

# New Zealand Forestry Business Outlook – September 2018

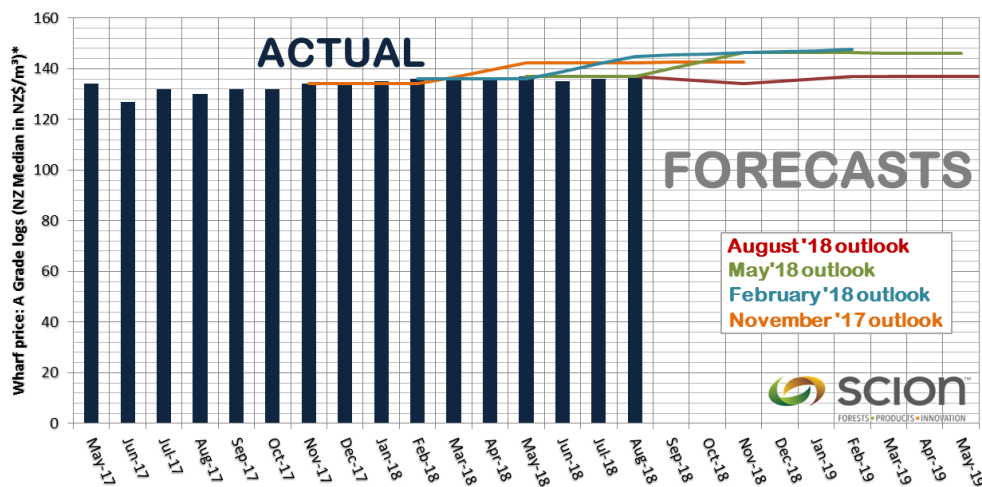
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**Until 15 October 2018 this document's distribution is restricted to participants of the Scion Log Price Outlook.**

**Summary:** Seventy-three people from various parts of New Zealand's domestic and international forestry products supply chains participated in this outlook. These participants represent a substantial component of the NZ forestry industry. In contrast to the three previous outlooks, longer term log price outlooks remain stable, with no associated expectation of increase after 6-12 months. This may reflect the relative stability seen in the log prices over the past year. Somewhat more participants expect little immediate adverse movements in log prices (the mean is -2%) for the first time in twelve months. The same respondents anticipate a stable future pricing regime and volumes are also expected to be relatively consistent with perhaps a 2% increase in a year time. Most of the respondents and forest growers do not expect any impact of the 1 Billion Trees Policy on their business in this year. China and markets are always in the focus of the respondents, however, from a focus on the domestic market and oil prices in May the attention has shifted to the USA-China trade war and the possible consequences.

**Figure 1: Wharf log price outlook (A Grade is used as a general proxy)**



\* Data source (dark blue:) AgriHQ

**Figure 2: Forestry business expectations outlook for different segments and markets over Aug 2018 to Aug 2019**

## Business Confidence

This quarter, business confidence is higher, with over 85% of respondents expecting the coming year to either remain stable or steady, or provide positive change. The majority (54%) of respondents expect a stable and steady year ahead. Positive signals such as increasing business growth and expected new planting was tempered by uncertainty around how the US- China trade wars will play out, and the extent of impact on NZ forestry business.

*“Govt enthusiasm supporting forestry offset by reducing business confidence and investment.”*

*“Global influences aside the global demand for logs and timber products sustains business confidence within our industry.”*

*“Provided the US initiated trade war does not escalate to the point where NZ's economy becomes collateral damage, the market fundamentals are still strong.”*

A similar level of business confidence was expressed for those operating in smaller regions of New Zealand to those operating in international markets. Reasons given for expecting a positive change to business included:

- An increasing demand for forest products globally, coupled with increase in domestic demand within the construction sector through the Kiwi Build programme.
  - *“demand still seems to be strong”*
  - *“Singapore (July 2018) is now New Zealand's second largest importer of New Zealand logs. The export log market is getting wider.”*
  - *“Demand is solid but sawmill production is increasing so there will be more product in the NZ market”*
  - *“Now the china volume stock not too high, and the busy season coming”*
  - *“Wood usage and demand continues to grow with rising living standards and the interest in minimising emissions”*
  - *“Despite the USA led trade war with China, there is still a need to build and construct and timber will remain a key raw material.”*
  - *“The fall in China export prices relates to the fall in the value of the Yuan, not China's demand. If log inventory gets closer to 3 million m3 in China, prices will go up.”*
  - *“The NZ construction sector will sustain growth in the domestic market as the Government's Kiwi build initiative gains traction.”*
- Stable pricing leading to contractor security longer term
  - *“More of a sense of a security for contractors than there has been in the past with more stable pricing.”*
  - *“suppliers move to a pair of proven safe hands”*
  - *“Even though there may be a slight price drop, this may mean a greater availability of skilled labour.”*
- An expectation for new planting, in conjunction with maturing stands – some respondents are already seeing increased demand for services and new business growth opportunities emerging
  - *“Continued and rising interest in new planting.”*
  - *“wall of wood thing lot of trees planted in 1990- 93 in my area coming up for harvest”*
  - *“we have a lot of work signed up”*
  - *“Increasing requests for services coming in”*
  - *“Still a lot of opportunity out there if you look for it.”*
  - *“The billion tree campaign is now spinning off more consulting and management work”*
  - *“We are undergoing a growth phase, expanding services”*
- Increased Government support for the sector – most noting a positive vibe within the sector
  - *“Positive feeling in the industry with some good government support.”*
  - *“proactive Government, this is our time to shine, we need to make the most of it”*
  - *“One Billion tree programme and MPI forestry incentives”*

Those expecting a negative change in their business over the next year were mostly concerned with macroeconomic issues resulting as a fallout from the China and US trade tariff impositions. These were seen to impact NZ log supplies in the following ways:

- Reduction in log prices, and volumes – economic slowdown in China from trade wars, depreciation of the RMB
  - *“In market log pricing will come down, due to uncertainty surrounding USA vs China trade, this will also translate into lower in market pricing for lumber.”*
  - *“The RMB will also depreciate against USD meaning purchasing power reduced but highly advantageous for exporters ex China.”*
  - *“Export log prices fell sharply Jul to Aug and are set to fall again Aug Sept this means jobs will dry up for woodlot harvesting crews and a number of them will go out of business- hence as prices recover then capacity wont be available to do jobs.”*
  - *“economic slowdown in key China market as result of trade tariff barriers impeding trade with USA”*
  - *“Prices could go either way, but if they continue to drop it could flatten volumes.”*
  - *“Because log prices will drop due to the economic impact of Trump's trade wars.”*
- Reduced wood flows between China and US – one respondent warned of Southern Yellow Pine logs being diverted into the Indian market, impacting on NZ trade with India.
  - *“USA / China spat is driving USA SYP logs towards India .”*
  - *“Trade war between Trump and China will reduce wood flows from US to China.”*
- A further softening in the Chinese construction market
  - *“China construction market has died. Tariffs from USA causing major issues.”*

A large number of comments related to the China-US trade wars, and there appears an anticipation that this issue will dominate global forces in our log markets over the near term, however, the comments were quite mixed in terms of the impacts, with some respondents seeing positive outcomes for NZ suppliers resulting from the China-US trade policies:

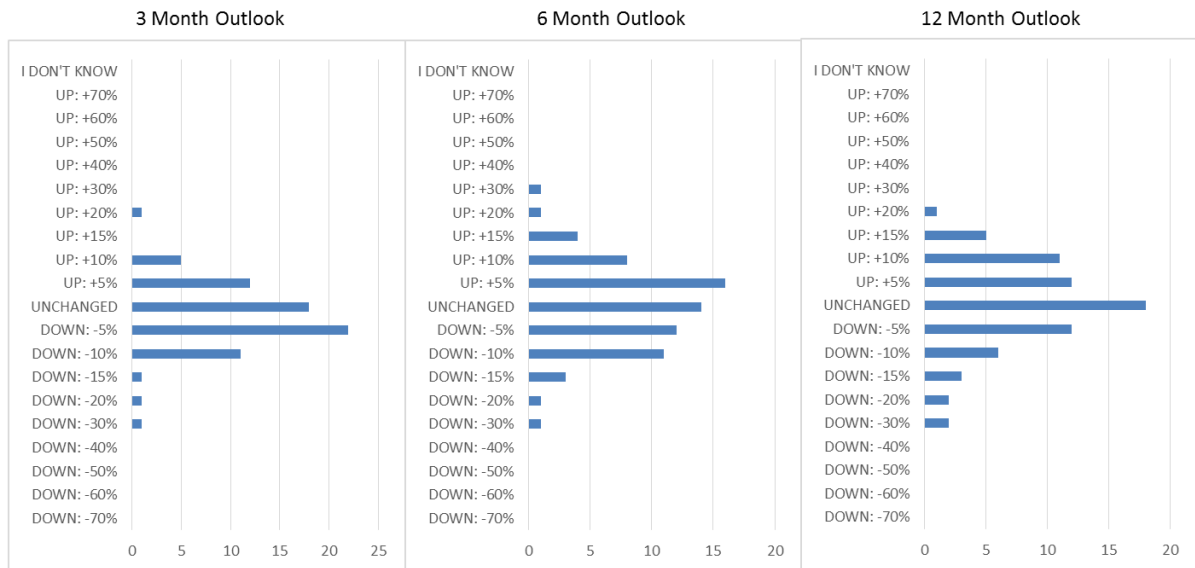
- *“China Yuan exchange will steady in next two month, and the extra 20% tax will be on the USA logs to china”*
- *“The tariff dispute between the US and China, which has seen the Yuan devalue in recent months, has been the driver of the drop in log prices that occurred in August and that situation will continue to play out in the short term. I am hopeful that it will be resolved in the medium term, but it's hard to predict. “*
- *“the tariff war might play out well for NZ exporters”*
- *“China will look for more wood from NZ”*

## **The 1 Billion Trees Policy**

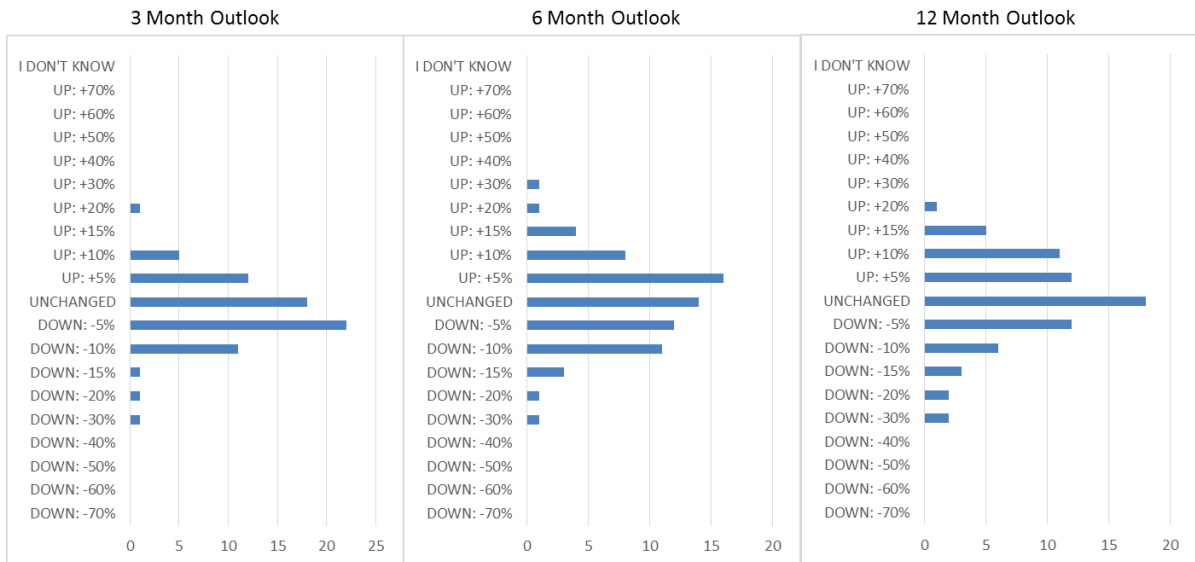
Despite the more bullish outlook in the sector, there is still a cautionary feeling due to the uncertainty in how policies will pan out. The positive change expected is due to other demand factors than the 1 Billion Trees initiative, with the majority (56%) of those indicating positive change also stating the policy would have no significant impact on their business over the 12 months ahead.

## Unpruned Log Prices

Log Price as a % of prices in Aug 2018



Log Volume as a % of Aug 2018



## Acknowledgements

Scion would like to acknowledge AgriHQ for allowing us to include some of their data in this report. Woodweek (<http://www.woodweek.com/>) and Wood Matters (<https://nz.pfolsen.com/market-info-news/wood-matters/>) are thanked for helping to promote the Outlook. The next log price outlook will take place in August 2018.

To access previous outlook reports please visit this web site:

<https://www.scionresearch.com/science/growing-the-value-of-forests/creating-value-and-competitive-advantage/log-price-outlook>

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