

• Excerpts & Abstracts •

TIMBER

(Specially prepared for the Manila Times by
"The Economist" Intelligence Unit of London)

The present situation in the Middle East cannot be ignored either by Far Eastern timber exporters or European importers. The likelihood of a prolonged stoppage of traffic through the Canal will be uppermost in their minds. Just as international trading had settled down again to an almost normal routine, having recovered from the initial shock of Colonel Nasser's nationalization act, the outbreak of war in the Middle East has made the Suez Canal problem seemingly more intractable than ever.

Already the Far Eastern Freight Conference has re-imposed the surcharge on freight rates which was suspended last month because traffic was moving smoothly through the Suez Canal. Further rises must be expected. In addition shipping insurance rates are rising sharply. British timber importers will thus have to press hard for price reductions from their Far Eastern suppliers to assist them to withstand the shock of higher transport costs.

The reaction of the exporting countries is, however, less certain. Many of them find themselves in an already strong market for their products. Others—for example exporters of Japanese oak—have faced a weaker demand recently. On balance, it appears probable that exporters will be willing to make small concessions to hard-pressed European importers to maintain trading. Thus it is known that some exporters of ramin from Sarawak have been accepting orders at prices up to 3 per cent below current market quotations; and although ramin is in a very healthy market, exporters are by no means unwilling sellers at the lower price.

On the other hand, importers searching for alternative sources, should the need arise, may not find it easy to locate supplies. West African woods, especially abura, are at present in short supply. British importers, in fact, experience difficulty in placing any orders for this particular wood.

But it would be mistaken to believe that the British timber trade is over-worried by this situation. In recent weeks a definite improvement has been noted in hardwood trading stemming from a slight pick-up in the furniture industry. However, this has not yet filtered through to the importers, who are anyway anxious to run down

swollen stocks, rather than place any new large orders. Before the Suez crisis there was periodic panic selling by importers, which had a depressing effect on the market at that time. The tone of the market is still being influenced by cheap offerings, designed to bring stocks down to safer levels.

Some anxiety is felt in the United Kingdom about the headway which Japanese plywood is making on the American market. In the first half of this year Japan's exports of plywood to North America (United States and Canada) amounted to almost 85,000 cubic meters, compared with a United Kingdom off-take of over 9,000 cubic meters. Even North American producers are perturbed by a situation in which they are being undercut by as much as 30 to 40 per cent in certain cheaper grades. The Japanese industry imports large quantities of logs from the Philippines, converts them into plywood and exports the converted product to these markets at prices below those of competitors.

While this situation persists there is clearly no incentive to direct Philippines-United Kingdom trade in timber. And of course the main obstacle to such trade always remains the more fundamental one of a dollar shortage in Western Europe and the resultant restrictions on imports from countries in the dollar area. The ultimate aim of the British government, at least, is sterling convertibility, but there is little likelihood of its attainment for some time to come, if only because sterling is not strong enough yet to stand up on its own feet in international commercial transactions.

Inevitably, these barriers to trade produce their own distortions. Large amounts of Philippine wood do reach the United Kingdom from various sources, such as Japan, either in the form of hardwood or converted plywood. Imports of sawn hardwood into the United Kingdom in the first nine months of this year from Japan amounted to over 1.6 million cubic meters, some of shipped Philippine timber.

Currency considerations apart, it would obviously be more sensible for the United Kingdom to trade direct with the Philippines in this commodity and eventually this should happen.

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The blockage of the Suez Canal has revived hardwood trading in the United Kingdom slightly, but the long term economic effects of this crisis

can only be harmful to the prospects for 1957 timber consumption.

There are two major economic effects of the present situation. First, supplies of oil to West Europe have been cut by about one-fifth. In the United Kingdom, at least, the price of petrol has been increased by about 1/5 a gallon; a rise which must inevitably percolate throughout the whole economy in the form of increased transport costs. Secondly, and more important still there has been the speculative flow of precious gold and dollar reserves, which has led to some talk of a possible devaluation of sterling in the near future.

A number of conclusions can be drawn for the timber trade. In the first place, there will be no relaxation in the government's tight credit policy in the early part of the next year. This will mean, simply, that the timber-using industries cannot hope for any early revival in trading. Before this latest crisis there had been reasonable expectations of a reduction in interest rates at the beginning of the new year and a removal of the restrictions on hire purchase which press so heavily on the furniture industry. Now, if anything, the Government's economic measures will become harsher still—the possibility of a further rise in interest rates cannot be disregarded.

The implications of the credit squeeze for the timber-using industries in the United Kingdom are not pleasant. The number of houses completed this year will be about 6 per cent less than in 1955 and in 1957 it will probably drop below 250,000, which means that there will be less demand for timber in this field. And even though industrial building is going ahead strongly, it is lower than at any time during the past few years. In the furniture industry deliveries to retail shops in the third quarter were 3 per cent lower than in the corresponding period of last year. With no reprieve likely from the government, in the form of easier hire purchase conditions, this industry too will be using less timber next year. Finally, shortage of petrol will curb the home demand for new cars and probably export demand as well, so that yet another timber-using trade will remain in the doldrums for some time to come.

Consumption of timber this year throughout West Europe has been much lower than the record levels of 1955. In the softwood section alone it has fallen by roughly 14 per cent. Yet trade circles have never really been despondent. The general feeling was that the lower demand was merely a temporary and, in many ways, a healthy phase so that the beginning of 1957 would find stocks at a much lower and safer level and therefore buying would be more steady and consistent next year. On the basis of the events of the past few weeks this view must now be revised. The

most that can be expected is that consumption will equal 1956 levels. This may appear to take an excessively poor view of the 1957 prospect and, in fact, it is not impossible that the whole economic scene will have been transformed by the Spring. But on the present evidence, at least, the period of readjustment which the trade has experienced this year will have to continue into next year.

Inevitably the closure of the Canal and the likelihood of its remaining out of action for at least another two months has increased a little in the timber trade. Not that there has been any panic buying on a large scale. Stocks are large enough to tide users over well into the new year.

The prices that are paid do not yet reflect the increase in freight costs which apply to all Far Eastern purchases. Certainly the battlerey of all sections of the trade for a reduction in timber prices will have to be muted for the present. The United Kingdom no longer dominates world hardwood markets and producers can usually find other markets for their woods; in any case, the present position with regard to shipping space may restrict supplies.

But looking ahead, with the consumption outlook, not only in Europe but also in North America, not so bright, prices will eventually have to come down to more realistic levels. Such an eventuality would only be in accordance with well-tried economic principles.

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It has been estimated that over 1956 as a whole American output of timber fell by 4 per cent, while actual consumption dropped by over 8 per cent, mainly as a result of the decline in housebuilding. Yet construction work of all other types was strong throughout last year and, in fact, it was only high mortgage interest rates which, in effect, restricted the number of private houses built.

Early assessments made by the trade suggest a continuation of this pattern, at least during the first half of this year. Few commentators expect the American government to lower interest rates and relax credit yet, although the events of the last year have shown that the fall in private building has not hit the timber trade as hard as was earlier expected, it is likely that the trade will be more interested in export possibilities than for a long time. The decline in domestic demand last year was the first since the end of the war. The result is that producers are now showing greater interest in overseas markets.

Shippers are glancing with special eagerness at the United Kingdom markets as a promising outlet for any surplus. In 1955 restrictions on dollar

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imports of timber into the United Kingdom were relaxed by the introduction of a quota system, which, it was hoped, would rapidly lead to a return to the pre-war hardwood trading pattern. But payments nature — progress has been slower than for a number of reasons—mainly of a balance-of-anticipated. This point has now been underlined again by the announcement by the Board of Trade in London of the arrangements for imports of hardwoods from dollar sources during 1957. The quota of £3 million f.o.b., which existed last year, continues unchanged in the current year.

Nevertheless, this does not preclude a sizeable increase in trans-Atlantic hardwood business in 1957 compared with 1956. Imports of American hardwoods into the United Kingdom last year fell by over 40 per cent compared with the 1955 figure. Yet actual consumption of American hardwoods rose: the bulk of the strategic reserve stock of hardwood sold by the government during the course of the year—about 1.5 million cubic feet—was in fact US wood. And its release has reminded consumers of the (probably forgotten) qualities of American timber. Indeed US shippers are already reporting increased inquiries from British importers.

In the annual Furniture Exhibition which is cur-

rently being held in London the trend in design and manufacture is definitely towards a darker finish and against the prevailing fashion of light finish, which has held sway for some years. Should this new trend persist, it will increase the popularity of, inter alia, American red oak, which has previously been considered too dark.

Nevertheless, it is as well to bear in mind that the quota system, referred to earlier, does set a limit to dollar trade in hardwoods. Moreover, United Kingdom hardwood consumption prospects are by no means rosy while credit restrictions are retained. Even so it will not be surprising if American timber does increase its share of the British market this year, though probably at the expense of other suppliers. Many Far Eastern shipments of hardwoods have already been delayed by the Suez Canal blockage and American shippers should be able to take advantage of this until the Canal is fully re-opened.

Man being the servant and interpreter of nature, can do and understand so much and so much only as he has observed in fact or in thought of the course of nature. Beyond this he neither knows anything nor can do anything.

—Francis Bacon

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