Gradual recovery in GRCH, yet decline in SEA

The post-epidemic economic recovery in the manufacturing sector continued in China, the China’s Manufacturing PMI readings, based on the National Bureau of Statistics of China, was 51.1 in July and still remained in positive territory for a fifth straight month. The GDP of China in the second quarter was 3.2% which showed a strong bounced back from 6.8% contraction in the first quarter of 2020. In Vietnam, the effects of pandemic are particularly acute for its export-reliant economy. In the first half of 2020, exports dropped by 6.7% over the same period of 2019. (sources: vietnam-breifing.com)

The total export value of U.S. hardwoods to GRCH and SEA was $924.6 million, which was down 10% over the same period of time of 2019. The hardwood export value to Greater China was $723.1 million, declined 9% (YoY). The SEA market fell at 13.5% to $201.5 million, in which Vietnam accounting for nearly 80% of that total ($160.8 million in Vietnam, dropped 14.8% YoY).

Year-on-Year changes in U.S. exports of hardwood lumber, logs and veneer to Greater China and SEA, Jan-Jul 2020 (Source: USDA)
Greater China market decreased 9%

The overall hardwood export value to GRCH market fell 9% (YoY) to $723.1 million, with lumber down 11.1% (YoY) to $471 million, logs fell 4.2% (YoY) to $247.8 million, and veneer dropped 15.8% (YoY) to $2.7 million. China’s market share of all US hardwood lumber exports was 46.8% in the first seven months which was higher than the same period in 2019 (44%), 58.6% of logs global exports, 1.9% of veneer global exports and 2% of plywood global exports.

US Hardwood Lumber Exports to Mainland China by Species Jan-Jul 2020 (Source: USDA)

<table>
<thead>
<tr>
<th>Lumber Species</th>
<th>Export Value (US$)</th>
<th>YoY % change</th>
<th>Export Qty (M3)</th>
<th>YoY % change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Red Oak</td>
<td>$166 million</td>
<td>-11%</td>
<td>291,889</td>
<td>-9%</td>
</tr>
<tr>
<td>Walnut</td>
<td>$72.6 million</td>
<td>1%</td>
<td>63,005</td>
<td>10%</td>
</tr>
<tr>
<td>Ash</td>
<td>$60.5 million</td>
<td>-16%</td>
<td>105,134</td>
<td>-8%</td>
</tr>
<tr>
<td>White Oak</td>
<td>$53.6 million</td>
<td>-9%</td>
<td>93,303</td>
<td>3%</td>
</tr>
<tr>
<td>Cherry</td>
<td>$49.9 million</td>
<td>-14%</td>
<td>70,848</td>
<td>-6%</td>
</tr>
<tr>
<td>Yellow Poplar</td>
<td>$23.5 million</td>
<td>-5%</td>
<td>63,952</td>
<td>1%</td>
</tr>
<tr>
<td>Alder</td>
<td>$14.6 million</td>
<td>-36%</td>
<td>44,226</td>
<td>-27%</td>
</tr>
<tr>
<td>Maple</td>
<td>$10.3 million</td>
<td>-4%</td>
<td>15,558</td>
<td>-6%</td>
</tr>
<tr>
<td>Hickory</td>
<td>$8.2 million</td>
<td>25%</td>
<td>14,937</td>
<td>13%</td>
</tr>
</tbody>
</table>
The most popular US hardwood species in China were red oak, walnut, ash, white oak, cherry and yellow poplar. They generated over $426.7 million exports and accounted for 91.7% of the total hardwood lumber exports to China. Up to July 2020, China purchased 87.6% of all cherry, 65.3% of all red oak, 50.1% of red alder, 62.2% of all ash and 52.8% of walnut that has been exported.

Southeast Asia market falls 13.5%

Vietnam, the driving engine of SEA market, suffered a lower exports due to global economic downturn, the consumption of American hardwood value dropped 14.8% (YoY) and weighed down the total export value of U.S. hardwood to SEA market declined 13.5% (YoY) to $201.5 million over the first 7 months of 2019. The hardwood lumber export to SEA decreased 15.7% (YoY) to $141.6 million, veneer fell 18.2% (YoY) to $11 million, logs dropped at 3.4% to $48 million.

Vietnam contributed nearly 80% to the total SEA market. In the first 7 months, Vietnam market fell at 14.8% (YoY) to $160.8 million. The cumulative export value and volume of lumber decreased 18% and 12% to $112.8 million and 272,918 (M3), veneer exports dropped by 31% to $3.1 million, logs also decreased 5% by value to $44.6 million. With business activities resuming normal operations, Vietnam’s economy is set to regain its momentum going into the second half of the year.

Among the SEA region, only Thailand markets continued the growth momentum, surged 21.3% (YoY) to
$12.3 million, other SEA markets such as Indonesia, Malaysia, Philippines and Singapore shrank from 10.7% to 47.3% (YoY).

### SEA Markets

#### Vietnam
- **Top Lumber Species (US$, YoY % change)**
  - Yellow Poplar ($43.9 million, 9%)
  - White Oak ($23.2 million, 40%)
  - Walnut ($13.8 million, 12%)
- **Top Lumber Species (M3, YoY % change)**
  - Yellow Poplar (140,398, 1%)
  - White Oak (42,270, 38%)
  - Walnut (16,198, 35%)

#### Indonesia
- **Top Lumber Species (US$, YoY % change)**
  - White Oak ($4 million, 22%)
  - Ash ($1.8 million, 157%)
  - Walnut ($1.6 million, 30%)
- **Top Lumber Species (M3, YoY % change)**
  - White Oak (6,591, 4%)
  - Ash (3,135, 181%)
  - Walnut (1,397, 16%)

#### Thailand
- **Top Lumber Species (US$, YoY % change)**
  - White Oak ($3.1 million, 13%)
  - Maple ($2.1 million, 580%)
  - Ash ($1.5 million, 14%)
- **Top Lumber Species (M3, YoY % change)**
  - White Oak (4,054, 12%)
  - Maple (4,849, 584%)
  - Ash (2,290, 1%)

#### Malaysia
- **Top Lumber Species (US$, YoY % change)**
  - White Oak ($3.3 million, 7%)
  - Yellow Poplar ($1.2 million, 14%)
  - Walnut ($1 million, 45%)
- **Top Lumber Species (M3, YoY % change)**
  - White Oak (4,940, 19%)
  - Yellow Poplar (3,092, 17%)
  - Walnut (1,164, 31%)

#### Philippines
- **Top Lumber Species (US$, YoY % change)**
  - Walnut ($0.14 million, 24%)
  - White Oak ($0.12 million, 30%)
  - Yellow Poplar ($0.062 million, --)
- **Top Lumber Species (M3, YoY % change)**
  - Walnut (83, 37%)
  - White Oak (191, 28%)
  - Yellow Poplar (158, --)

#### Singapore
- **Top Lumber Species (US$, YoY % change)**
  - Walnut ($0.073 million, --)
  - Maple ($0.027 million, --)
  - Hickory ($0.004 million, --)
- **Top Lumber Species (M3, YoY % change)**
  - Walnut (30, --)
  - Maple (26, --)
  - Hickory (1, --)

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## Market Update

### Market Survey

John Chan conducted a recent survey with traders and designers, architects from China and SEA regarding the impact of US-China trade tension in 2018-2019 and Covid19:

1. **US-China Trade Tension in 2018-2019 and Covid19 pandemic has speeded up regional market**
integration and cooperation between China and SEA. They reported that increasing number of Chinese traders/producers have increased investments in Vietnam and Malaysia, and a small number in Myanmar and Cambodia.

1. US-China Trade Tension in 2018-2019 and CoVid19 pandemic has speeded up regional market integration and cooperation between China and SEA. They reported that increasing number of Chinese traders/producers have increased investments in Vietnam and Malaysia, and a small number in Myanmar and Cambodia.

2. There were increased exports of logs for sawmills in Vietnam set up by Chinese and Taiwanese investors to produce lumber for China and Vietnamese furniture, doors and flooring.

3. There were increased furniture door and flooring production in Vietnam and the China market.

4. There were increased number of SEA furniture producers joint cooperated with Chinese re-producers to produce furniture for shipping to overseas markets.

5. The US hardwood imported by China in the first 6 months of 2020 was solely consumed in China, but not re-exported to overseas markets.

6. More Chinese traders from China have set up distribution centers through established partners with SEA traders and importers to import US hardwood for distribution. This was not only the case in China, but also Vietnam and several markets in SEA.

7. Over 70% of the properties in China and SEA are semi-furnished. This allows owner to move readily. In contrast to the past, home owners did make decisions on materials for doors, flooring and dimension. Homeowners will focus on choosing furniture and US hardwood would be their choice.


9. As increasing number of purchase orders have been cancelled, the furniture producers and the distributors in China and SEA have been under pressure to decrease the import of US hardwood and keep their inventory lower in the first half of 2020. Vietnam's lumber import led in the SEA dropped 18%, follow by Indonesia and Malaysia, with an exception of Thailand increased by 11% due to booming of property markets as the result of increase property buyers from mainland China and Hong Kong. The domestic demand of US hardwood for interior decoration and design in Thailand has yielded demand of US hardwood since the beginning of 2020.

10. As US-China Trade Tension in 2018-2019 and CoVid19 Pandemic have caused many furniture and wood product processing companies to down size, be scaled down or close down operations, increasing number of small size but more aggressive companies have been formed, adding competitions and new strength in the US hardwood trade business. The young traders and trading companies from China have adopted some new market strategy through working with partners in SEA to work with their suppliers (AHEC members) to sell entire 3 grades of lumber in contract to just selling one single grade (#1 Com and #2 Com in SEA and FAS, or higher grades in China market).

As US-China trade tension in 2018-2019 and CoVid19 pandemic has greatly impacted the export-oriented markets in the USA, EU, UK, Japan markets, SEA and GRCH domestic consumption are the potential markets. AHEC will design programs to promote US hardwood to expand domestic market in Greater China and SEA.

**Trade Show in China**

AHEC did not exhibit at CIFF Furniture Expo on September 7-11, 2020 Shanghai and FMC Premium on September 8-12, 2020 due to travel restrictions. Having said that, AHEC prepared a newsletter to keep connected with industry stakeholders during this period. We have sent out the newsletter to over hundreds of key associations including timber trade, furniture making, interior design, architects etc. In addition, AHEC members (Missouri Walnut and CX Joy) and media publications (China Timber magazine and FDM magazine) have offered AHEC to distribute AHEC newsletter, species and lumber grading rules brochures at their booths. We would like to thank you for the helping hands.