

Pending Rubberwood Supply Crisis

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In the last article published I had mentioned that the Wood Panel and Furniture businesses were finally recovering with very good financial results for 2016 and a good forecast start to 2017. These assumptions have been substantiated during the reporting period of related Public Listed Companies in Malaysia and other South East Asian countries. The cautionary note was that the **Supply : Demand** equation could be unbalanced as new capacity comes on stream. The other cautionary note was the threat to **sustainable supplies** of commercially viable raw materials (timber substrate).



It will be the later issue of raw material supply that I will dedicate the first part of this article. Looking at Malaysia in particular we had a taste of the pending crisis during the holiday for Chinese New Year which coincided with the late monsoon rains. Within days this resulted in the industry depleting already low stock levels of timber (especially Rubberwood) and as a result were forced to shut down or extend planned holidays and maintenance. In 2012 the Malaysian Timber Council published a report commissioned in 2010 on the Supply and Demand of Rubberwood in Peninsular Malaysia, in this report it stated that the planted Rubberwood area had reduced from 1.3 million Hectares in 1998 to 0.77 million Hectares in 2012. Even more alarmingly the replanting area had reduced from 0.07 million ha/year to only 0.02 million ha/year. As I am not privileged to the latest data for 2016 I can only extrapolate the known data and this indicates that the current planted area for Rubberwood in Peninsular Malaysia has dropped to below 0.57 million Hectares. In comparison it has been reported that Thailand has up to 4 million Hectares of planted Rubberwood and a very aggressive replanting program. You do not need to be a genius to understand which country will dominate the production of Rubberwood MDF and Particleboard in the future.

Whenever new mills and new capacity come on stream the Supply : Demand dynamic is disrupted and prices are adjusted to gain market share. In the second half of 2017 and early 2018 this will be a particularly trying time as so many new lines (too numerous to mention) commence production in Thailand, Vietnam and Indonesia. The good news is that markets remain surprisingly resilient and despite the negative geopolitical news being reported, business and commerce forges ahead. Some of the headlines that give us hope is that at the time of writing this article US House Prices and Housing Starts are surging and Consumer Confidence is fast recovering. China's Purchasing Managers Index (PMI) indicates that China's industries are still healthy with full order books. Brexit has not been the disaster many had predicted with the UK economy still healthy and Europe largely unaffected. The Japanese economy is slowly improving with the Central Bank predicting growth of 1.5%, this compares with negative figures in previous years. Within South East Asia it is expected that governments will need to play 'catch up' in infrastructure spending, for example China spends 6.8% of its GDP on Infrastructure the only SE Asian nation close to this is Vietnam at 5.7%. Laggards include Indonesia and the Philippines at 3%, but lagging even further behind is Malaysia and Thailand at less than 2% of GDP spend on infrastructure development. Following the Dubai Woodshow and the Delhi Wood Show we did see some encouraging signs of market growth in the Middle East, Pakistan and India.

This doesn't mean that there are no risks to the growing market! Probably the biggest risk is a geopolitical incident that plunges the globe into another damaging crisis. Keep your attention focused on the South China Sea, Trump and the US Budget deficit, Middle East Conflicts and the Europe/Russia relationship.

For Malaysia in particular our biggest risk will be the lack of sustainable raw materials and low infrastructure spending that threaten our Wood Panel Industry. ©