specifiers to reassess the materials they are using. In some cases, this has resulted in the preference of timber as a sustainable material over PVC-u, and this has contributed to the resurgence of interest in timber resulting in some share gain in a mature and declining market. At the same time, PVC-u remains the preferred material of other specifiers, also looking at materials in terms of sustainability, lifetime costs etc.

The timber industry has promoted the material's green characteristics and the PVC-u market has also embraced the issue with, for example, major recycling initiatives and the reduction in use of lead and cadmium based stabilisers.

The development of materials in this market will certainly be affected by the issues related to sustainability and, after a lengthy period in which the rise of PVC-u was apparently unstoppable, especially in the **window** sector, this material suddenly looks more vulnerable. At the same time, the prospects for timber windows look more optimistic than they have for many years. Only time will indicate how far the use of competing materials will change, but certainly, the breakdown does look set to change, and potentially significantly over the medium to long term.

Chart 47: Mix of Windows By Frame Material 1986, 1992, 1998, 2004 and 2009 By Value

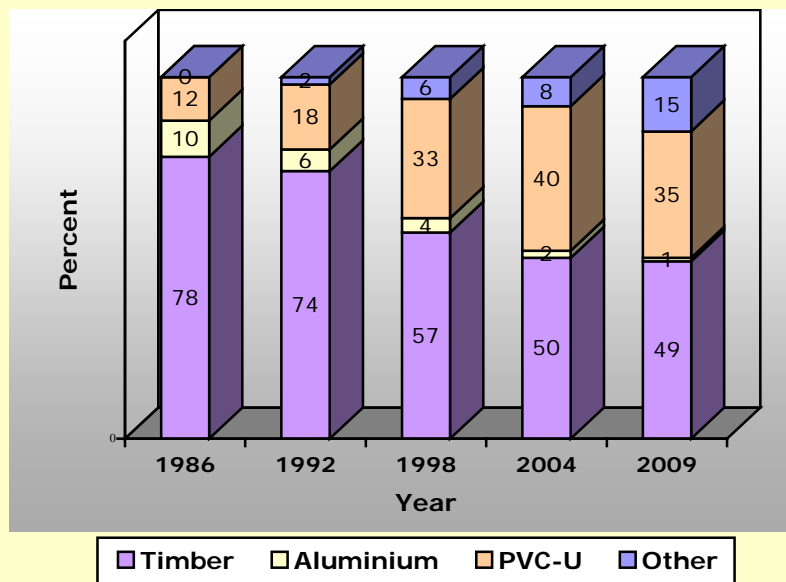


Source: AMA Research/Trade Estimates

The routes to market for **entrance doors** vary significantly from the patio door and window sectors, with the DIY/builders merchant route much stronger than the direct sell route. Timber is strongly represented across all sectors. Latterly, composite doors, notably in the public sector, are much more strongly represented than even in the recent past. Whilst PVC-u has developed a sizeable share over time, this looks set to diminish as composites continue to gain share.

Our estimates for 2009 show timber retaining around half of the market, with the traditional appeal of wood alongside the availability of good quality timber doors helping to maintain share. Aluminium has been a minor material in this market sector for some time, and along with steel, we estimate this to have a very minor market share. Growth in the composites sector has been notable in recent years. Our estimate is that composites have a share in 2009 of at least 15%, possibly more, and certainly this share is set to continue to grow.

**Chart 48: Mix of Residential Doors By Frame Material
1986, 1992, 1998, 2004 and 2009 By Value**



Source: AMA Research/Trade Estimates

Jeld-Wen, Howden Joinery, Magnet and **Premdor Crosby** are among the few large manufacturers / distributors in this market, with the majority of joinery firms being small operations and the market extremely fragmented. **Howarth Windows & Doors** is also a leading manufacturer of softwood windows and doors in a range of styles, and is part of the Howarth Timber Group, which also incorporates Haworth Timber and Building Supplies.

8.4.4 Furniture

The furniture market is a large end-use sector for timber products, particularly wooden panels and hardwoods. Panel products such as melamine faced particleboard/chipboard, plywood, MDF and, more recently, OSB are used for various applications within the furniture industry, for cabinet and carcassing applications. Timber, in particular hardwoods are also used extensively, mainly for high quality furniture applications including dining tables, beds, upholstered products and home offices.

The table below illustrates our estimates of market size and product mix in recent years: -

Table 49 - Total Sales of Domestic Furniture by Product Group (£m MSP)			
Sector	2007 £m	2008 £m	2009 (Est) £m
Upholstered	1690	1625	1520
Kitchen	1185	1135	1060
Dining room and living room	755	725	680
Bedroom	645	620	580
Beds and Bedding	670	650	610
Miscellaneous*	340	330	305
Total	5285	5085	4755
<i>Source: AMA Research/Trade Estimates</i>			

* Includes: home office, conservatory, bathroom and other furniture.

The industry performance for 2009/10 may be summarised as follows: -

- Declining retail sales in a difficult economic climate.
- Many UK manufacturers were adversely affected by the decline in the market, with imports still accounting for a significant proportion of the total market, although several UK firms are now sourcing their production from overseas companies.
- Retail groups were also affected by the downturn and the competitive conditions within the market, with both independents and multiples being under severe pressure - 2011 has seen the demise of Homeform (Moben/Dolphin), though Sharps Bedrooms has survived under new ownership.
- Retailers are facing increased competition from 'newcomers' such as Tesco, Asda etc, who are targeting the home furnishings and furniture sectors.

- Imports account for over 40% of the furniture market – particularly high for bedroom, occasional furniture, though lower for upholstered and kitchen furniture.
- Profit margins have been eroded in both manufacturing and retail sectors, leaving companies facing a difficult trading situation with weakened balance sheets.

As mentioned above, timber products are used extensively across a number of sectors within the domestic furniture market. These sectors include furniture for the kitchen, bedroom and bathroom, as well as dining & occasional furniture, upholstered furniture and beds.

Many of the larger furniture manufacturers tend to source their timber products directly from timber/panel importers and panel manufacturers such as **Norbord**, **Sonae** and **Kronospan etc.** These large panel manufacturers have invested in product ranges developed specifically for the furniture industry in recent years.

8.5 Shopfitters

Shopfitters use significant amounts of timber and wood products, in particular in the following applications: -

- Suspended ceilings and partitioning systems
- Floorcoverings
- Glazing (frame materials)
- Bathroom and kitchen furniture and fittings
- Office furniture

Shopfitters supply a wide variety of end use sectors, including retail, hospitality (restaurants, pubs, etc), leisure (cinema, gyms, theatres), financial (banks, building societies), cultural (museums, galleries) and transport (airports, train stations).

The UK market for shopfitting market is worth around £2 billion at contractors prices, having declined by over 20% since the peak levels of 2007/08. Key markets, such as office and retail fit-out have declined as a result of budget cutbacks, but the sector remains a key application for boards and timber.

8.6 Others

Finally, there are a wide range of other customers for timber merchants include small/medium DIY stores and small builders merchants, civil engineers, landscape contractors, public sector organisations etc.

Services Offered By AMA Research

Overall Services:

Since 1989, AMA have been focused on **building & construction, environmental** and **business-to-business** sectors. Our business consists of two key parts:-

- **Published research reports and databases** – listing of 150+ high quality, detailed research reviews and databases covering a wide range of building and construction products.
- **Commissioned, ad-hoc consultancy and research projects.**

Published Research Reports and Databases:

We offer published, off-the-shelf research reports and databases in the following industry sectors:-

- **Building products and materials** - Home improvement products, electrical products, heating, bathrooms, sanitaryware, plumbing, kitchens.
- **Outsourcing** – PFI/PPP, Construction, OSM/MMC, Facilities Management, Waste Management, Sustainable Resources.
- **Decorative and home improvement products** - soft furnishings, textiles, materials, furniture, Garden Products, Ceramics, Plastics.
- **Sustainability** – Waste Management, Plastics Recycling etc.

Distribution – Builders Merchants, Electrical Wholesalers, Garden Products Distribution etc.

We offer a range of almost 100 off-the-shelf research reports mostly focusing on the UK, with some overseas reports, and a further 50 or so databases.

Ad Hoc and Commissioned Research:

We have undertaken commissioned research in many of the above industry sectors and conducted interviews with a range of target groups:

- **Specifiers, Engineers, Architects, Designers.**
 - **Manufacturers, importers, distributors, Wholesalers, Merchants.**
 - **Installers, Tradesmen, Contractors, Builders. End-Users, Application Areas.**
- Consumer surveys.**

A variety of qualitative and quantitative research techniques are used on a regular basis including Desk research, Telephone & Personal / in depth interviews, Focus groups / group discussions, Hall tests, Consumer research.

We can offer a range of services:

- **Due diligence** studies of a specific organisation, **Situation assessment**, critical success factors etc.
- Analysis of the **market size, structure and trends** within specific product/market segments.
- A review of **key products, features, advantages and benefits. Product feasibility** studies.
- Identification and research of **distribution opportunities and threats** appropriate to your company in new and/or existing markets.
- A detailed **competitor review**, product ranges, market positioning, profitability, strengths, weaknesses etc.
- Assessment of the **buying and specification processes**, identification of the key influencers, their major criteria, and the relative importance of these criteria. **Attitudinal Research** – assessing the awareness and perception of a company or product amongst the customer base.
- **Acquisition and diversification** searches. Review of **end use sectors.**
- **Benchmarking** for sales, marketing and customer support functions.

Please contact us for a discussion on any particular requirements you may have:

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