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Housing demand foretells solid growth for MDF

An increasingly positive global economic outlook and strong growth in housing demand will drive renewed growth for medium density fibreboard (MDF) over the four years from 2010 to 2013, according to leading economic forecaster and industry analyst, BIS Shrapnel.

BIS Shrapnel's *Medium Density Fibreboard in the Pacific Rim and Europe, 2009 – 2013* report forecasts strong growth in the key end-use sectors for MDF – housing construction and furniture manufacturing. BIS Shrapnel says the downturn in housing construction in the United States reached the bottom of the cycle in 2009 and is expected to move into a rapid upswing from 2010 to 2013.

“The recovery in the US will drive economic growth not only in that region but also in many of its key trading partners around the world,” says report author and BIS Shrapnel senior manager, Bernie Neufeld. “It will also drive improved demand for furniture, and ultimately demand for MDF. Housing construction in other key regions such as Europe and Asia will also drive up demand for MDF from 2010 to 2013.”

However, BIS Shrapnel notes there has been a seismic shift in MDF markets over the past decade.

“MDF markets are now more mature, and much more price competitive, which has driven producers to improve quality and develop new products and markets,” says Neufeld. “There has also been a significant change in ownership structure – production has shifted from North America and Europe to China and Asia and over the forecast period this will continue.

“The effects of the global financial crisis will continue to limit new production facilities in North America and Western Europe but developing regions such as China, India, South America and South East Asia will expand rapidly.”

Over the past few years there have been a wide range of new uses developed for MDF. Japan has been a leader in finding many innovative end-use applications for MDF, which are now spreading to other Asian countries, and European countries have lead the way in developing laminate flooring. Neufeld says many developing markets will also expand along these lines.

“Over the next five years producers will need to respond during the upturn with improvements in quality, and the development of new products and new markets,” says Neufeld. “There is potential for MDF to be used more extensively in many applications such as flooring, zero-rated formaldehyde emission MDF, MDF panels in place of plywood panels, and applications requiring fire and water rated MDF.”

BIS Shrapnel is forecasting consumption of MDF to grow at an average rate of about five per cent per year over the five year period 2009 to 2013. This rate of growth is approximately the same as the forecasts for production and should result in a reasonably balanced global market.

Production, therefore, is expected to increase from 60.9 million cubic metres in 2009 to 76 million cubic metres in 2013, based on current expansion plans and estimated capacity utilisation rates. By 2013, North Asia will be producing 45 per cent of the world's MDF, and China alone will be producing 41 per cent.

It is, perhaps, ironic that North Asia, the largest producing region for many forest products in the world, is facing a shortage of forest resources, which will only become more severe over the forecast period. The tropical hardwood resources in South East Asia, Brazil, and other tropical forest regions, which have been a major source of supply for North Asia, will be restricted in the future as a result of deforestation and forest degradation.

"In an environment where climate change is now a critical issue for policy makers around the globe, preventing further deforestation and degradation of tropical forests will be critical to assisting the world absorb increased carbon emissions," says Neufeld.

BIS Shrapnel says other regions are also facing limited supply of forest resources. The pine beetle infestation in Canada, apparently caused by a warming climate, will place significant constraints on the supply of resources in North America over the next decade.

On the other hand, Russia has a huge potential resource of logs which have traditionally been exported to North Asia and, to some extent, Europe. This supply will dwindle as Russia implements strategies to add value to its forest resources by taxing the export of logs.

"Taxing Russian logs will have significant implications for the production of wood products in China, which is highly reliant on imported logs from Russia for further processing, as is Europe," says Neufeld. "China may need to rely more on domestic plantations and on other sources for imported raw materials and it will be critical that China produces more efficient engineered wood products such as MDF and particleboard in place of plywood and timber."

BIS Shrapnel's forecasts for MDF prices are moderate as the global economy moves into an upward phase. Over the four years from 2010 to 2013 prices are expected to increase by an annual average of between six and seven per cent. There is a danger of sharper price increases resulting from a declining US dollar and the development of high value-added products such as laminate flooring, mouldings and other products, which are in the high end of the price range and will result in higher average prices.

"Upward pressure on prices is also expected to come from rising input costs as companies voluntarily, or are forced to, shift to more stringent emissions standards," says Neufeld.

Trade forecasts remain quite similar to previous years. The key importing regions are North America (mainly United States and Mexico), North Asia (mainly Japan and South Korea), and Europe. While India and Vietnam are also net importers, South Asia as a region is a net exporter of more than two million cubic metres annually, mainly from Malaysia, Indonesia and Thailand. The United States, Japan, South Korea, India, Vietnam and other key developing regions are expected to be the key net importing regions over the forecast period.

About BIS Shrapnel

BIS Shrapnel is Australia's leading provider of industry research, analysis and forecasting services. BIS Shrapnel helps clients better understand the markets in which they operate, through reliable and detailed market data, analysis of developments and drivers and thoroughly researched forecasts.

BIS Shrapnel compiles accurate, clearly explained and detailed information on industry sectors, markets and industries in which their clients operate. BIS Shrapnel provides market size and segmentation data, market shares, consumer attitudes and supplier reputation information, and regularly conducts both business-to-business and consumer research.

Over the company's 46-year history, BIS Shrapnel has built up a strong level of expertise and unique methodologies for forecasting.