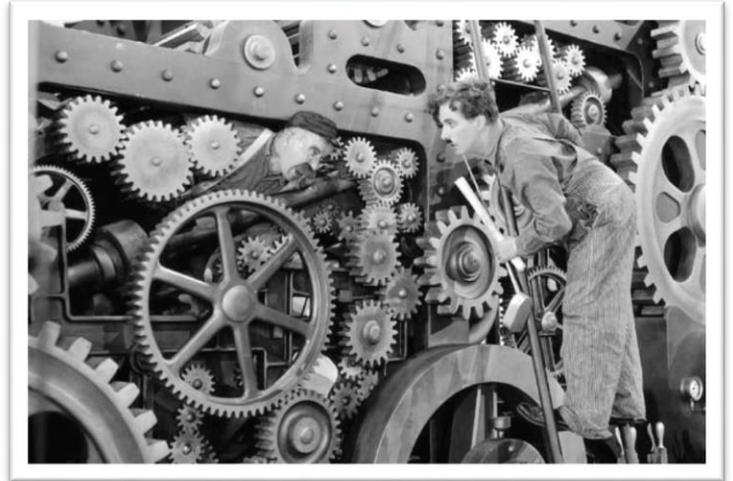


# The Buzz

*MMMA Newsletter for PF Asia Mar/Apr 2018 By Peter Fitch*

**The** New Year 2018 and the Lunar Calendar Year of the Dog was heralded with great fanfare and proclamations of the virtues of the Wood and Timber industry with headlines such as; *Timber Exports Continue Uptrend, Furniture Market Poised for Growth, Plywood Prices Sky Rocketing, US Lumber Outlook Very Positive, Further Increase In Timber Prices, GST Bears Fruit In Indian Growth for Timber Products, Second Largest Post War Economic Expansion in Japan, The Dragon Soars – Chinese Furniture Market, Bright Prospects for Wood Products Export, The World Prefers Wood Products*, I could go on but I think you get the picture.



These headlines are genuine and by enlarge backed up by statistics and data. For the timber industry as a whole this has been very welcome news, however if we look more closely in particular to the Particleboard and Medium

Density Fibreboard businesses of South East Asia the news is not as positive. Basic economics comes into play and the industry finds itself once again with a huge imbalance between Supply and Demand.

Over the past five years and for the next three years an average of four new Particleboard and MDF Lines have either started or will start annually within South East Asia. The majority of this investment has been made in Thailand, Vietnam and Indonesia. The main drivers for this growth has been the demand for wood panel products required for the automated mass production of furniture. The other important factor is the availability of a relatively cheap sustainable raw material – Rubberwood. These two factors joined together has made South East Asia the most competitive producing region for MDF and Particleboard in the world today.

So what does all this mean for the MDF and Particleboard market in Asia for 2018? Unfortunately it is not looking very good at all. As Supply had raced ahead of Demand we saw a dramatic softening of Particleboard prices at the end of 2017 and a similar over supply situation developing for MDF at the beginning of 2018. This does not bode well for the industry and it could result in dire consequences unless manufacturers act responsibly and with maturity. The situation is even more critical for Malaysian manufacturers as costs increase due to a strengthening currency and higher labour costs.

Assuming that the global economy continues to grow robustly and the demand for furniture and panel products remains strong the industry will still face risks and challenges;-

1. Investments in new plant and capacity remains in place for at least the next three years. The new lines ‘promoted’ by the big European machine manufacturers are far larger than previous models, with installed capacities of up to 2,000m<sup>3</sup> per day. Capacity increases are ‘step’ increases and not linear so when a new line enters the market it has a disproportionate impact on supply.
2. Demand projections are based on a robust global growth and a strong demand from both traditional and emerging markets. Key demand drivers will be the US, China and India, any setbacks in these markets will adversely affect demand. Some MDF manufacturers are overly dependent on risky Middle Eastern markets, if these markets are disrupted then there would be a very large surplus supply volume potentially entering other markets.
3. Cost are relentlessly moving up as other raw materials (especially related to oil) and labour is gradually moving into an inflationary phase from a previous deflationary scenario. The US Dollar has by enlarge depreciated against major Asian Currencies which has negatively affected business particularly in Malaysia.

4. The final critical factor is the availability of a sustainable and relatively cheap wood based raw material. In Malaysia we realised many years ago that the 'Rubberwood Era' was fast coming to an end and this could be seen by the relatively small investments made in Malaysia over the past few years. Malaysian Rubberwood is now the most expensive in SE Asia and is also in critical decline with regards to availability. Thailand on the other hand has by far the largest planted areas of Rubberwood in SE Asia, which has resulted in huge ongoing investments and a phenomenal increase in installed capacity. Thai MDF and Particleboard is probably the most competitive available globally today. Investment in Vietnam has been large and successful but they will quickly reach a situation where Rubberwood will be in short supply and prices will increase. Indonesia has the second largest availability of Rubberwood but investment has been slower due to other problems such as infrastructure and logistics.

The positives are that due to the imbalance of Supply and Demand prices remain extremely competitive. This continues to be good news for furniture manufacturers as their increasing costs are by enlarge being absorbed by the lower prices of Particleboard and MDF. This will act as a catalyst to further stimulate demand.

We will see that more and more producers of MDF and Particleboard will move 'down-stream' and start to add value by producing semi-finished materials or even venturing into furniture production. Vietnam has the largest furniture industry followed by Malaysia in SE Asia and one could foresee mergers and acquisitions across industries.

In summary Thailand has become and will remain the most competitive producer of MDF and Particleboard within South East Asia, and this will continue for the foreseeable future as it takes advantage of its available Rubberwood resources. It will be interesting to see if furniture production in Thailand increases as a result because currently the industry is relatively small compared to its neighbours. The Thai manufactures are by enlarge big corporations that are able to utilise the latest technology and can afford substantial investments, to this end manufacturers in Malaysia, Indonesia and Vietnam will struggle to compete. The Thai panel manufacturers will drive the market whilst the rest of us will only be able to follow, if we can keep up!