

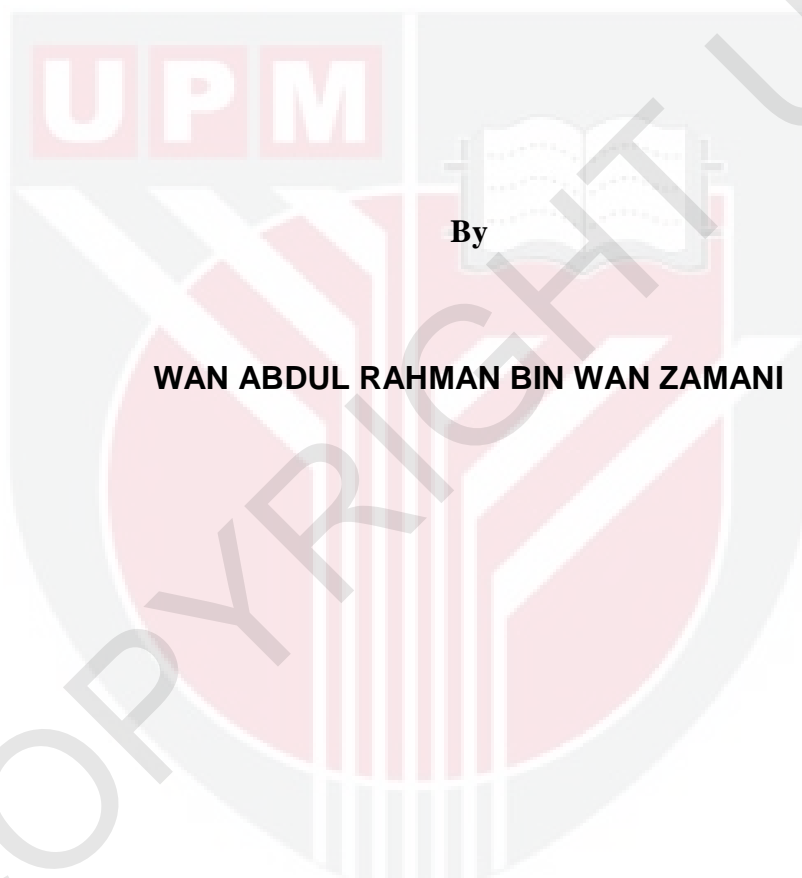


LOG PRICE STUDY IN PENINSULAR MALAYSIA

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LOG PRICE STUDY IN PENINSULAR MALAYSIA



By

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**A Project Report Submitted in Partial Fulfillment of the Requirements
for the Degree of Bachelor of Wood Science Technology in the
Faculty of Forestry
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DEDICATION

My father,

Wan Zamani Bin Wan Yusoff

My Mother,

Latifah bt Yussof

Also my siblings.

To all my friends,

Thank you for your encouragements supports

And the sacrifice that you have given

ABSTRACT

The study of domestic log price and analysis is important for the wood-based industries. The objective of this study is to analyze the trend of nominal and real domestic log prices in Peninsular Malaysia. Specifically, the study is to determine the average monthly and annual growth rate, the significant difference of mean domestic log prices between species, month and year, and the correlation of domestic log prices between species. Nine species were selected in this study namely Red Balau, Balau, Mixed heavy Hardwood, Kempas, Kapur, Keruing, Red Meranti, Dark Red Meranti and Sepetir. This study covers the period from 2005 to 2016 using monthly log prices data collected from MASKAYU, an official bulletin of the Malaysian Timber Industry Board (MTIB). The results of the study show that nominal and real domestic log prices were on slow growth at the first 60 month and upward trend after this period. The estimated average growth rate of real domestic log prices, range from 0.5% to 0.8% per month and 6.0% to 9.6% per year. There is a significant difference of mean domestic log prices between species and year. The correlation analysis of domestic log prices indicates a positive correlation between the nine species. Further studies are needed to examine the relationship between domestic sawntimber production and mill estimated capacity.

ABSTRAK

Kajian penganalisaan harga domestik kayu balak amat penting untuk industri berasaskan kayu. Tujuan pengkajian ini dijalankan adalah untuk menganalisis kadar pertumbuhan bulanan dan tahunan antara sepsis bagi harga domestik kayu balak, perbezaan ketara antara spesis, bulan dan tahun bagi purata harga kayu balak dan perkaitan harga kayu balak antara spesis. Sembilan spesis telah dipilih untuk kajian ini iaitu, Balau Merah, Balau, Kayu Keras Berat Campuran, Kempas, Kapur Keruing, Meranti Merah, Meranti Merah gelap dan Sepetir. Tempoh untuk kajian ini adalah dari tahun 2005 hingga tahun 2016 dengan menggunakan harga bulanan kayu balak daripada MASKAYU, satu bulletin rasmi bagi Malaysia Timber Industri Board (MTIB). Keputusan bagi kajian ini menunjukkan bahawa harga nominal dan harga kayu sebenar kayu balak menunjukkan aliran perlahan pada 60 bulan yang pertama dan seterusnya meningkat secara perlahan. Kadar pertumbuhan bagi harga sebenar kayu balak adalah dalam lingkungan 0.5% hingga 0.8% untuk bulanan dan 6.0% hingga 9.6% untuk tahunan. Analisis korelasi harga kayu balak domestik menunjukkan korelasi positif antara hubungan antara Sembilan spesis lain. Kajian lanjut diperlukan untuk mengkaji hubungan antara pengeluaran kayu gergaji dan anggaran kapasiti kilang di semenanjung Malaysia.

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APPROVAL SHEET

I certify that this research project report entitled “Log Price Study In Peninsular Malaysia” by Wan Abdul Rahman bin Wan Zamani has been examined and approved as a partial fulfillment of the requirements for the Degree of Bachelor of Wood Science Technology in the Faculty of Forestry, Univeristi Putra Malaysia.

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LIST OF ABBREVIATIONS

FAO	Food and Agriculture Organization
FRIM	Forest Research Institute Malaysia
SFD	Sabah Forest Department
FDPM	Forest Department Peninsular Malaysia
STIDC	Sarawak Timber Industry Development Centre
ITTO	International Timber
HHW	Heavy Hardwood
MHW	Medium Hardwood
LHW	Light Hardwood
IMP	Industrial Master Plan
DOSM	Department of Statistic Malaysia
OLS	Ordinary Least Square
AR1	Autoregression One

CHAPTER 1

INTRODUCTION

1.1 Background

Malaysia is a tropical country with total forest area approximately 22.19 million hectares (67.6%) of landmass and has been changing over time since 1990 (FAO, 2015). Currently, the total area of forests in Malaysia is estimated to be 19.12 million ha or 58.1% of the total land area, with percentage of forested lands being higher in states of Sabah and Sarawak than in Peninsular Malaysia. Logging industry has played an important role to the socio-economic and development in Malaysia. The trend of this identity has change by the year in many aspect such in the trend of production, market and as well as the price of logs. Commercial domestic logs were categorized based on; heavy, medium and light hardwood.

In Peninsular Malaysia, it has been reported that the land area was 13.18 million hectares with 5.80 million hectares of forested area in (FDPM, 2015). The average land area for Malaysia during that period of 1999-2015 was 32,855 million ha (FAO, 2015) Production of log will influence the price of log. The strong demand for Malaysian timber products combined with short supply has sent prices to fresh high levels. The timber industry is one of the major contributors to Malaysia's exports earnings, which is the third most important commodity after palm oil and rubber in 2014 (DOS, 2015; MTIB, 2015). The export of timber and timber product in 2015 was valued at RM21.14 billion, which was an increase of over three per

cent from 2014. Wooden and rattan furniture has been the major export earner and accounted for 37% of the total wood commodity exports valued at RM8.6 billion.

Under the Third Industrial Master Plan (IMP3, 2006-2020), the annual exports of the timber industry have been targeted to reach RM53 billion by 2020 (NATIP, 2009). Thus, it is anticipated that there will be a shortfall of raw materials due to the reduced opening of state land forests and alienated lands for development. This situation must be addressed urgently by implementing appropriate policy measures. One solution to this problem is to encourage outward investments in the production of logs and semi-finished components in timber resources-rich countries, to supplement the insufficient supply of local raw materials to the timber industry. The crucial roles of forests are many, one of which is as a production unit providing for the long-term availability of forest resources, including the long-term supply of timber.

The fluctuation of log market is influenced by the domestic and international market of logs and secondary products. Log prices varies by species, region, grade which dependent on log qualities such as size, length, straightness, solidness and end uses of logs. Prices of domestic logs also influence by the supply. Prices of domestic log increased because of the shortage of the supply. Shortage supply of raw material had become a critical factor that could affect the future development and production of the wood processing industry. When this situation happens, the export performance of wood processing industry in

Peninsular Malaysia adversely affected. Since the prices of domestic log are still higher, the industry tried to find the alternative solutions and was the forest plantation programmed established in many parts of Peninsular Malaysia in the 1900s.

1.2 Problem Statement

The knowledge of domestic log prices behavior is essential for business success. It helps estimate the future business performance based on the actual results from prior periods and enables the business manager to modify the operation of the business timely. This study allows to the industry to avoid major financial losses resulted from uncertain economic environment.

Besides that, demand of log decreased because of supply shortage. Log prices has changed over the years due to some factors such in logging cost, technologies improvement, policies imposed by government and also the consumption and prices of log end products. Other elements may have correlations with the log prices and wood industries in the state. When the buyers know there is a supply shortage of a certain species they will demand for other suitable species. The effect of supply shortage not only affecting the demand but also can affecting the log price in the long run.

1.3 Justification

This study focuses on domestic log price in Peninsular Malaysia. The trend and pattern of the log price is not consistent. As reported by “Maskayu” vol 10 (2016) stated that trading activities continued to stable in Peninsular Malaysia. Most mills reported that they have adequate log inventories to prepare for the coming monsoon period. The important of calculating the price elasticity of demand for log such that future forecast of log production can be made to known the consideration in the decision making process.

1.4 Objectives

The objective of this project are:

- i) To calculate the average annual growth rate (AAGR) and average monthly growth rate (AMGR) of nine species domestic log price.
- ii) To examine the long term trend and of real domestic price log.
- iii) To calculate real domestic price and its correlation between species.

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