

Building Materials

April 2008

NEWSLETTER

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SOURCING SPOTLIGHT

China rejects low-volume orders

US slump forces strategy shift

Western buyers of key housing materials, accustomed to being welcomed warmly by China suppliers, may suddenly find themselves rebuffed as the building supply industry adjusts to the construction slowdown in the US.

Reduced orders and lower volumes from the US, coupled with threats of a downturn in other developed regions, have forced more China makers of building materials to shift their priorities and start looking elsewhere to grow their business. They are finding the results to their liking. This has led to an increasing number of small orders being refused to Western buyers.

Suppliers of flooring, roofing and wall materials in China that operate near capacity are less interested in small volumes from a declining market when more opportunities are available in the domestic building sector, and in booming regions such as parts of the Middle East and Southeast Asia, and in India.

“Exports to the US have definitely slowed in both value and volume,” said Corrine Ho, sales manager of Fai Far East Aluminum Industry, a maker of panels and ceiling boards.

“While our attitude toward US buyers remains the same, we have actually been refusing orders from the US if the volume is not high enough.”

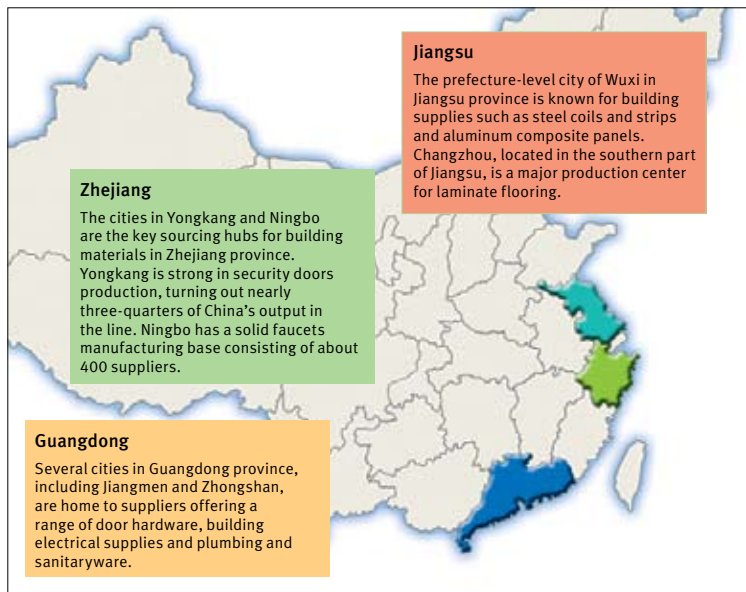
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Orders from the US have slowed to a point where China suppliers are exploring markets offering greater opportunities for expansion.

China shift

(continued from page 1)



Zhejiang, Guangdong and Jiangsu are the primary sources of building materials in China.

She added that revenue from the domestic market has increased, thereby boosting overall sales.

This shift is being seen across the building materials sector in China especially in flooring and wall materials.

In the past, a slowdown in the US might have forced even high-quality suppliers to offer buyers incentives as a means of fending off their local competitors in the face of fewer overall orders.

That is, however, not the case in this downturn. Export opportunities abound, allowing makers, even those that count the US as one of their top overseas markets, to be picky in their dealings with buyers.

“The US is our most important and biggest market but we have been refusing more orders from buyers simply because the volume is too small,” said Gavin Ji, sales manager of Zhangjiagang Yi Hua Plastics Co., the largest maker of vinyl tiles in China.

Part of the reason that other markets are so enticing to China suppliers is that many US clients are accustomed to dictating the terms of the relationship and are reluctant to accept price changes or more stringent terms, even when their order volumes drop.

“Chain stores are our main customers in the US and it is difficult to negotiate with them and persuade them to accept prices higher than they paid before,” said Ji.

Business opportunities domestically and in markets outside of the US are prompting China suppliers to refuse small orders.

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Supplier Audit

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To start working with verified building materials suppliers from China and across Asia visit www.globalsources.com today.

He added that the growth rate of Zhangjiagang Yi Hua's exports to the US has slowed in the first quarter of 2008 and that the company has already been looking at other markets.

The Wenzhou Timber Group, a maker of engineered wood flooring, is taking a similar approach by exploring other sales opportunities.

"To keep growing our business during the slowdown, we have definitely paid more attention to other markets this year, especially the EU and India," said Lisa Huang of the export department.

Zhangjiagang Elegant, a vinyl tiles maker that exports 90 percent of output, has also been able to replace the drop in US sales with business from other markets.

"Total exports to the US in the first quarter have decreased compared to last year but our shipments to the EU and Australia have risen, so we're not seeing an overall change in export volume compared to domestic production," said sales manager Edward Ding.

While orders from other regions have been increasing for many exporters, this does not mean suppliers are ignoring the US market altogether. Rather, there is a subtle shift in the type of US buyer that will remain a high priority as volumes drop.

China makers are becoming more selective in their dealings with buyers, even those from the US.

Buyers offering long-term partnerships have a better chance of closing a deal, even if the orders they place are relatively small.

Wenzhou Timber's Huang said that in her experience, the larger US buyers have been more acceptable to the inevitable upturn in prices tied to a hot industry with increasing raw material costs, and where buyers worldwide are continuing to look toward China. "Large customers in the US will accept new price quotes easier than the small buyers, especially those that own in-house brands in their markets."

For many smaller volume buyers in the US, the result is that they will have less bargaining power than in previous downturns, where suppliers

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were keen for any kind of business. It will be slightly more difficult to negotiate preferential terms and in some cases small orders may be refused altogether.

Suppliers will still be interested in clients with long-term potential, however, regardless of whether they are small or not.

“In this environment we are paying more attention to customers that offer long-term cooperation such as commercial building customers,” Zhangjiagang Elegant’s Ding said.

Refused orders will generally only come from the higher quality manufacturers that have significant sales opportunities abroad and less available capacity. This of course is the case for all building materials trade, but looks to be more so in 2008.

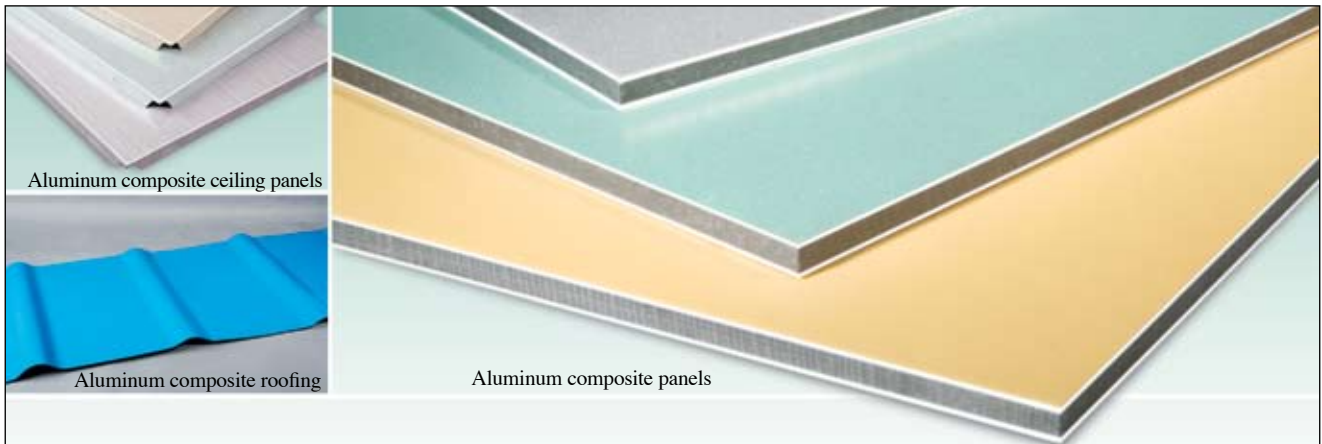
On the bright side for smaller buyers, as the downturn continues some smaller manufacturers that have relied exclusively on the US for export orders will have a difficult time making the shift to other markets. These suppliers often have sales offices only in the US and do not understand the exporting procedures and requirements for other countries. They will be hard pressed to fend off stiff competition from other suppliers in the same situation, all fighting for the leftover orders from the US. This will present some opportunities for small volume buyers.

Smaller makers could have a difficult time expanding to other markets due to their heavy reliance on business from the US.

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Exports up for multibillion dollar industry

China's exports of plumbing and sanitaryware continue to be on the upswing. Customs statistics for January and February 2008 show shipments went up more than 10 percent from the same period last year, reaching \$1.3 billion. This is after total overseas sales for 2007 jumped 20 percent to nearly break the \$8 billion mark.

Rising prices are the key drivers of growth. According to trade data, the per-unit value of China's plumbing and sanitaryware exports in the first two months of 2008 climbed 17 percent from quotes a year ago. Suppliers have been forced to implement upward price adjustments due primarily to the rising cost of key raw materials such as stainless steel, copper and nickel.

North America and the EU are the key destinations for China-made plumbing and sanitaryware. The two regions absorb 50 percent of exports combined. Despite the slowdown in its construction industry, the US remains the single-biggest market, importing more than \$160 million worth of products each month.

Suppliers work around Asia wood shortage

China makers of hardwood flooring are turning to South America as their primary source of materials. This comes after regulations limiting or completely banning the importation of timber caused a supply shortage in Southeast Asia, previously China's largest supplier of various types of hardwood.

Environmental regulations implemented in Southeast Asia include those minimizing specifically ironwood imports and a crackdown on the smuggling of logs from Indonesia. Other material sourcing hubs have imposed trade barriers as well. In April this year, Russia's export tax on logs will go up to 25 percent of value from 20 percent in July 2007 when the duty was implemented. By January 2009, exports will be charged 80 percent tax with a minimum of about \$78 per cubic meter.

South America, at present, has a sufficient supply of hardwood, although some large companies in China are investing in plantations to guard against shortage and cost increases. A&W (Shanghai) Woods Co. Ltd, one of the country's major makers of hardwood flooring, purchased a 1,000sqm area in a forest in Brazil.

Other suppliers such as Shenzhen Longeron Imports & Exports Co. Ltd are forced to accept orders depending on the availability of materials. Shenzhen Longeron procures hardwood mainly in South America, but also sources from Southeast Asia.

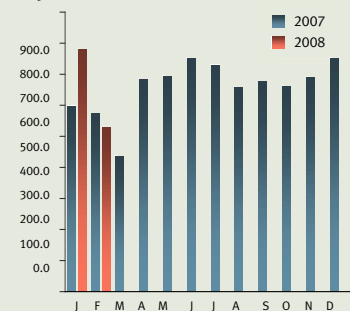
Prices jumped 17 percent in the first two months of 2008 due to steep material costs.



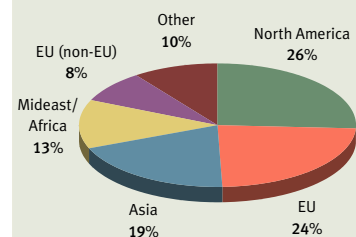
China trade data

The following trade data are based on China customs statistics for exports of plumbing and sanitaryware, covering the period January to December 2007.

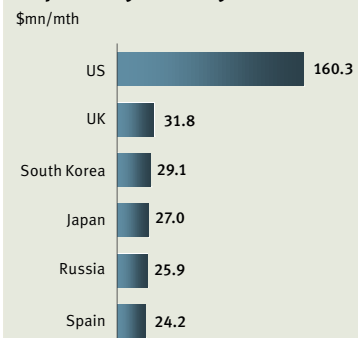
Export statistics



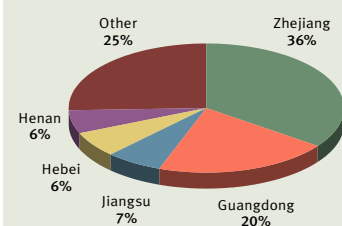
Main export markets



Exports by country



Exports by origin



Lower costs drive PV panel expansion

The downswing in the cost of PV cells is facilitating further development in China's solar panels industry. Most products adopt mono- and polycrystalline cells, which are more readily available than amorphous versions.

Shenzhen Xinonghua Solar-Energy Co. Ltd uses crystalline cells for a flexible solar panel that does not contain glass, making it practically unbreakable. The product is laminated with aluminum oxide, EVA and Tedlar.

Mainland China makers usually purchase solar cells from US, Germany, Japan or Taiwan. Companies often have long-term contracts with their providers to ensure steady supply.

Top hubs for building materials

Based on Global Sources metrics for March 2008, Zhejiang, Guangdong and Jiangsu provinces continue to receive the most inquiries for building materials in China.

More than 35 percent of buyer inquiries in the period went to suppliers in Zhejiang, where Yongkang city alone accounts for about 70 percent of the country's output of security doors.

Door handles can be procured primarily in Guangdong's Jiangmen and Zhongshan cities. Wuxi in Jiangsu is the top hub for steel coil and strips, and aluminum composite panels. About half of China's laminate flooring output comes from Changzhou.

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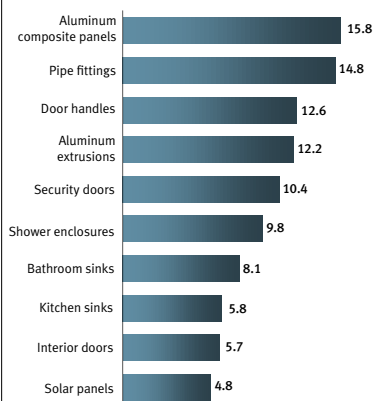
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Global Sources online metrics

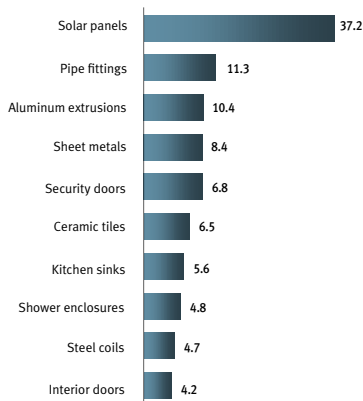
The following measurements are taken from buyer and supplier activity in the building materials categories on www.globalsources.com for the period March 2008. Visit Global Sources online and sign up for Product Alert to receive the latest supplier postings. Use the website's Product Search function to find more building materials and send inquiries directly to verified exporters.

Top 10 supplier postings



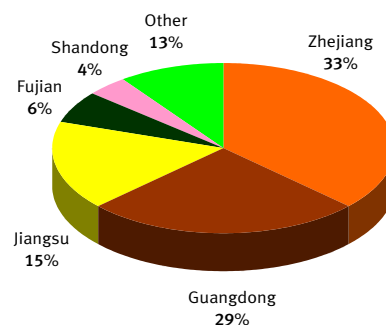
Percentage of the top 10

Top 10 buyer requests



Percentage of the top 10

Buyer inquiries by location



Results are derived from buyer and supplier website activity conducted on www.globalsources.com.

Product Gallery

All suppliers listed below are verified suppliers on www.globalsources.com.



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www.globalsources.com/simto.co



Coronet Scaffold Equipment Suzhou Co. Ltd
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Fanski Group Inc.
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Guangdong Metals & Minerals Imp. & Exp. (Group) Corp.
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LIKO Hardware Co. Ltd
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Ningbo Amico Copper Valves Mfg Inc.
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