

“One Generation Plants the Trees, Another Gets the Shade”

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MMMA Newsletter for PF Asia Nov / Dec 2019

“One Generation Plants the Trees, Another Gets the Shade”. How true this Chinese proverb is on so many levels, not just based on the current issues facing the timber industry on sustainability and climate change, but also figuratively speaking on global events that have brought us to where we are today. This one proverb can have profound meanings for so many people on so many levels. However, I will limit my interpretations to the timber industry and wood panels in particular.

I think that it is fair to assume that the timber industry in general is in the doldrums. Profitability, growth and innovation are at an all-time low. There are only a very few exceptions to this general malaise. On a positive development, I would like to acknowledge the improved profitability afforded to those furniture companies in Malaysia, Vietnam and Indonesia that have taken advantage of the re-alignment of the U.S. supply chain away from mainland China. But first, let us revisit what I believe to be some of the main causes as to why we find ourselves where we are today.

In 2008, the world’s financial markets went into meltdown after the sub-prime loan crisis. The U.S. Federal Reserve and other central banks embarked on a very aggressive recovery process which was labelled Quantitative Easing (QE). This dramatically reduced interest rates and pumped billions of additional dollars, euros, pounds, yen and yuan into the global economy. Once the global economy was on the road to recovery, central bank Balance Sheets should have been reduced and interest rates normalised.

As history will document, this did not happen as Central Banks became addicted to low interest rates and cheap money all conveniently justified by the limitless growth potential from Emerging Markets and, especially, China. With such low interest rates and the relative ease at which loans were available, government bonds yields turned negative and corporate borrowings went into overdrive. With the promise of insatiable market demands from China, India and the other BRICS countries, companies were encouraged to invest in larger and larger capacities to satisfy this new demand. At the same time shareholders were rewarded with increasing stock prices fuelled by more liquidity, low interest rates and company share buyback schemes.

What could possibly go wrong? We were living in what many have termed the “Goldilocks Economy”; expanding economies, near full employment, low interest rates, bullish stock markets, exuberant funding liquidity from central banks and reasonable geopolitical stability. In fact, we were fooling ourselves that this was a sustainable economic model. When in fact, this was not sustainable environmentally, economically, financially and politically in so many different ways. As a result of what we sowed all those years ago, we have created a partisan world order with a “Beggar Thy Neighbour” attitude that fuels Protectionism, Trade Wars and a growing disparity between the rich and poor. Nationalism globally is fuelling Brexit, fragmentation within the EU, and regional disputes such as that between India/Pakistan, Japan/South Korea and not to mention the all-encompassing U.S. vs China trade spat. A general breakdown of the post-World War 2 Bretton Woods economic model means that we are seeing;

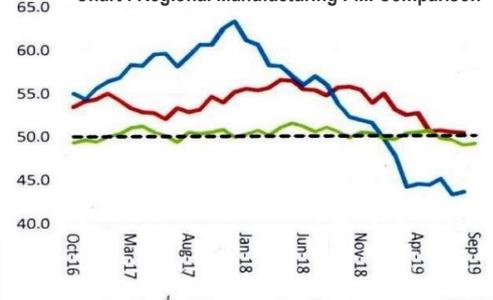
- Global debt surging to the highest levels ever in peacetime. Further debt creation could be possible as Central Banks are either unable or unwilling to reduce government borrowings.
- Government Bonds yields for many major economies have turned negative for the first time ever!
- Corporate Bonds have also started to turn negative for the first time ever, and private debt levels have reached USD1.2 trillion in the first six months of 2019 alone. One must ask when will these loans ever be paid off?
- The Purchasing Managers Index (PMI) which is often referred to as an indicator of business confidence has turned pessimistic (any figure lower than 50) in key regional markets (see table and chart).

Table : Key Regional PMI Data

	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
World	51.4	50.7	50.6	50.5	50.4	49.8	49.4	49.3	49.5	49.7
Developed Markets	52.3	51.8	50.4	49.9	50.2	49.2	48.9	48.6	48.8	48.6
Euro Area	51.4	50.5	49.3	47.5	47.9	47.7	47.6	46.5	47.0	45.7
ASEAN	50.3	49.7	49.6	50.3	50.4	50.6	49.7	49.5	48.9	49.1
Japan	52.6	50.3	48.9	49.2	50.2	49.8	49.3	49.4	49.3	48.9
China	49.7	48.3	49.9	50.8	50.2	50.2	49.4	49.9	50.4	51.4
India	53.2	53.9	54.3	52.6	51.8	52.7	52.1	52.5	51.4	51.4
Malaysia	46.8	47.9	47.6	47.2	49.4	48.8	47.8	47.6	47.4	47.9

Source: CEIC / Ambank Research

Chart : Regional Manufacturing PMI Comparison



Source: CEIC / Ambank Research

We have painted ourselves into the corner and now it will be very difficult to move out without some major disruptions and realignments. I am not in a position to be able to predict the outcome or how the new world order will develop, all I can do is to highlight some of the issues that will affect the Timber Industry and the Wood Panel Industry specifically.

- Most industries are facing an over investment in low productivity and capital with returns on investment often overstated due to the cheap cost of borrowing. The resultant over capacity will maintain deflationary pressures on prices and subdue profitability for the foreseeable future.
- Trade disputes driven by nationalism will increase protectionist practices. This in turn will dampen demand, but there will be a small number of 'winners' which are able to quickly adapt to the changing supply chains and economic environment.
- Uncertainties in the geopolitical situation will depress economic activity.
- Environmental protectionism with legitimate claims to sustainability will increase overall costs.
- Economic stimulus packages such as Quantitative Easing and Low Interest Rates which have enriched only a few and have widened the disparity between the rich and the poor, will continue to suppress wage growth. This will prove to be a critical failing, with the result of curtailing consumer spending which is crucial to expanding the global economy. Furthermore, it has led to increased state dependence which in turn increases government spending and expands the welfare system.
- The emergence of disruptive technologies such as A.I. and Industry 4.0 will only exacerbate the disparity between the rich and the poor (highly educated and less educated) populations. This will maintain pressures on employment levels and further dampen wage growth.

If we look at Malaysia specifically; it has just launched its Shared Prosperity Vision 2030 (SPV 2030) which replaces Vision 2020. The intended outcome is to ensure a decent standard of living for all citizens, which is commendable. For a nation to be prosperous, it must ensure a high standard of global competitiveness. I believe that we have an opportunity to develop and grow a truly world class Furniture Business that can compete with the efficiencies of Japan, the competitiveness of China and the design innovations of Italy. To achieve this, we will need to develop sustainable supporting industries and create infrastructure such as efficient supply chains of raw materials (lumber, panels, overlays, coatings, hardware and packaging), a skilled workforce, cutting edge production technology, designers, marketers and logistics specialists, etc.

The future of the Malaysian Timber Industry will become dependent on a successful and thriving Furniture Manufacturing Sector. To do this, we must move on and leave behind dated past practices and think outside of our comfort zones to embrace the new economic and social realities. The Malaysian Timber Industry should focus on how best to support and supply to this 'Value Addition' sector for the profitable and sustainable future of all concerned.