

The World's Economic Kindling Wood Is Cracking Again

MMMA Newsletter for PF Asia Jan/Feb 2017 By Peter Fitch

In the last edition of Panels & Furniture Asia, I listed out the ambitious plans of China in implementing its One Belt, One Road (OBOR) policy as a revitalisation of the once infamous 'Silk Road'. Since then to add legitimacy to this policy was the election of President Elect Donald Trump in the USA. Mr. Trump has publically stated he will scrap the Trans Pacific Partnership agreement and concentrate on internal issues in the USA such as infrastructure spending and full employment. This will lead to a vacuum in the leadership of 'Trade Practices' within the Asia Pacific Region. This void will be willingly filled by China as the second largest global economy.

Against all the pessimists and purveyors of doom and gloom, I am actually quite optimistic about the economic outlook for 2017 and beyond especially for the quality manufacturers of wooden panels. The reasons for my optimism are as follows;-

China

First half figures for 2016 are showing that Fibreboard exports fell by 22.7% and imports increased by 16%. The story for Particleboard is even more pronounced with exports falling by 53% and imports rising by 34%. The prices of imported PB panels to China have increased by a staggering 30% as there has been a shortage of quality P2/E1 grade panels. This will be a continuing trend as China finds it hard to source sustainable, quality and low priced raw materials, furthermore the older and inefficient mills will close down. Demand for panel products will remain strong as China continues to be the world's largest producer of furniture both for export and domestic consumption.

India

In India despite tough anti-dumping duties, prohibitive trade practices and a competitive market the import of MDF has increased by 14% in the first half of 2016 when compared with 2015. As India continues to modernise and urbanise the demand for furniture and panel products in particular will continue to grow. Local producers such as Green Panelmax, Action Tesa and Century Ply will add capacity and will continue to try and stifle imports through anti-dumping duties but the fact of the matter is that domestic production is woefully small for a population and economy as big as India. Another factor which will favour imports is the very high internal transportation costs from domestic mills to the high population areas especially those near to sea ports.

USA

At the time of writing this report, the US Dollar has never been stronger, the Stock Market has reached new highs and most important for us Housing Sales are the highest they have ever been in nine (9) years and Housing Starts have surged by 25.5%. If we look at the housing market it looks very positive with annualised figures showing existing home sales reaching 5.6million units and new housing starts reaching 1.32million units. Even with a potential hike in the interest rates of 0.25% in December the housing market is still expected to remain strong. The only risk to this demand would be if there is not a subsequent pick up in wage growth, but as the labour market is already tightening and with a surge in infrastructure spending (higher employment) this is unlikely to happen.

Middle East

Once the most important market for South East Asian MDF manufacturers, it had lost its shine with the collapse of oil prices and the political troubles that have plagued the region. There is hope that the situation will start to improve as oil prices find a balance and geopolitical issues stabilise, we are already seeing increases in orders and inquiries for this important market. It is hoped that as the situation improves governments will start to focus on rebuilding and developing their countries. We mustn't forget that we have two global events to plan for which are the 2020 World Expo Dubai and 2022 World Cup in Qatar.

There will be additional manufacturing capacity added in the second half of 2017 and beyond, which will always be used as an excuse to keep prices down, but as resources become scarcer and more expensive, panel manufacturers will discount at their own peril and profitability. As the global furniture consumption is USD388billion and set to increase by 2.8% in 2017 alone and 15% by 2020, then there should be an ample market for this incremental increase in panel production.