

# China Medium Density Fiberboard (MDF) Investment Report, 2008



Medium Density Fiberboard (MDF) manufacturing industry is the sub-industry of manmade board manufacturing industry. Due to the advantages of MDF, like finer material and steady performance, its application in China is increasingly becoming wider and wider and China MDF output and consumption are also continuously expanding, which has made MDF the mainstream market demand for manmade board in China.

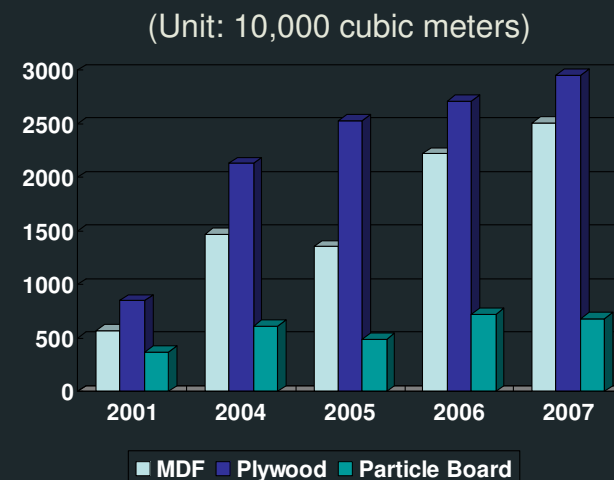
Since the features of manmade board, including wide source of raw materials, strong physical stability, enable producers to make wide high-quality board out of poor raw materials, manmade board has become the main substitution of timber gradually. By the end of 2007, China has had more than 6,000 manmade board manufacturers with a production capacity exceeding 80 million cubic meters, making China the largest country in the world in terms of production and consumption of manmade board.

According to the forecast by China National Forest Product Industry Association, during the Eleventh Five-Year Plan period (2006-2010), China's manmade board sector is expected to have a higher growth rate than the national economy by 3-5 percentage points in the same period.

With the rapid growth of industry, the production capacity of main manmade board products is also expanding rapidly. Among the three main boards, plywood has maintained the leading position for long by taking up 50% share of the total output of the three main boards. However, the market share of plywood has dropped dramatically, due to the factors that its main raw material is high quality and large-diameter lumber and policy adjustments by the central government to consumption tax and export rebate on solid wood products. It is forecasted that its share will fall to about 40% of the total output by the end of 2010. MDF and flakeboard take forest residues and sub-quality & small fuelwood as their raw materials, so they are encouraged by the national industry policy.

Nevertheless, flakeboard has developed slowly in recent years, since its quality is generally not high and its application in furniture manufacturing is not big. Relatively, MDF output has increased rapidly in recent years, and meanwhile, its share in manmade board product mix has become increasingly larger and larger, thanks to its high production resource utilization, fine materials and steady performance.

#### Output Comparison between China MDF and Other Manmade Board, 2001-2007



Source: China Forestry Industry Association; State Forestry Administration

With the improvement of living standard, China's MDF sector will surely continue to grow, boosted powerfully by continuous execution of several key government development plans, including the China Western Development Program, the Plan of Revitalizing Northeast China, the Rise of Central China as well as the policy on solving the Problems of "Agriculture, Villages and Farmers". China's economic growth, especially its sustained development of real estate industry, will inevitably stimulate a big growth in the demand for furniture, audio equipment, renovation & decoration, packaging and automobile, which will certainly propel the growth in the MDF consumption. It is forecasted that China's demand for MDF will reach 27 million cubic meters in 2010 and about 35.7 million cubic meters in 2015. Therefore, there is still a large space for the development of MDF market. However, its output will be restricted, to some extent, by the short supply of raw materials.



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