

MONTHLY TIMBER MARKET OUTLOOK – APRIL 2016

1.0 Introduction

MTC Monthly Timber Market Outlook provides a summary of the outlook for timber products, including furniture, in the various regional markets. The information is extracted from MTC's regional offices Monthly Market Reports and Quarterly Market Reports received from the respective MTC market correspondents as well as from other relevant publications available.

2.0 Brief Global Outlook

The Indian economy is on track to register a growth of 7% - 7.75% in the coming year on the back of economic reforms spearheaded by the government as well as the collapse of crude oil prices which provide impetus for infrastructure and real estate developments. In its latest national budget, the Indian government announced a number of measures to boost investment and improve business climate. In the real estate sector, the government introduced tax holiday and deductions for developing affordable housing projects. To date, funding for over 5 million unit houses for the poor has been approved and the government is targeting to build 20 million houses for urban poor by 2022.

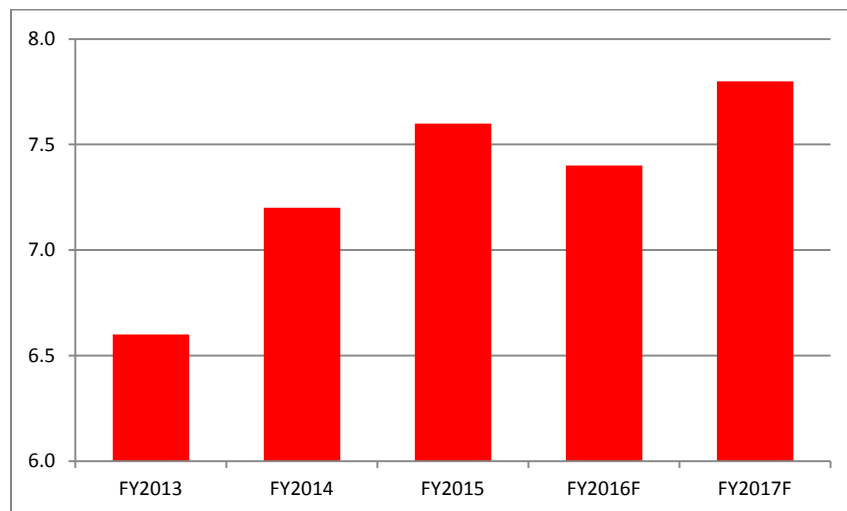


Figure 1: India GDP Growth (%)
Source: Asian Development Bank

The US Federal Reserves left the benchmark interest rate unchanged in March in a range of 0.25%-0.5%. Views were divided whether an interest rate hike would be needed in April, but several policymakers expressed that a cautious approach to raising rates would be prudent. In contrast, some indicated that an increase in the interest rate may well be warranted if economic data come in as expected.

Britain announced more austerity measures in its Budget and cut its growth outlook from 2.4% to 2.0%. Britain's economy appears to have slowed due to concerns about the global economy, government spending cuts and the uncertainty surrounding the forthcoming referendum on UK membership of the European Union. UK Manufacturing Purchasing Managers Index (PMI) picked up slightly in March from its three-year low in February. The Bank of England is expected to keep interest rates at a record low for a longer period due to slow economic recovery and subdued inflation.

The Japanese Yen strengthened despite the announcement of negative interest rates. Core inflation is around 1% which gives the central bank a breather in the near term to adjust monetary policy. More efforts are expected on the fiscal front with investors observing whether the planned consumption tax increase could be delayed further.

The UAE's economy is forecast to grow between 2.5% – 3.0% this year. It is reported that overall operating conditions were challenging. However, spending on infrastructure, transport and economic development will be sustained. Despite a weak property market, developers are still rolling out projects especially the affordable housing projects. It has been a difficult period for small businesses due to debt repayment concerns. The UAE Banking Federation announced that it was introducing a package to support SMEs in financial difficulties, including the suspension and restructuring of future payments.

In Malaysia, the pace of price increase in residential houses has moderated following measures to curb speculative activities. The underlying problem in the property market is a shortage of affordable houses (below RM250,000) and excess supplies of expensive houses (above RM500,000) as well as commercial properties. The demand-supply gap should limit future increases in property prices if the structural problem is addressed. It is expected to see more construction of affordable houses as the government is taking initiatives with the private sector to build one million units of these houses by 2018. To help the lower income group to own a house, the First Home Financing Scheme (MyDeposit) was implemented, which contributes 10% of sales price or a maximum of RM30,000, whichever is lower, to first-time house buyers to purchase a house that is less than RM500,000.

New levies for foreign workers were re-announced following protests by employers of the first proposal in January 2016. The new rate for the manufacturing, construction and services sectors is RM1,850 per worker. The finalised rate is much lower than the earlier proposed levy of MYR2,500.

3.0 Sawntimber

3.1 Europe Union

It is forecast that short-term outlook to remain unchanged in the UK. Supply and demand remain steady in comparison to the previous month. The prospects of “Brexit” has caused the currency to depreciate and hence reducing the profits of importers.

In The Netherlands, Meranti is experiencing competition from African Sapeli. Currently, the price of FSC-Sapeli is 5% lower than MTCS-certified Meranti. This is unusual as Meranti had a price advantage over certified Sapeli. Importers are likely to adopt a wait-and-see approach for Meranti prices to drop before making new orders.

3.2 China

Current most sought after timber species are Merpauh and Sepetir. Manufacturers of wood flooring and furniture are racing to obtain supplies from Malaysia. The CNF price for Merpauh is USD500 - 540 per m³ while Sepetir is selling at USD490 - 510 per m³. Price is an important factor in the Chinese market for Malaysian timber products. The Chinese offer price is often too low and the Malaysian timbers could fetch better value in other markets. If Ringgit Malaysia continues to strengthen, the price of Merpauh and Sepetir could hit USD600 per m³ and the Chinese buyers will start looking for alternative timber species.

3.3 India

Due to log shortage around the world, imports of logs have declined considerably in India. Importers now are looking for sawntimber as an alternative. The Malaysian sawntimber has seen rising demand from India but many importers are still unaware of direct suppliers and manufacturers in Malaysia. Importers are dealing through agents, which makes these products expensive and less competitive in the market. In addition, Malaysia is also benefitting from Free Trade Agreement with India which gives zero tariff for imports of timber-related products.

3.4 United Arab Emirates

Several importers in the UAE have replenished their Meranti stocks and are keen on receiving sawntimber with thickness of 2” and 3” from South-east Asia. Importers are cautious about the appreciation of the Ringgit Malaysia against the US Dollar which means that the cost of imports of Red Meranti may rise as a result.

Demand for Red Meranti has been steady for joinery workshops and carpentry units. In addition, it is one of the popular hardwood species that is widely used in interior fit-outs and doorframe applications.

4.0 Panel Products

4.1 Plywood

4.1.1 European Union

The Timber Trade Federation (TTF) has announced new guidance on sales of Marine Plywood in the UK. Following a meeting of the Governing Board, only those products supported by Independent Third Party Quality Assurance can be sold as “Marine Plywood”.

There have been no significant changes in the outlook for the UK market since last month. Currency positions continue to make prices "soft" and all Chinese producers are struggling to sell volume and chasing any business they can. The Malaysian market share softened slightly as it lost out to China and Brazil.

Importers in Germany reported volatility in plywood prices. Film-faced plywood from China and Russian Birch Film are selling at a very low price. Some Indonesian plywood manufacturers have lowered their prices in the past six weeks. Container freight rates have been low, which make CNF import prices even more competitive. Prices for 18mm raw Meranti plywood BB/CC produced in Malaysia are reportedly stable, although this grade commands a small share in the German market.

4.1.2 Japan

Imports of plywood from China and Malaysia contracted 44.8% and 29.1% in February respectively while imports from Indonesia were up 8.2%. According to Japan Southsea Lumber Conference, timber traders are reluctant to make large purchases despite the strengthening of Japanese Yen due to weak local market demand.

4.1.3 United Arab Emirates

Demand for plywood is adversely affected by the slow start of commercial and residential projects in the UAE. The delay of payment from customers has also curtailed financial ability of companies in the UAE to procure commercial and phenolic film-faced plywood from overseas suppliers.

Retail sales of thin panel plywood from Malaysia are stable albeit in low volumes due to strong presence of several suppliers from China. Meanwhile, exporters of thick panel plywood from Malaysia and Indonesia have difficulties in competing with Chinese exporters as their products are competitively priced and easily available in the market. Malaysian plywood is also facing threats from Brazil and Vietnam-based panel manufacturers, despite the fact that their prices are not as low as Chinese plywood.

On the other hand, some certified panels are consumed by contractors for prestigious projects in Dubai and Abu Dhabi, which is a niche market in the UAE.

4.1.4 China

According to local plywood manufacturers, plywood traders are replenishing their inventory in March due to anticipation of increases in plywood prices and rising demand starting April when the residential renovation period kicks in.

The raining season is expected to last until mid-May 2016. Therefore, prices and demand for plywood in construction formworks are expected to increase further. However, there is little demand for Malaysian plywood in construction formwork. Malaysian plywood is expensive and of high quality and is a waste to use in the construction formwork.

4.1.5 India

A number of local manufacturers are setting up plywood factories in India. Prices of raw materials are expected to remain stable and the supplies are sufficient to meet the production.

Plywood is the common product for all types of interior decoration in India. Demand for plywood is always high and is widely used by various sectors in India. Imported plywood is also rising due to its superior quality and durability.

4.2 Particleboard

4.2.1 India

Particleboard is expected to register strong growth in 2016 due to expansion in the office sector in India. New offices such as Amazon, Snapdeal, Flipkart and other big corporations are operating in the country. Their office expansion will increase demand for particleboards this year.

Orders of particleboards from the hospitality sector are fast growing too. Demand from the government projects, healthcare, furniture manufacturers and online furniture players are also expected to play a role in the growth in consumption of particleboards.

Local manufacturers are not able to meet the entire demand in India and their production largely depends on raw material imports. Prices of imported particleboards are down by 10%, which make them attractive to buyers. The quality of particleboards produced in India is another serious concern. Basic parameters like density and resin are compromised to match production costs so that their products can compete with other suppliers. The furniture industry in India is looking for higher quality particleboards and the best way to obtain quality and reliability is through imports.

4.3 Medium Density Fibreboard

4.3.1 United Arab Emirates

Contractors of joinery workshops and carpentry units making kitchen cabinets, wardrobes, drawers and interior fit-out reported strong sales due to continued orders from their clients to furnish villas, apartments and commercial establishments in the UAE. Several retail outlets and commercial districts in the UAE are undergoing renovation and refurbishment works which require large quantities of plain, melamine and high moisture resistance MDF.

It is also reported that orders for melamine MDF for interior works in different shades and patterns has been placed by clients in the UAE. Importers expect demand for MDF to remain stable during this busy season. A large number of exhibitions, conferences and seminars are being held in Abu Dhabi, Dubai and Sharjah which require MDF for stand construction, renovations and in-store promotions by hyper markets and retail outlets.

4.3.2 China

Prices for MDF went up slightly in March 2016 due to disruption of raw material supplies as a result of the raining season in Southwest China. Prices of MDF were reportedly increased by RMB2 - 3 per sheet. However, according to panel product traders, overall market demand is not encouraging especially from the furniture industry. Most of the panel product traders absorbed the additional cost and sell at old prices.

4.3.3 India

Growing demand for MDF has encouraged local manufacturers to set up factories in India. However, local production is insufficient to meet the demand and therefore buyers remain dependent on imported MDF.

MDF was perceived as a cheaper, unreliable and non-durable alternative to conventional plywood. There are various advantages that MDF can offer such as flexibility, easy to use, lower cost, high resistance to termite attacks and its significantly lower impact on forest cover as plantation species are used for its production. These advantages need to be communicated to the buyers as well as furniture manufacturers to increase utilisation of MDF.

5.0 Builders' Carpentry & Joinery

5.1 Flooring and Decking

5.1.1 European Union

Since winter is over, the usual season for decking has started. As in the past years, it is expected that demand for wooden decking to be low. Most German customers are more interested in substitutes such as stone terrace or non-tropical decking. Larch and Douglas Fir for example are fairly popular than Bangkirai. This is mainly due to negative perception by German consumers towards tropical timber.

5.1.2 China

Demand for wooden flooring material has been relatively weak since the beginning of 2016. Despite growing volume since mid-March 2016, prices remain largely unchanged. The most sellable timber species are Tauri, Merbau and Teak.

The gap between general wooden flooring and branded wooden flooring is widening owing to growing consumer awareness of formaldehyde emission standards. According to the wooden flooring traders, younger consumers are willing to spend extra monies on branded wooden flooring.

The raining season has delayed construction and renovation projects and put off the wooden flooring installation. This creates a false sense of weak wooden flooring market.

5.1.3 Japan

Imports of assembled flooring rebounded 1.3% in February, after declining by 14.1% in January. The largest suppliers in the Japan market were China (59%), Indonesia (14%), Thailand (5%), Sweden (4%) and Malaysia (3%).

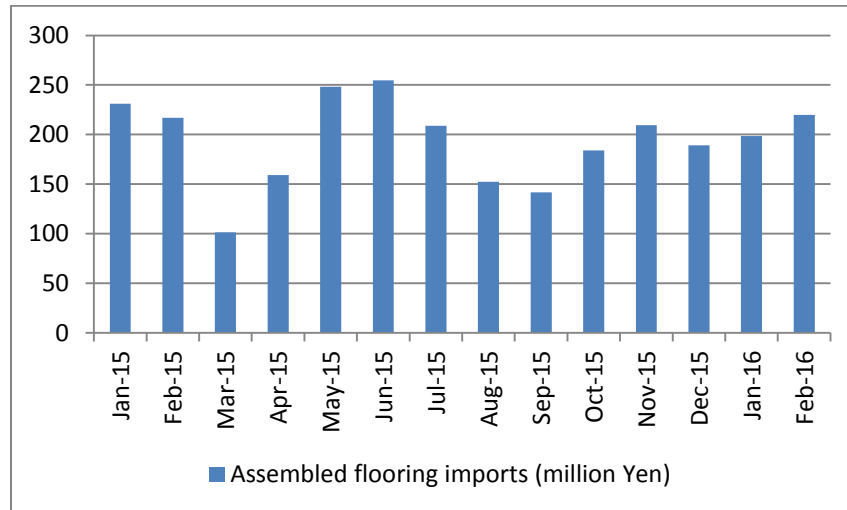


Figure 2: Japan's Total Imports of Assembled Flooring
Source: Ministry of Finance, Japan

5.2 Doors

5.2.1 European Union

The German interior-door industry has shown improvement since the beginning of 2016. The main driver of demand for interior doors continues to come from the residential sector, including new builds and renovation of existing houses.

5.2.2 Japan

Imports of wooden door declined 2.7% in February, compared to a growth of 8.6% in January. For the first two months of 2016, China contributed 66% of total Japan's wooden door imports, followed by The Philippines (14%), Indonesia (7%) and Malaysia (5%).

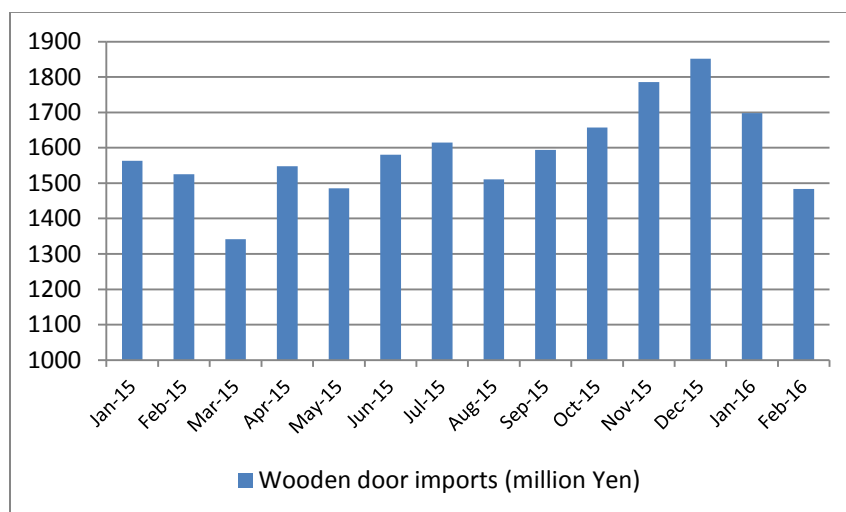


Figure 3: Japan's Total Imports of Wooden Doors
Source: Ministry of Finance, Japan

5.2.3 India

Malaysia witnesses an increase in imports of solid wooden doors made from Red Meranti and Merpauh into southern parts of India. Solid and engineered wooden frames are also becoming popular and are now imported from Malaysia and Indonesia.

Manufacturers from Malaysia who have capacity to supply in large volumes should consider the Indian market.

5.3 Wooden Window

5.3.1 European Union

Prices of Meranti window scantlings produced by Malaysian manufacturers are relatively low. Meranti window scantlings made in Indonesia appear to be a little more stable in terms of prices. With the exception of the usual restriction due to wet season, European importers believe window scantling production in Malaysia and Indonesia has been scarcely impaired at all in the last few weeks. Stocks of finished lumber and scantlings are reported to be adequate in Malaysia and Indonesia. Shipping times are comparatively short too.

With the exception of Meranti window scantlings, German traders were satisfied with business activity for the majority wood species for the first two months of 2016. Orders are expected to continue to increase in the following months.

<h2>6.0 Furniture</h2>

6.1 The United States of America

The outlook for US furniture market in 2016 is anticipated to be positive with the support of the improving US housing market and the country's broader economic recovery. Improving home sales and housing starts have driven healthy sales of furniture and home furnishing products.

According to CSIL Outlook for The Global Market in 2016, furniture demand worldwide is forecast to grow by 2.8%. The increase of furniture imports in the US (from US\$19bil in 2009 to US\$32bil in 2015) was the main engine of growth in international trade of furniture. The trend is likely to persist in 2016 and the US will continue to be the leading furniture importer, alongside Germany, France, the UK and Canada.

Notwithstanding the sign of healthy demand, some potential headwinds include the faster pace of US home price expansion which does not commensurate with the buyers' income growth, changing consumer behaviours towards more multifunctional and affordable furniture that fits into a dynamic and urban lifestyle and the longer-than-expected road of recovery for the US economy.

6.2 India

Indian buyers are showing interests in furniture products made in Malaysia due to its superior quality and durability as well as affordability. In comparison, European furniture is more expensive and less affordable among the Indian buyers. Should a recovery in

the real estate sector transpire, consumers are more confident in making housing purchase decision which may increase demand for imported furniture.

On a separate development, a furniture-hub to serve medium, small and tiny furniture manufacturers will be established in Nilakottai, Tamilnadu. The hub will have a research and development (R&D) centre, a warehouse, a sophisticated manufacturing unit, timber testing lab, design studio and a massive display hall. It will manufacture more than 20 components including particleboards, flanks, laminates, telescopic slides and panels by international standards and offered them at affordable prices to small furniture manufacturers. The hub would supply quality components at low cost, which would potentially reduce dependency on imports of furniture. The manufacturers could use the design studio and the testing lab to create new models. The hub would also impart training to designers and artisan periodically to upgrade their skills and offer space in the hall to display their products.