

AHEC JAPAN MARKET REPORT



**AMERICAN
HARDWOOD
EXPORT
COUNCIL**

November
&
December 2020

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2020

AHEC members are
encouraged to
participate at overseas
activities

News flash

New housing construction in October, November down by 8.3% and 3.7%

Government statistics released at the end of November and December show that new housing starts in the previous months totaled 70,685 and 70,798 units, respectively, representing declines of 8.3% and 3.7% from the same months in the previous year. Although construction of condominiums and owner-initiated single-unit homes ticked up slightly in November, all other categories continued to drop, contributing to what is now a 17-months-long downturn.

Total new housing starts for January through October 2020 is 678,899 units, down 10.6% from the previous year. At this pace, the annual total is expected to fall short of the 820,000 mark, a level last recorded in 2010. Annual housing construction had bottomed out at the 780,000 level in 2009, following the Great Recession, and climbed to a little over 813,000 units the following year.

The lackluster figures toward the end of 2020 portend further pain for the housing industry. Immediately after a tax break for housing loans expired at the end of September, builders noted a decline in visitors at their show rooms.

The long-term falloff in housing construction is due to Japan's shrinking, aging population, but double digit declines spell trouble for the economy. In October and November, 2x4 construction fell by 16.5% and 12.6%, respectively, and single-unit tract homes by 16.3% and 10.5%. As part of its stimulus package, the government announced in December that it will resume the tax break for housing loans—with expanded conditions for eligibility—in the coming fiscal year. AHEC Japan will continue to monitor the situation.

Industry News

Promoting legally harvested wood in Japan

The Japanese government passed its Revised Green Procurement Law in 2006 to encourage the use of wood products that are certifiably legal. Another measure passed in 2017, commonly called the Clean Wood Law, allows companies to register as a business that trades only in legally sourced timber and wood products. Although the initial measure was limited to government procurement, companies in the private sector moved to review their supply chains. Over 500 builders and manufacturers are registered as compliant with the Clean Wood Law as of November 2020.

One such company, a major home builder that manufactures many of the interior parts and fittings it uses, reached out to AHEC Japan in 2008 to learn more about certifying the provenance of its raw materials. We provided information on the Responsible Procurement Policy (RPP) followed by

AHEC members and the certificate of compliance that our suppliers can provide to accompany shipping documents.

In a recent meeting, we were able to update the company on AHEC's activities in assuring the legality and sustainability of American hardwoods. AHEC members can now provide to users an American Hardwood Environmental Profile (AHEP), a comprehensive set of data on the environmental impact associated with each consignment.

Furthermore, AHEC's work on life-cycle assessment indicates that the carbon stored in American hardwoods almost always exceeds the carbon emissions that accompany harvesting, processing and transport. AHEC Japan is eager to share this information with other users at future events.

Event report

American Hardwood Discussion Meeting in Tokyo

date: November 16, 2020

venue: The Okura Tokyo

AHEC Japan invited representatives of five wood-related companies (two importers of hardwood lumber, a veneer manufacturer, and an importer of wood building materials), all headquartered in Tokyo, for a round table meeting. They were joined by representatives from Zenmokuren (the Japan Federation of Wood Industry Associations) and the Japan Federation of Fancy Veneer and Plywood Manufacturers to discuss the market for hardwoods in Japan and impacts of the coronavirus epidemic.

Both hardwood lumber importers said that in the first half of the year, they imported quantities similar to the previous year, and that they hoped trade in the latter half would be similar if their U.S. suppliers could continue to ship. Regarding the business environment, they had heard that investment capital had made inroads into the U.S. hardwood industry and were

concerned that such firms might not have the kind of long-term view of customer relations that users in Japan desire. Our meeting participants hoped that suppliers with a long-term vision, perhaps made possible by more independent financing, would continue to thrive.

The representative of veneer and plywood makers reported that weather-related problems in the Midwest and U.S.-China trade frictions had caused delays in log deliveries in 2019. Then, the pandemic caused more uncertainty in 2020. Japanese makers of veneer are currently facing delays in receiving their logs because of a shortage of available containers.

The importer of wood building materials said that orders from housing construction firms picked up from April, so they do not anticipate a big drop in annual sales. But with cost pressures continuing, the company is concerned that sales of solid wood parts and fittings could fall. The company representative said that even

major hotels are specifying lower cost products, such as engineered wood faced with veneer.

Lastly, all our participants expressed concern over future supplies of white oak logs and lumber.





American Hardwood Discussion Meeting in Fukuoka

date: December 10, 2020

venue: Yanagawa Ohana

AHEC Japan invited seven representatives of wood-related companies headquartered in Fukuoka—lumber wholesalers, furniture manufacturers, and the Japan office of an AHEC member—to discuss their business outlook and how their respective markets have fared since COVID-19 began to spread in Japan.

The two lumber wholesalers say that their purchases of American hardwood lumber have been about the same as in the previous year, particularly in the first half of 2020, but procurement has become more difficult since around September. The Japan representative of an AHEC member firm agrees that shipments were as scheduled in the first two quarters, but have been slowed since then by the pandemic.

The Okawa region of Fukuoka Prefecture is a major furniture manufacturing area. The three furniture makers whose representatives came to our round table all said that the months from March through May were very difficult because of the initial spread of COVID-19. They say business picked up from July to October, but has fallen again since November. The one bright spot, they say, is that exports have been growing since June, mainly because the economy of their biggest overseas market, the People's Republic of China, is recovering. Here again, however, it is taking time to find empty containers to ship their products.

Also, while sales at brick-and-mortar stores have fallen, the furniture makers say their online sales are growing. People are averse to going out to shop, and people are setting up workspaces at home as they continue to telecommute.

On the subject of American hardwood species, walnut and white oak continue to be highly favored in Japan. The furniture makers at our meeting estimated that 90% of their production is in walnut. The AHEC member who has a sales rep in Japan has grown its business mainly in this species, but the company wishes to drum up demand for red oak, which is more abundant. The furniture makers suggested that the supplier promote the warm tones of red oak, or highlight how different effects can be achieved with dark stains or by using off-white or light grey finishes.

AHEC Japan had intended 2020 to be a project year for red oak and hickory. We have had to postpone this plan, but based on the input from this discussion meeting, we could turn the focus on red oak. We ended the meeting by asking all our participants to keep sufficient inventories against possible disruption.



Coming up

American Hardwood Seminar for Architects in Shimane

date: June/July 2021

venue: Izumo Royal Hotel

outline: AHEC Japan had planned to host this seminar in December, but we have pushed the date to the latter half of June or first half of July 2021 due to the continuing uncertainty over the coronavirus, a decision supported by our local participants. There will be no change to the program: the presenters will be Dana Spessert, chief inspector at the National Hardwood Lumber Association, and Mikio Koshihara, a renowned architect who is currently with the Institute of Industrial Science at the University of Tokyo. The third presenter will be Ryoichi Nagasawa, an expert on finishes for wood products.

We look forward to gathering in Izumo, near one of Japan's oldest and most sacred shrines. The area provides the backdrop for the country's origin myths and its oldest written histories.

American Hardwood Seminar for Architects in
Kanazawa

date: June/July 2021

venue: ANA Crowne Plaza, Kanazawa

outline: As with our seminar in Shimane, this gathering has been rescheduled for the latter half of June or first half of July.

The city of Kanazawa is a key city of the Hokuriku region, rich in traditional arts and culture. There is no change to our seminar program: it will feature NHLA chief inspector Dana Spessert, acclaimed architect and designer Mitsuru Senda, and Ryoichi Nagasawa. Mitsuru Senda is a former chair of the Japan Institute of Architects.