

MARKET OBSERVATIONS



our customers
& our suppliers
are our
partners

When the 2008 recession started many of our customers told us it would take less than a year for the market to recover. I was at that time a bit more pessimistic telling everybody it would take at least two years and recovery should not be expected earlier than 2011. Unfortunately I could not have been more wrong; we are now facing a recession much worse than anticipated and, as far as I am aware, not experienced before. This time we will not make any predications how long it will last since it has hardly started. The USA has this month the lowest new job creation since the 2nd World War, the Euro-zone might be on the verge of collapse and the Chinese economy is slowing down (which in itself is not too bad). So what is the good news? Regretfully there is not any!

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.

Indonesia

Two large Taiwanese companies have opened factories in Indonesia. One of them might become Indonesia's largest indoor furniture exporter once fully operational in 2012. Both companies have operations, amongst others, in China and some of the reasons that they transfer part of their production from China to Indonesia probably are;

- Lack of manpower and increased operational cost in China
- USA anti-dumping tariffs imposed on certain Chinese made products
- Shortage of raw materials

The Indonesian government will probably be very happy with these increased investments but I think that in the long run it might cause some domestic problems;

- Labor costs will likely increase fast in areas where there is a high concentration of woodworking factories such as Medan and Surabaya
- The USA might in the next few years impose similar anti-dumping tariffs on Indonesian made goods (there are rumors that the same might

happen soon in Vietnam)

- Prices of local sawn timber will rise; this is already happening with the rubberwood prices in northern Sumatra which recently increased to as high as USD500/m³ FOB

It is likely that other Taiwanese and maybe Chinese manufacturers will follow and invest in Indonesia and this makes us wonder what impact this will have on the existing Indonesian factories over the next few years.

Thailand

Last month rubberwood sawn timber prices reached close to USD500/m³ FOB. The reasons for this are quite simple; latex prices have tripled so less trees are felled for sawn timber and the mainland Chinese are buying all sawn timber they can get their hands on. They have set up offices in southern Thailand and accept any sawn dimensions whereby the selling price is based on the weight of the contents of container rather than actual measurement. On top of that the new government in Thailand promised to increase the monthly net salary for unskilled workers from approx. USD175 to USD240. This leaves the local factories in huge dilemma as they are unable to absorb such additional costs. Last week two of our customers permanently closed their factories leaving at least 600 workers unemployed and we are pretty sure many more will follow in three month. The sad fact is that Thailand has ceased to be competitive exporting timber

products such as furniture and flooring.

China

The Chinese market remains a struggle for us; local buyers seem always able to purchase imported timber products at lower prices and there is little loyalty towards quality and/or reliability – all is 100% price driven. We do notice a slow-down in many factories due to reduced export demand and lack of manpower. Many Chinese producers are diverting exports sales to the domestic market but since the Chinese economy is expected to slow-down next year one can expect a drastic reduction of production capacity in China.

Certified Timber

Lenga also known as Chilean cherry or South American mahogany is a native species originating from the most southern area in Chile. The timber is a fine hardwood and an excellent substitute for American cherry; the grain and color are similar, yet the prices are 30 to 40% lower. The timber is kiln dried and graded similar to the American NHLA Rules and sold in various thicknesses from 26 to 51mm. The timber is suitable for a very wide range of applications such as indoor & outdoor furniture, door & windows, mouldings, panels and flooring. And **Lenga** is 100% FSC Certified which adds extra value. **Lenga** is supplied by our partners "Ignisterra". Please contact our local sales teams for more information.

Malaysia

Malaysia is struggling too but it seems that the faster rising cost of manufacturing in China and Vietnam might benefit Malaysia in the short term. Surely Malaysia is suffering too from the increased rubberwood prices but might be less affected probably due to the export ban on rubberwood sawn timber. And one advantage is that Malaysia has a modern manufacturing infra-structure with more automation than the average factories in China and Vietnam and this might result in a short-term increase of export orders. A recent ITTO report mentioned that China is fastest growing market for Malaysian furniture.

APP TIMBER News Flash

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

India

India remains a very tough market heavily controlled by importers and traders who operate on a very traditional and low-cost basis. Competition is unusually high and margins are extremely low, often driven by day to day market changes rather than long-term planning. There is a lack of a proper manufacturing infra-structure probably caused by the Indian Government's unfavorable investment climate (high taxes and interest rates) and unskilled labor. Most imported products are teak and pine logs and we see in the

short term no immediate increase in the demand for higher valued imported timber products.

Vietnam

With an inflation rate over 20% and a current interest rate of 18% (some of our customers mentioned 22%) one can imagine the struggle of the Vietnamese companies. On top of that there is a severe shortage of USD resulting in some banks charging 3-5% higher rates than the current listed exchange rate. Labor costs are also on the rise and have reached USD130-150 net per month for unskilled workers (or about USD180-200 gross). Many factories are reducing the workforce and looking for ways to improve automation.

Wood for Good

We are in the process to set up a non profitable organization called "**Wood for Good**" to promote the use of timber especially in the SE Asian construction industry. The main focus of this campaign is to create awareness amongst professionals such as architects and engineers to teach them that timber is the **ONLY** sustainable building material (if managed well) compared to steel, concrete, bricks, glass, etc). The campaign will have to be funded by all those parties who have a serious interest in this good cause (we call them "the stakeholders") and they will have to play an active role in making this campaign a success. For more information please contact Michael Hermens at hermens@apptimber.com.

visit us at www.apptimber.com