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Indian Economy and Industry Review

India's GDP grew at a healthy 8.6 % in 2010-11 largely due to the significant growth in the country's agriculture sector at 5.4 % which was just 0.4 % in 2009-10. Services and industrial sectors maintained their earlier growth. This performance resulted in record FII inflows and a revival in domestic investors' confidence. Net capital inflows increased from US\$ 13.7 billion to US\$ 36.7 billion as on 31st March 2010. Foreign exchange reserves grew US\$ 20 billion to US\$ 305.49 billion

The macroeconomic performance was disturbed by relentless inflation witnessed during the first half of 2010 and rising international food grain prices hardened the prices of primary food articles and the situation is still posing a problem. Our central bank RBI has been increasing interest rates in small doses to curb inflation but all reports indicate that it has not served the purpose, except that results of banks have improved, and housing loans have become expensive.

Recent economic events in the US and Europe have negatively impacted financial markets and have eroded business and consumer confidence. We say that if Europe or America sneezes, India catches cold and after with standing after effects of 2008-9 crisis for over two years Indian results have started showing weakness from second quarter of 2011-12. Industrial outputs have been eroded, exports have seen decline but the strong local demand prevents adverse effect on financial results of companies, costs of imports, mainly petroleum products have been rising, widening trade deficit gap and all these have cast their ill effects on our GDP growth, which is now estimated to be 7.6 to 8 during the current fiscal year. Still we have robust optimism that the growth may slow down but the recession will be avoided.

Our inherent strength has been local consumerism and development of secondary cities. At least 25 new well grown metros are coming up, supporting all aspects of our economy. Other bright spots are infrastructure projects, developments of roads to open up moffusil areas for development of industries, building network of canals from rivers to boost agricultural out puts.

Huge investment potential is presented by awareness for best economic land use by improving the crop patterns and modernizing agriculture with help of machines. Developments such as date palm plantations in Gujarat and Rajasthan, oil palm plantations in Kerala and other southern states, olive plantations in arid areas of

Rajasthan, floriculture and horticulture in most of the states and agro forestry to get peeling logs for plywood industry in Northern states and for paper and pulp in Southern states are being supported by Central as also State governments.

Bamboos in wastelands and medicinal herbal plants in forestry areas are also being encouraged, involving participation by forest dwelling tribals. This used to be the old order of the day and is now being sought to be re-introduced providing employment and bringing them closer to self sufficiency economically. The overall effect of this sustainable agribusiness is resurgence of our rural economy as well.

PLYWOOD INDUSTRY

Indian plywood industry is estimated at Rs.180 billion and is growing by about 10 % annually. Indian plywood market is fragmented with small and medium sized companies accounting for about 70 % of the total market. The rest is supplied by large companies. The tally of large, medium and small scale units goes over 2200. Plywood alone accounts for 78 % of the wood panel market in India. The rest comprises of engineered panels of particle boards, MDF and hard boards. Plantations and Forests contribute 58% and 22 % of the total annual wood consumption of India. Imports contribute the balance 20 % of log requirements.

Wood based industries are getting more and more organized and improving productivity by bringing latest machineries. This is increasing the share of branded products and it seems that this sector will capture 40% of market share by 2012. The data released by Excise department shows that the excise revenue collection from wood and wood products industry posted Rs.2317 million collection in the year 2010-11 against Rs.1250.4 million in the year 2009-10 or a growth of 85%. Revenue collections depend on the policy and economic situation of the country. It is felt that industry is growing well and things shall be better in years to come.

Plywood and panel product's demand is higher than what the local industries can meet and this shortfall is met mostly by imports from China, Myanmar, Malaysia and Indonesia. Some factories have put up units abroad to get raw material in the form of face and core veneers. Now the slow down in Indian economy is felt, but it has no adverse effect on local wood panel industry, as the demand outstrips what we produce and shortfall is sourced by imports.

TIMBER MARKET SITUATION AND FUTURE PROSPECTS.

Presently total demand for timber for all purposes is estimated at 95 million cubic meters and expected to cross 120 million by 2015 and 150 million by 2020.'''

Wood and wood products are in good demand continuously, and in fact some times result in acute shortage as well with the prices firming and resorting to higher imports. Major supplies of hardwoods come from Malaysia. Teak of forest origin comes from Myanmar and that of plantation origin comes from many countries, mainly from West Africa and

Central America. People wonder at India absorbing all the thinning products from teak plantations the world over. We have good use for this thin material, as also poles in rural as well as urban housing and for furniture.

Local private plantations are encouraged by government, Corporates like paper mills also go for extensive plantations to get pulpwood. Social forestry develops Five deep plantations along highways, as also railways and along canals, which meets dual purpose. Greening the country and meeting needs of rural population for firewood as also raw material for wood working units. Here also, the demand going upscale with every passing day, the global recession has had no adverse effect. Frankly speaking financial crisis of 2008-9 helped us buy timber easily as competition from affected areas was zero.

FURNITURE INDUSTRY

India's total furniture market size is estimated at Rs.500 billion. The sub-divided pattern pegs 65% to domestic sector, 20% to office sector and 15% to commercial and other sectors. With economic growth and rise in personal incomes, use of beds, dining tables, wardrobes and modular kitchens has improved and will steadily grow. 25 Satellite cities are expected to come up with population of 1 million and above, due to rapid urbanization taking place and that augurs well for all wood working units.

This sector has been growing at a rate of 15 % annually. Panel products comprise around 60% of the interior infrastructure industry and are set to gain the most. Increasing per capita income is strengthening the consumption of lifestyle products like furniture. Long term prospects for real estate sector is also optimistic and expected to grow from present US\$ 14 billion to around US\$ 50 billion by 2020.

As in other timber processing sectors in India, the share of small and medium sized companies furniture sector is around 85 %. With large scale companies coming up with economics of scale the percentage of organized sector will increase. At present most of the small scale units are using non-teak hardwoods from plantations. The species are Neem (*Melia azadirachta*), Sissoo (*Dalbergia sissoo*), Babul / Kikar (*Acacia Arabica*) *Acacia mangium*, Mango (*Mangifera indica*) etc which is a shining point from the view of tropical timber's consumption. So, taking all the above factors in consideration, global crises is not going to affect local industries but will certainly slow down the flow of imported furniture.

HOUSING SECTOR

Owing to better employment opportunities in cities, rising income levels and the growing trend of nuclear families, increasing urbanization is noticed. There is continuous migration to cities. This is causing increasing housing shortages in urban areas. By the end of 2012-13 housing shortage in cities is estimated at 21.7 million units. The same in rural areas is much greater and estimated at 53.8 million units. This forecasts good tidings for wood and wood panel industries and gives advantage to furniture industry for positive developments.

Higher interest rates policy adopted by government is making housing loans expensive but this is a passing phase. Once inflation comes under control the real estate sector will flourish once again to the benefit of timber based industries.

CONCLUSION

There is high scope for investments and improvements in our infrastructure developments as also in our agricultural sector where our productivity is almost 40 % lower than world average. Plantations of high value and rare species like Sandalwood (Santalum alba), Agar wood (Aquilaria agallocha) Red Sanders etc. also afford a good scope for investors. It will also help augur additional supplies preventing smuggling. India's partial dependence on imports of wood and wood products gives it an automatic leverage to protect and withstand effects of global recession and our consumer based economy gives good buffer support for progress of local industries.

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