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Solid Wood Products

Annual

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Report Highlights:
Reforestation efforts remain weak and Philippine forest cover and timber supply are expected to continue declining through 2007. With dwindling wood supply, the overall share of wood product imports, relative to total supply, is likely to increase in the next two years. The domestic furniture will remain as the sector that offers the brightest prospects for increasing U.S. solid wood exports during the period.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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SUMMARY

Despite the absence of current and official data on forest cover and timber production, the Philippine forest resource is expected to continue its decline through 2007. Responding to the devastating landslides in December 2004, log bans were imposed in the majority of forested areas although confusion arose as several logging permit holders were eventually allowed to harvest timber even in the landslide-affected provinces. No new forestry laws have been passed since last year but the harvesting of timber in most forested regions have been prohibited by the Philippine Department of Environment and Natural Resources (DENR). In trying to strike a delicate balance between the interests of wood-using industries and environmental groups, the DENR has instituted tighter regulations on local wood use and their movement.

Limited resources, however, continue to constrain implementation of forestry laws and illegal logging continues to be prevalent. Exacerbating the situation is the continued rise in oil prices which is forcing some households to shift away from using liquefied petroleum gas (LPG) for their cooking needs, to using alternatives such as charcoal and fuelwood. Because of this, timber supply of Philippine forests is expected to dwindle through 2007. This puts more pressure on domestic sawmills, veneer and plywood plants that are already struggling to cope with increasing manufacturing costs and low investments. Solid wood products production in the next two years is expected to reflect the shrinking Philippine forest cover. Conversely, overall solid wood product imports through 2007 are expected to increase relative to overall wood products supply.

Certain segments of the Philippine furniture sector continue to offer some good prospects for increased sales of US wood as they cater to the high-end export market, and are thus willing to pay more for higher quality imported wood products. Market development efforts geared towards that specific niche have been Post's standing guidance to the US trade.

The long-term possibilities will largely be determined by how the Philippine economy fares, and the performance of the various wood-consuming sectors. Existing log bans imposed by the DENR in most forested regions are likely to be in place for a long time although a serious reforestation program will likely be confronted by strong opposition from conflicting interest-groups. The GRP itself has acknowledged the need to build more houses, more classrooms, rehabilitate the railways, improve rural electrification, etc. All these will require significant volumes of wood and underscores the importance of getting the overall Philippine economy soundly back on track.

PRODUCTION

Forest Situation & Outlook

The Forest Management Bureau (FMB) of the DENR is the source of official Philippine forestry statistics. The latest FMB-DENR forestry numbers, however, cover CY2003 only. These may be accessed at:

http://forestry.denr.gov.ph

Although official data is not available, forest areas and cover are expected to continue shrinking through 2007 with timber removals and annual allowable cut (AAC) expected to follow this declining trend, as deforestation activities are likely to continue in the next 2-3 years.

Despite the imposition of log bans in most forested regions, logging activities continued to be prevalent last year. Even in the provinces where log bans were imposed after severe landslides in December 2004, several logging permit holders were eventually allowed by the DENR to harvest timber. This caused confusion among some wood-using sectors as well as criticism from environmental groups. Even the European Commission (EC), according to media reports, in its review of EC-funded environment projects in the Philippines last year, expressed concern over the seemingly lack of GRP interest in environmental matters as expressed by the GRP's meager budget allocation to the DENR as well as the conflict between the DENR's legal mandate to conserve natural resources, and its policies that are perceived to actively promote mining and/or logging.

No progress has been noted on two pertinent forestry bills currently pending in the legislature: the Sustainable Forest Management Bill and the National Land Use Code. Forest management policy in the Philippines is embodied in Executive Order No. 318 (EO 318) approved by President Macapagal-Arroyo in June 2004. More on EO 318 are provided in:

http://www.ops.gov.ph/records/eo_no318.htm

Community-based forest management agreements (CBFMAs) are forestry agreements with communities represented by people organizations and represent the principal GRP strategy in sustainable forest management. Japan is currently supporting a technical cooperation project with the DENR to enhance CBFM implementation. Details are provided in:

http://ecbfm.denr.gov.ph/

Rising oil prices exacerbate the forest cover situation as some households have started to shift away from the use of LPG to firewood and charcoal for their cooking needs. Some oil firms have reportedly experienced LPG sales dropping by as much as 10 percent last year. While firewood and charcoal are not necessarily cheaper, people resort to using them as they can be bought at amounts that can be consumed in a day or two. In 2000, when LPG prices were much lower, an estimated 4 out of 10 households nationwide were already using wood for cooking. There are currently an estimated 12.8 million households in the Philippines.

Solid Wood Products Situation & Outlook

Preliminary 2005 forest products production and price information from the FMB-DENR are provided at:

http://forestry.denr.gov.ph/designated.htm

According to contacts from the DENR-FMB, in 2004, there were 33 active or operating sawmills in 2004, while veneer mills and plywood plants numbered 20 and 32, respectively. The number of wood processing plants has likely declined in 2005 and is expected to continue to decrease through 2007 as a result of erratic timber supply and rising manufacturing costs as a result of increasing oil prices. Hence, overall wood products production is expected to decrease in share relative to overall wood supply during the period.

Comparatively high wood prices have likewise resulted in the increasing use of cheaper alternatives such as coco-lumber or wood derived from coconut palms or trees.
While coco-lumber is not used for structural purposes, it has displaced some volume of solid wood used for scaffolding and formworks. It is likewise being used for small and lightweight pallets. Coco-lumber is currently being sold at an estimated P11 ($0.21) per board foot, almost half the price per board foot of local hardwoods.

TRADE

The trade numbers in the following table are based on WTA data and are indicative of the declining timber supply of Philippine forests and consequently, the corresponding reduction in wood products output of local processing mills. In general, wood product imports are expected to expand through 2007, while exports, expected to decline during the same period. Imports are also likely to be enhanced by a stronger Peso which last year, was Asia's best performing currency. The Peso closed 2005 at P53.09 to a US$, a 5.7 percent appreciation from the P56.28 closing exchange rate the previous year.

PHILIPPINE IMPORTS OF SOLID WOOD PRODUCTS			
(in Cubic Meters)			% Change
	2004	2005	04/05
Total Logs	138,721	128,451	-7.4
Softwood	8,809	5,980	-32.1
Hardwood	129,912	122,471	-5.7
Total Lumber	170,447	254,038	49.0
Softwood	30,412	31,896	4.9
Hardwood	140,035	222,142	58.6
Total Veneer	44,689	45,392	1.6
Softwood	5,741	1,640	-71.4
Hardwood	38,948	43,752	12.3
Total Plywood	32,143	56,220	74.9
Softwood	969	2,540	162.1
Hardwood	31,174	53,680	72.2

Source of basic data: National Statistics Office

Wood product imports through 2007 are likely to be dominated by Malaysia and Indonesia with the latter capturing a bigger market share as a result of a potential increase in its logging quota. Indonesia reportedly will increase its logging quotas by 30 percent this year to about 11 million cubic meters. More details may be found in:

http://www.fordaq.com/fordaq/news/Indonesia_Government_logging_quota_2376.html

Philippine exports of solid wood products are provided in the following table while import tariffs, MFN and CEPT rates, are provided in RP4035.

PHILIPPINE EXPORTS OF SOLID WOOD PRODUCTS			
(in Cubic Meters)			% Change
	2004	2005	04/05
Total Logs	962	25	-97.4
Softwood	962	25	-97.4
Hardwood	0	0	n/a
Total Lumber	9,346	5,767	-38.3
Softwood	0	10	n/a
Hardwood	9,346	5,757	-38.4

Total Veneer	3,869	3,277	-15.3
Softwood	444	267	-39.9
Hardwood	3,424	3,010	-12.1
Total Plywood	25,778	21,529	-16.5
Softwood	19,735	9,762	-50.5
Hardwood	6,043	11,766	94.7

Source of basic data: National Statistics Office

MARKET SEGMENT ANALYSIS

Philippine GDP and GNP information are provided in the following link:

http://www.nscb.gov.ph/secstat/d_accounts.asp

Philippine GDP growth rate expanded 5.1 percent in 2005 slower than the official projected target of 5.3 to 6.3 percent last year, due to weak farm output and slow export demand. Philippine GNP growth, however, rose by 5.7 percent buoyed by record-level remittances from overseas Filipino workers (OFWs), although still slower than the 6.2 percent GNP growth in 2004. OFW remittances have been a significant factor in consumption expenditures in the country.

Remittances by OFWs rose 25 percent last year to a record $10.7 billion, up from $8.5 billion in 2004. Both figures represent foreign currency being sent through the formal channels, such as banks. If money sent via informal media, such as those through homecoming friends and relatives, is included, the total inflow from overseas Filipinos could easily reach $12 billion. There are currently an estimated eight million Filipinos working abroad with nearly a million seeking overseas work annually. Two-thirds of OFW remittances come from Filipinos in North America.

For 2006, the GRP is targeting GDP growth of 5.5-6.2 percent based on the expected recovery of the agricultural sector, more exports, and a larger budget allocation for infrastructure spending following the implementation of the Philippines' amended vat law (see RP6005). GRP economic planners also expect the service sector to benefit from booming business process outsourcing (BPO) and IT-related activities, all-time high tourist arrivals, and new investment opportunities for telecommunications and mining.

Downside risks to achieving the targeted economic expansion include increasing oil prices, inflationary pressures from implementation of the amended value added tax law, decreased export competitiveness due to stronger local currency, uncertain weather conditions on agriculture and sporadic political instability that could affect new investments. The current consensus is for 2006 GDP growth of around 5 percent, lower than the previous GRP growth estimate of 5.7-6.3 percent.

The optimistic economic projections, however, are placed in jeopardy after the recent failure of a congressional bicameral committee to approve the Philippine budget for 2006. Of major concern to legislators is the reported 22 percent increase in the 2006 allocation for infrastructure spending. A reenacted budget for 2006 is likely.

Construction Sector

Construction spending slowed last year to 2.2 percent from 3.0 percent in 2004. Better-than-expected government revenues in 2005, however, enabled a modest 2.6 percent expansion in public sector construction outlays, after zero growth in 2004. Private sector construction spending, on the other hand, expanded at a weaker 2.0 percent pace compared to 2004's 4.8 percent increase, pulling down the overall growth in construction.

For 2006, private analysts predict a rebound by the property sector. Industry analysts see growth across all markets in the residential segment, enhanced by the surge in OFW remittances. Filipinos working abroad now account for an estimated 30 to 40 percent of the high-end residential market (or those that cost up to P4 million or $75,470), and its share in the low-to middle-income housing sector is expected to continue to expand in the next 3-5 years.

Demand for housing worth below P3.5 million per unit, whether middle to high-rise condominium types or house and lot packages, is also expected to grow nationwide. Developers in this segment are not overly worried over the market's capacity to pay as the state-owned Home Development Mutual Fund (Pag-IBIG Fund) reportedly could extend up to P2 million ($37,735) in loans for its members. The current housing backlog stands at four million units and no substantial change in this gap is expected in the intermediate future.

Office space demand, on the other hand, continue to be driven by the flourishing call centers or the business process outsourcing (BPO) and other IT-enabled services-related companies. At present, at least 120 outsourcing companies reportedly operate in the Philippines. A top officer of the BSP reports that the spike in growth of call centers has resulted in the vacancy in top grade office spaces going down to 5 percent, which is the lowest in 15 years. Call centers are expected to increase by 50 to 60 percent this year. India remains the top Philippine competitor for call centers and some economists contend that the country's GDP could have been higher if the BPO sector is properly accounted for.

A breakdown of private building construction in the last 5 years follows:

NUMBER, FLOOR AREA, AND VALUE BY TYPE OF PRIVATE BUILDING CONSTRUCTION: 2001-2005 (Value in billion Pesos, floor area in '000 sq.m.)												
	Residential			Non-Residential			Additions/Alterations			TOTAL		
CY	No.	Floor Area	Value	No.	Floor Area	Value	No.	Floor Area	Value	No.	Floor Area	Value
2001	50,276	5,883	28.77	8,214	4,557	79.85	15,596	615	8.13	74,086	11,056	166.75
2002	63,516	7,080	36.38	10,441	5,090	41.28	17,514	611	8.26	91,471	12,781	85.92
2003	66,308	7,968	42.08	10,715	5,032	31.13	18,867	2,194	7.41	95,890	13,608	82.21
2004	71,918	8,543	49.95	11,187	5,747	40.03	19,536	588	9.51	102,641	14,878	99.49
2005	81,853	9,665	58.64	13,619	6,140	40.13	22,793	639	9.90	118,265	16,444	108.67

Note: Totals may not add up due to rounding.

Source: National Statistics Office

Furniture & Interiors Sector

The comprehensive report on the Philippine furniture entitled "The State of the Sector Report on Philippine Furniture, 2004" provided in RP5024 has been updated and released February this year. However, it has not yet been posted at the Pearl2 website (www.pearl2.net). Pearl2 is a project funded by the Canadian International Development Agency (CIDA). An electronic copy, however, may be obtained from Post.

Official data on Philippine furniture production is not readily available although it likely increased from the previous year's level based on the performance of building construction and repairs in 2005, as well as the higher export revenues generated by the industry. The United States continues to be the traditional export destination of the majority of Philippine furniture exports with wooden furniture expected to continue to dominate overall Philippine furniture exports for the next 3-5 years.

PHILIPPINE EXPORTS OF FURNITURE BY MATERIAL TYPE			
FOB VALUE IN US$ MILLION, 2004-2005			
			% Change
	2004	2005	04/05
Rattan	98.18	91.77	-6.53
Wood	127.93	144.78	13.16
Metal	29.23	31.19	6.68
Stone	7.63	6.45	-15.47
Buri Furniture	0.13	0.13	-0.20
Furnishings	2.16	1.64	-23.71
Bamboo	4.01	2.78	-30.53
Plastics	1.43	1.76	22.85
Others	2.98	2.97	-0.36
TOTAL	273.68	283.46	3.58

Source of basic data: National Statistics Office

As mentioned in RP5024, while the furniture and interiors sectors continue to hold the most promise for increased U.S. wood sales, the local industry faces many challenges. Erratic raw material supply and low productivity continues to be major problems and increasing oil and energy prices have been compounded by the GRP's imposition of new and additional taxes (refer to RP6005). To remain competitive, some furniture makers have shifted away from solid lumber to veneer use. Multi-media furniture is also increasingly becoming more popular. Last year, the local furniture industry requested for the duty-free privilege on imported lumber and other wood products but this was not granted. The stronger Peso likewise does not help, in this case. In the 2005 Pearl2 report, it notes that the low level of investments in the sector has resulted in the loss of some export-market share.

Furniture exporters had earlier set a 5 percent export growth target for 2006 but after a less-than-expected attendance in this year's Philippine International Furniture Show (PIFS), the country's premier furniture exhibit, concern over attaining the export target has been expressed.

Details on the PIFS follow:

http://www.philippinefurniture.com/news.php?news_id=1

On a more positive note, the large Philippine furniture-manufacturing firms are based or operate in special economic zones specifically designed or oriented for the export market. Companies operating in these zones enjoy special privileges and perks to encourage and enhance their export potential. These firms offer the widest window for increased U.S. wood sales in the local furniture sector. One such privilege is the eligibility to import their raw materials duty-free. Other incentives included are provided in:

http://www.dti.gov.ph/contentment/9/60/65/206.jsp#2

Material Handling Industry

In the country's current account, 2005 import growth (up by 7.4 percent or $3.3 billion) outpaced that of exports (up by 3.7 percent or $1.5 billion). Export and import growth slowed from their 2004 rates of 9.8 and 8.0 percent, respectively.

For 2006, the GRP recently adjusted downwards its 10 percent export expansion growth target to a more realistic 8 percent due to the expected weaker export growth of electronic products. Electronic products and garment are the country's two largest commodity exports accounting for roughly 65 to 70 percent of total export revenues. Semiconductor exports, which constitute the bulk (75 to 80 percent) of export revenues from electronics, slowed from nearly 10 percent in 2004 to 8.1 percent growth last year. Revenues from garments, on the other hand, realized a 6 percent year-on-year growth to reach $2.3 billion, despite the end of the U.S. quota regime and stiff competition from emerging low-wage exporting economies.

Prospects for increased U.S. sales for crates and pallets and other export-material handling use is low as wood-use for this purpose often utilizes very low-quality, cheap domestic wood and/or recycled domestic wooden materials. The domestic use of wood as a packaging material has also drastically declined in the last decade due to pricing considerations, practicality and convenience. The use of alternative materials such as plastics is growing in popularity.

Other Wood Industrial/Niche Markets

Other potential wood industrial/niche markets are outlined in the GRP's Investment Priorities Plan (IPP). These may be viewed at the link below. Click on IPP 204 for specific potential market areas.

http://www.dti.gov.ph/contentment/9/17/55.jsp

The GRP investment areas enumerated above are potential solid wood markets only should they push through. Implementation, however, will largely be determined by the long-term performance of the Philippine economy.

STATISTICAL INFORMATION

Philippine log production is assumed to be tropical hardwoods and coniferous logs only. Log and lumber production in the PSD is slightly lower than the preliminary figures provided in the above link to accommodate softwood log and lumber production. Plywood production is assumed to be all tropical hardwoods.

PSD Table						
Country	Philippines					
Commodity	Tropical Hardwood Logs				1000 CUBIC METERS	
	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		01/2005		01/2006		01/2007
Production	300	350	280	300	0	275
Imports	80	122	70	150	0	150
TOTAL SUPPLY	380	472	350	450	0	425
Exports	0	0	0	0	0	0
Domestic Consumption	380	472	350	450	0	425
TOTAL DISTRIBUTION	380	472	350	450	0	425

PSD Table						
Country	Philippines					
Commodity	Tropical Hardwood Lumber				1000 CUBIC METERS	
	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		01/2005		01/2006		01/2007
Production	170	210	150	200	0	200
Imports	230	222	240	230	0	250
TOTAL SUPPLY	400	432	390	430	0	450
Exports	25	6	30	5	0	5
Domestic Consumption	375	426	360	425	0	445
TOTAL DISTRIBUTION	400	432	390	430	0	450

PSD Table						
Country	Philippines					
Commodity	Hardwood Veneer				1000 CUBIC METERS	
	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		01/2005		01/2006		01/2007
Production	280	245	0	245	0	250
Imports	80	44	0	55	0	60
TOTAL SUPPLY	360	289	0	300	0	310
Exports	3	3	0	3	0	5
Domestic Consumption	357	286	0	297	0	305
TOTAL DISTRIBUTION	360	289	0	300	0	310

PSD Table						
Country	Philippines					
Commodity	Hardwood Plywood				1000 CUBIC METERS	
	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		01/2005		01/2006		01/2007
Production	270	233	265	245	0	255
Imports	40	53	45	45	0	45
TOTAL SUPPLY	310	286	310	290	0	300
Exports	25	12	20	20	0	20
Domestic Consumption	285	274	290	270	0	280
TOTAL DISTRIBUTION	310	286	310	290	0	300