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Wood Products Brief Report

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Report Highlights:

"TH3035" – Hardwood imports are increasing as Thai furniture manufacturers shift production towards exports of furniture and construction of higher-end homes. Thailand's 2012 hardwood imports from the United States totaled more than $29 million while imports of softwood and treated lumber totaled more than $4 million.

General Information:

Executive Summary

A ban on logging and stringent measures that protect forest conservation have limited the supply of hardwood timber coming from Thailand's national forests. As a result, Thai wood manufacturers have had to rely heavily on domestic para-rubber wood supplies and hardwood imports.

Export-oriented Thai wood furniture manufacturers continue to seek alternative hardwood materials to keep up with demand from high-end furniture consumers and avoid para-rubber wood price fluctuations. In addition to growing international demand for Thai furniture, Thailand's real estate market has also benefited from the government's policy that provides incentives for first-time home buyers. Increased government support in housing activities bodes well for Thai interior designers, particularly since high-end consumers prefer hardwood (i.e. oak wood) for flooring and customized projects. Thai construction companies and interior designers expect the demand for hardwood flooring to continue trending upward. In 2012, Thailand's hardwood imports totaled more than $358 million.

Demand for coniferous wood or softwood is also increasing. In 2012, imported softwood products totaled more than $66 million. Thai manufacturers use softwood for pallets, packaging, and higher-premium quality softwood for housing and furniture. Hardwood and softwood products can be interchangeable materials for housing and furniture applications depending on consumers' preferences.

Production and Trade

An estimated 33% of Thailand's total land area is covered by forest. Production of hardwood timber from Thailand's national forest is limited due to a ban on logging and stringent measures that protect forest conservation. The production of hardwood timber from national forest areas, particularly teak, is only allowed from land managed by the state-run Forest Industry Organization (FIO). According to the FIO, it manages approximately 1.2 million rai (192,000 hectares) of forest land, with estimated annual production of 100,000 – 200,000 cubic meters. The FIO is the only government agency that is authorized to buy and sell confiscated teak wood.

The largest source of domestic hardwood in Thailand comes from para-rubber wood. Total planting area for para-rubber wood trees is estimated at 18 million rai (2.9 million hectares). Annual para-rubber wood production is only around 5-6 million cubic meters, which generated an estimated 90,000 million baht ($3 billion) for the Thai economy. The attractive price of natural rubber sheet in 2010 and 2011 at 105 Baht/kg and 132 baht/kg ($3.50/kg and $4.40/kg respectively) encouraged farmers to prolong the tapping of rubber trees, which resulted in the upward pressure of domestic price of para-rubber wood. Wholesale prices for para-rubber wood in the beginning of 2012 were 440 baht/cubic feet ($15/cubic feet) compared to an average of around 300 baht/cubic feet ($10/cubic feet) in the previous year.

Over the past several years, Thai manufacturers have been shifting their production towards exports of Thai furniture and construction of homes for higher-end consumers. It's estimated that about 70 percent of Thailand's wood furniture production is exported. Thai manufacturers, however, have had to rely on imports of tropical and temperate hardwood to meet demand because of high prices for domestic para-rubber wood and logging and forest conservation limitations. While Thai furniture manufacturers prefer to produce furniture for the export market because of higher profit margins, most of the hardwood imports for the construction sector are low-grade tropical hardwood from Malaysia and Indonesia. High-value tropical hardwoods imports like teak, rose, and Ma-Ka (Afzelia Xylocarpa Criab) are coveted by interior designers and furniture manufacturers and sourced mainly from Laos and Burma. Imports of high-value temperate hardwood are mainly from the United States and also used for furniture production. Despite the higher cost, Thai furniture manufacturers utilize U.S. hardwood because of its Forest Stewardship Council (FSC) certification which assures customers that the wood materials are produced in a sustainable manner. Manufacturers, in return, are able to parlay the certification into better returns on their high-value finished products.

In 2012, Thailand's hardwood imports totaled $358 million, a 12 percent increase from 2011 (Table 1). Hardwood imports from the United States increased 57 percent in 2012, totaling more than $29 million. In addition, Thai imports of softwood and treated lumber increased 30 percent to more than $66 million in 2012 (Table 2). Imports of U.S. softwood and treated lumber increased 210 percent from the same period last year to $4 million in 2012. Currently, U.S. softwood exports to Thailand are primarily used for knock-down housing construction, decks, and furniture.

Market Segment Analysis

<u>Furniture & Interiors Sector</u>

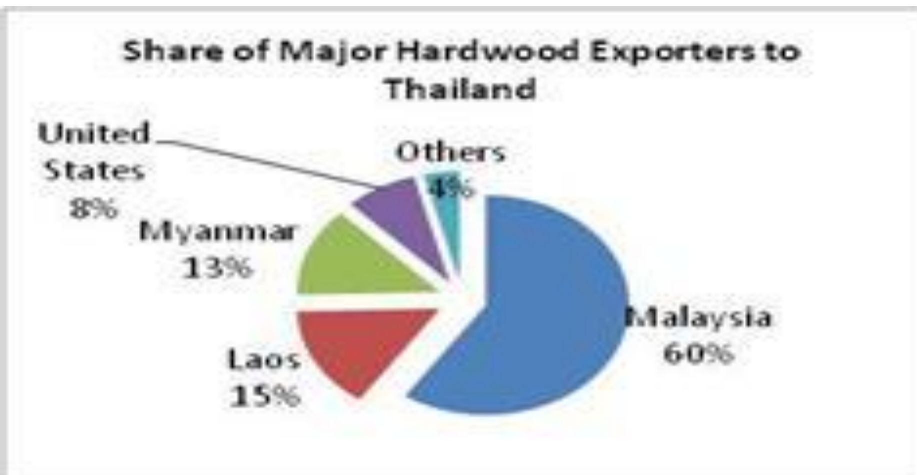
The furniture industry is one of the major export-oriented industries in Thailand with average export earnings of $1 billion per year. Total furniture exports in 2012 fell to $1.14 billion compared to $1.16 billion in 2011 due to unfavorable global economic conditions. A new law increasing the minimum wage to $10 from $7 is also likely to adversely affect furniture producers.

The Thai furniture and home furnishing sectors benefited from severe floods that took place in 2011 as companies and residents needed to replace their damaged possessions. The Thailand Kasikorn Research Company estimated the total value of the Thai furniture market in 2012 was about 59,000 to 60,000 million Baht (about $2 billion), an increase of 7 to 10 percent compared to the previous year.

The Thai Furniture Industries Association (TFA) is encouraging Thai furniture manufacturers to produce higher quality products that focus on high-end consumers and the export market. The TFA recently formed a cluster which comprises 130 Thai furniture brands and suppliers to compete with Chinese and Vietnamese furniture manufacturers. The Thai cluster focuses on exchanging information on designs, quality control, and technology transfer for product development. They also encourage manufacturers to replace para-rubber wood with higher quality U.S. hardwood to produce furniture products.

Table 1: Thailand Import of Hardwood

Thailand Import - Hardwood Lumber						
Rank	Country	2008	2009	2010	2011	2012
	United States Dollars					
	World	403,083,432	293,270,616	328,135,766	321,390,299	358,251,053
1	Malaysia	213,484,509	168,450,755	204,249,284	212,995,979	213,265,009
2	Laos	54,881,990	50,431,053	45,444,922	44,755,426	54,060,223
3	Myanmar	87,181,758	35,587,358	36,788,173	30,142,700	47,081,635
4	USA	25,808,180	21,105,562	21,264,222	18,741,765	29,352,339
5	New Zealand	2,238,597	2,865,756	3,821,660	3,052,279	2,231,494
6	China	2,296,172	2,450,541	5,039,955	2,786,185	1,332,386
7	Cambodia	278,101	568,141	535,224	1,579,768	1,834,328
8	Germany	2,141,312	1,499,298	1,498,588	1,150,771	2,189,845
	Others	14,772,813	10,312,152	9,493,738	6,185,426	6,903,794

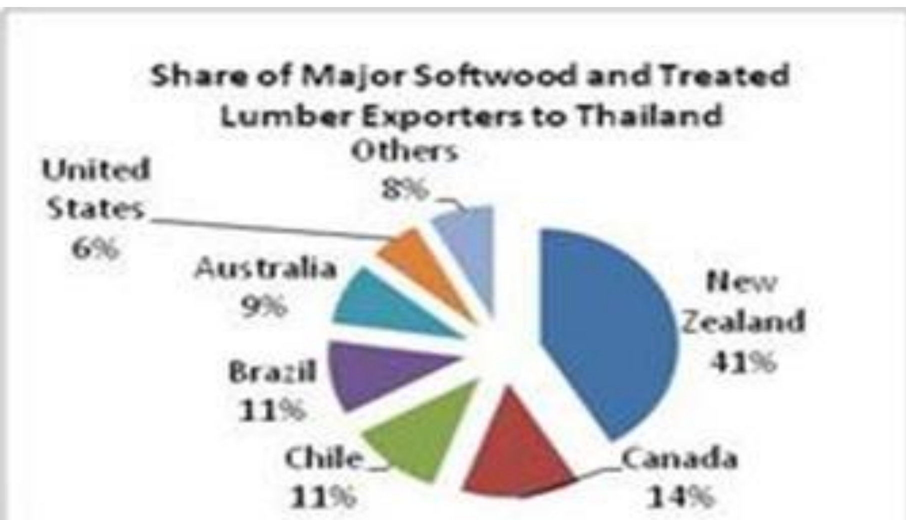


Source: Global Trade Atlas

Table 2: Thailand Import of Softwood and Treated Lumber

Thailand Import - Softwood and Treated Lumber

Rank	Country	2008	2009	2010	2011	2012
		United States Dollars				
	World	37,559,145	18,806,454	34,879,794	51,166,785	66,508,846
1	New Zealand	15,954,848	10,724,179	19,077,448	27,860,972	27,554,169
2	Canada	3,002,976	2,295,299	2,800,885	5,589,394	9,399,173
3	Chile	6,003,522	1,945,870	4,274,186	4,955,228	7,487,694
4	Brazil	458,484	51,944	697,963	2,890,137	7,008,907
5	Australia	6,209,756	2,752,264	4,509,213	5,418,199	5,815,996
6	USA	588,706	200,423	226,358	1,316,820	4,089,402
7	Finland	469,742	253,611	370,311	301,902	1,012,617
8	Sweden	1,414,118	133941	723,699	204,062	998,337
	Others	3,456,993	448,923	2,199,731	2,630,071	3,142,551



Source: Global Trade Atlas

<u>Construction Sector</u>

Government incentives are fueling the construction of new homes in Thailand. Construction of new housing increased significantly in 2012 primarily due to the government's property stimulus package which includes a 5-year tax break for new homes valued at less than 5,000,000 Baht ($166,600). First-time home buyers can also qualify for a 10 percent income tax reimbursement that continues for 5 years. In addition, the expansion of the rapid mass transit system in the Bangkok metropolis areas has also encouraged developers to invest in new condominium projects.

According to the Bank of Thailand, the number of new residential properties in Bangkok Metropolis and surrounding areas increased significantly to 101,637 units in 2012 compared to 81,856 units in 2011 (Table 2). The number of new condominiums in 2012 jumped to 58,089 units, a 67 percent increase from 34,734 units in 2011. As a result of the new developments, flooring manufacturers have received advanced orders of both engineered and laminated flooring materials from developers for the next 3 to 4 years.

Use of oak wood engineered flooring materials has also trended upward over the past couple of years. High-end condominiums, which cost 100,000 baht per square meter (sq. m.) ($3,330/sq. m.) use imported wood materials for its floorings. U.S. oak wood engineered flooring materials account for 10 to15 percent of Thailand's total flooring demand. Prices for oak wood engineer flooring average 1,200 baht per sq. m. versus 400 baht per sq. m. for laminated flooring. Industry sources indicated that Thai developers rarely use Chinese laminated materials because of their poor quality. Thai architects and interior designers also prefer to use oak wood due to its affordability compared to other U.S. hardwoods.

Table 2: Key Residential Indicators

Key Residential Property Indicators

	2008	2009	2010	2011	2012 Jan-Nov
Construction Area Permitted in Municipal Zone (,000 sq. meters)	17491.01	16985.02	17958.89	30086.63	27,239.15
Condominium Registration Nationwide (units)	**40,335.00**	**56,213.00**	**63,911.00**	**39,795.00**	**71,020.00**
Bangkok Metropolis and Vicinity	**26,275.00**	**29,618.00**	**42,108.00**	**29,055.00**	**26,614.00**
Other Provinces	**14,060.00**	**26,595.00**	**21,803.00**	**10,740.00**	**44,406.00**
New Housing in Bangkok and Vicinity (units)	**85,579.00**	**94,977.00**	**106,893.00**	**81,856.00**	**101,637.00**
Housing Project	**27,513.00**	**21,634.00**	**24,476.00**	**26,994.00**	**21,631.00**
Apartment and Condominium	**34,049.00**	**53,725.00**	**59,919.00**	**34,734.00**	**58,089.00**
Self Build Housing	**24,017.00**	**19,618.00**	**22,498.00**	**20,128.00**	**21,917.00**
Property Credit Outstanding (million Baht)	**1,284,339.40**	**1,336,872.68**	**1,448,306.24**	**1,606,923.49**	**5,102,508.04**
Real Estate Development Credit	**416,976.82**	**380,160.69**	**360,860.25**	**409,208.70**	**1,329,407.70**
Personal Housing Credit	**867,362.58**	**956,711.99**	**1,087,445.99**	**1,197,714.79**	**3,773,100.34**

Source:
1. Department of Land, Ministry of Interior
2. Bangkok Metropolitan Administration , District Offices and Municipality in provinces
Source:
4. Bank of Thailand

<u>Material Handling Industry</u>

In response to demands from international trading partners, the Thai National Shippers' Council has introduced the use of plastic, paper, and foam as alternative shipping and packing materials. Wooden pallets, however, are still the preferred packing material choice for export-oriented manufacturers because of its durability for heavy shipments. In addition, the cost of wooden pallets is cheaper than plastic pallets.

Thailand relies on imports of wooden pallets due to insufficient domestic supplies. Most wooden pallets use pine wood from Australia and New Zealand.

Table 3: Pallet Usage

Pallet Usage			
Export Region	Palllet Category	Returnable Pallelt	One Way Pallet
North America	Wood Pallet	35.40%	44.60%
	Plastic Pallet	90.40%	9.60%
	Iron Pallet	100%	
South America	Wood Pallet	64.50%	35.40%
	Plastic Pallet	80.50%	19.50%
Europe	Wood Pallet	60.80%	39.20%
	Plastic Pallet	28.50%	71.50%
	Iron Pallet	91.50%	8.50%
Asia	Wood Pallet	72.70%	27.30%
	Plastic Pallet	91.00%	9.00%
	Iron Pallet	87.80%	12.20%
Africa	Wood Pallet	73.50%	26.50%
	Plastic Pallet	100%	
Australia	Wood Pallet	80.20%	19.80%
	Plastic Pallet	86.00%	14.00%
Source: Thai National Shippers' Council (TNSC)			

[1] http://www.cintrafor.org/publications/newsletter/C4news2011summer.pdf

End Report.