



NEWSLETTER



our customers
& our suppliers
are our
partners

A few months ago we sent a Newsflash called "Strategies for the New American Furniture Industry" which contained a very interesting article written by Prof. Phil Mitchell of the North Carolina State University. Prof. Mitchell correctly says that the American furniture industry has to change to a more "customer focused" industry. I fully agree with him except that this does not just apply to American manufacturers but to most Asian manufacturers too. And this means not only Asian exports but also with regard to the Asian "domestic" markets. We did send that article to over thousand companies yet received just one(!) reply (who was not even a manufacturer) complimenting us on the information. This really makes us wonder how many

APP TIMBER Market Observations

This review is based on our recent trading activities and is not necessarily a correct overall view of business in Asia.

of our customers actually read such reports. Are Asian manufacturers not willing to learn from others? Or are they too complacent and do not bother? We are not sure except that the fact that our industry is changing fast and only those who try to understand the changes and adjust will survive these turbulent times.

Is the worst over?

This is today's most common question in our industry. We have seen improved sales in the last few months but is this the start of an uptrend market or just a temporary adjustment? We think the latter and expect things to get worse before getting better. The US housing market might(!) have reached its bottom but the credit crunch not and most people will not be able to get any financing to buy houses like before. And Europe is not any better; unemployment is rising to unseen levels and construction at extremely low levels. Europe is more traditional compared to the USA and it will take years before the consumer level will return to a few years ago. So what is the answer? Who knows but we all have to adapt and

realize business will not return too soon to the levels we have known in the past. There will be many manufacturers forced to close but those who are producing quality products and provide extraordinary services will have the highest chance to survive.

Is there a supply problem?

We are indeed facing supply problems for specific programs such as American White Oak and Yellow Poplar, softwood in general and Okoume rotary veneers. The US hardwood exports declined in the 1st quarter of this year, with a slight improvement in April and May but this is expected to be temporary. Exports to China and Vietnam were down resp. 30% and 49% compared to the 1st quarter in 2008. Only Thailand reported a 6% increase but the volumes are not large. Many US sawmills have either reduced production or closed. The biggest volume drops are in White Oak and Yellow Poplar which both are in such low supply that prices & volumes are offered on a day-to-day basis only. This will probably get worse in the next few months and many of our White Oak customers will face huge problems. The lower grades Yellow Poplar can technically be substituted with softwoods but the situation for softwoods is not much better. The supply of softwood worldwide has reached crisis levels; either logs supplies, log prices and/or the weak USD is making it impossible for most mills to make any profit. Many mills are

closing down all across the world from New Zealand, Scandinavia, Canada to Chile. The only way forward is to sell softwoods at are significantly higher prices (sell the finished goods made from softwoods at higher prices). The recent export of Okoume logs from Gabon has decreased and the logs being exported are often too low grade to produce good quality sliced and/or peeled veneers. This is probably due to the lower demand of saw logs so exporters are forcing buyers to accept a larger part of saw logs rather than veneers logs. So the supply of Okoume veneer is very problematic and prices are rising.

Africa

The African timber industry is in a crisis. Many sawmills were geared towards cutting large volumes of timber to meet the demand of the European construction boom of the last few years. That boom is clearly over and will not return for many years and many mills are facing huge problems due to too optimistic logging volumes, too large (and expensive) European management teams, etc. China used to be a very large buyer but their import of logs was this year the lowest in the last five years. Most mills have reduced or stopped logging in the last months. This has resulted in a high domestic unemployment which Africa cannot afford due to the lack of other industries. Prices have been relatively stable but will likely increase to make up for the loss in volume. One advantage might be that some mills (and some African countries) are adopting more stringent regulations towards sustainable forestry and the supply

of certified products will grow faster compared to the world's other forest regions so that it might increase the general demand for certified African products.

APP TIMBER News Flash

We like to keep you updated about all those new developments which could affect your business.

Indonesia

Our business in Indonesia is worse than expected. We wrote in an earlier newsletter last year that we expected business from China and Vietnam to move to Indonesia which initially was the case but our business slowed down the last few months. Indonesia's export of wooden products was down at least 20%. The worst affected are those producing engineered doors, garden furniture and engineered flooring. But we are still optimistic and believe that Indonesia is the most important market in South East Asia so we will continue to strengthen and expand our organization.

Vietnam

The vice chairman of Hawa said in a recent interview that "to survive we have to make products at lower costs and promote them". I think this is only part of the reality in Vietnam. The labor market in Vietnam is very unstable with frequent strikes especially at foreign investment companies. Productivity is low and infrastructure is insufficient. Combine this with a high inflation and volatile currency and you have enough reasons not to

manufacture in Vietnam. The Vietnamese woodworking industry has a good future but the government has to stabilize all factors which are vital to the industry.

China raises export rebate

China has increased the tax rebate for certain wood products from 9% to 11% starting April 1 this year.

Freight from USA

Unconfirmed yet likely true rumors indicate that the sea freight from the USA to Asia will soon increase. We are not sure how much but some US suppliers have started to increase their prices based on USD300 extra per 40'. We will keep you informed about this by our usual Newsflash.

LIGNA attracts less

This year's show in Hannover, Germany attracted according to Dutch reports less exhibitors and 22% less visitors. It was obvious that less Asian customers went to the show and fewer companies are spending money on new machinery. Acimall (from Italy) recorded a whopping 54% drop in business this year compared to last year. In Italy the drop was 35% but internationally it was 59%.

FSC Certification

We like to advise you that APP Timber is not affiliated with Asia Pulp and Paper or any other related companies. APP Timber is FSC certified and we encourage all our suppliers to source from well managed forests.

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