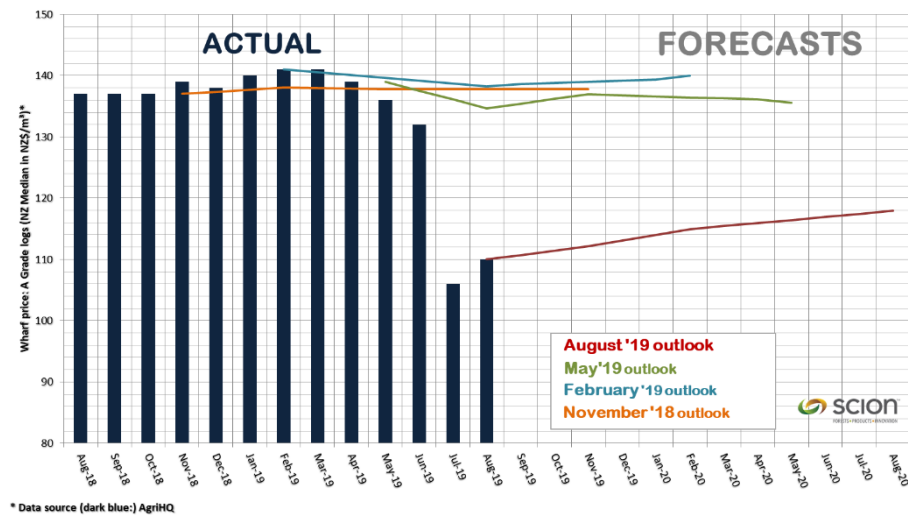


By Robert I Radics and Karen Bayne



Summary: Sixty people from various parts of New Zealand's domestic and international forest products supply chains participated in this outlook. These participants represent a substantial component of the NZ forestry industry. The export log price dropped by \$26/m³ from May 2019 to Aug 2019, with the lowest monthly price of unpruned export logs at \$106/m³ in July, including a drop of -\$15USD in just 1 week. Respondents expect the price to increase at a steady rate over the next twelve months to about \$118/ m³, and probably stabilise at a much lower price level than in recent quarters. Volumes are now anticipated to also follow price loss with a 6% decrease in the next 3 months, but reach the August 2019 volumes in 6 months' time.

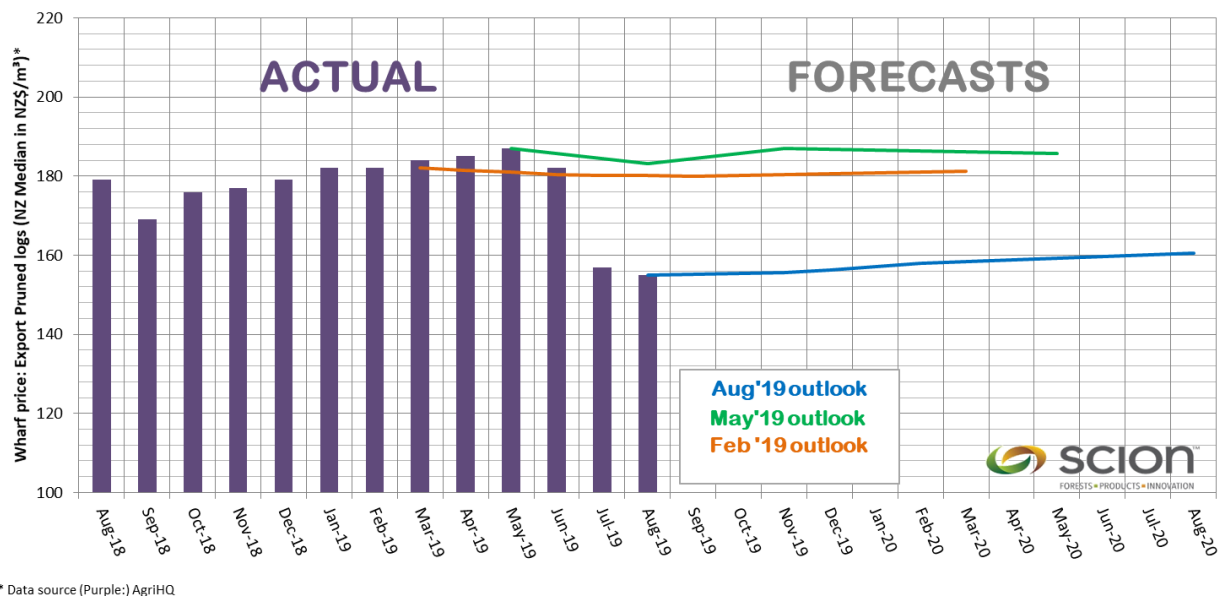
Figure 1: Forestry business expectations outlook for different segments and markets over Aug 2019 to Aug 2020 and wharf log price outlook (A Grade is used as a general proxy)



After the hectic months from May to August, the histogram forecasts (Figure 3) show higher variance between price expectations between respondents. This reflects a larger uncertainty and different views in the industry around price going forward. In twelve months' time, the majority expect a bounce back of prices, however, nobody expects to achieve the earlier peaks we were seeing at the beginning of the 2019 to return over the coming year.

The May '19 outlook indicated an expected fall in prices, and it is interesting to note the actual price levels during April- June following the Outlook's rate of fall in the trend line, but at lower prices than anticipated. Nobody foresaw the dramatic mid-year falls however, with August prices well below the peak respondent expected drop to around \$130/m³.

Figure 2: Forestry business expectations outlook for different segments and markets over Aug 2019 to Aug 2020 and wharf log price outlook (**Pruned log price**)



The pruned log price outlook in May also saw an expected fall in prices, and this occurred in June, but again not the dramatic falls in price experienced in July and August 2019. Respondents indicated in September a 6 month bouncing back period of export pruned logs up to \$158/ m³. In 12 months' time, respondents indicate the pruned log price is expected to reach between \$155/ m³ and 168/ m³.

Business Confidence

Business confidence continues to weaken, with just 64% of respondents expecting the coming year to either remain stable or steady, or provide positive change, down from 92% in February, and 78% in May. Those expecting a positive change over the coming year are now the minority (24%), with the rest split between expecting a steady and stable year (40%) or expecting negative change (36%) – those expecting a negative change is well up from 8% six months ago. The US-China trade situation, increasing supplies of European better-quality logs into our key market, current log price downturn and competition for domestic timber, and the weakened Chinese economy are the main factors in the lowered confidence. Respondents expecting prices to recover also noted that a stabilized market would remain steady at best. There are indications that a few are looking at increasing supply to alternative markets as a diversification strategy.

- *“China may have peaked as a log destination”*
- *“China’s environmental crackdown on trucks (versus rail) internally”*
- *“Spike in wood from Europe”*
- *“Ongoing China slowdown and negative impacts from US-China tariffs”*
- *“There are many warning signs in the Chinese economy”*
- *“There’s going to be volatility in all markets over the next 12 months, heading into US presidential elections”*
- *“NZ timber industry too reliant on the domestic markets, need to collaborate to supply large overseas markets”*
- *“Even though we are in a slump currently, there seems to be confidence that markets have bottomed out and will slowly come back to a new norm”*

Reasons given for expecting a positive change to business included uncertainty, the cyclical Spring season and more farm planting, and optimism that we are at the bottom of the price trough, and they will therefore only improve again:

- *“China coming out of a summer lull”*
- *“Europe strikes winter harvest slow down”*
- *“Uncertainty in the global economy raises questions by industry participants – this is typically good for us”*
- *“Change begets improvements in the consulting business”*
- *“We have reached the bottom and its onwards and upwards from here”*
- *“The only way forward is up!”*

Reasons given for expecting steady and stable business included:

- Market demand remains strong:
 - *“Demand for higher grade from export markets remains strong”*
 - *“Indications are that 1BT programme and GHG targets is generating work”*
 - *“Log supply limits us even though we have strong sales opportunities”*
- Feeling confident in management steps taken to ride out downturn and uncertainty
 - *“As long as the prices doesn’t drop further we can manage the finances”*
 - *“A period of consolidation after recent large price drops”*
 - *“An overall reasonable average for log prices in past 6 months combined with July’s drop gives a steady median”*
 - *“We have long term customers and relationships”*
- Expecting a gradual recovery shortly:
 - *“Businesses that rely on log export markets will gradually recover”*
 - *“Over the next 12 months the market will stabilise and hopefully shift up”*

Those expecting a negative change in their business over the next year referenced similar issues to last quarter, along with the increasing competition from Europe and expected drop in Chinese log pricing going forward:

- Domestic log prices:
 - *“A price war on framing timber in Auckland”*
 - *“Our log prices are higher than international prices”*
 - *“Constraints in supply of domestic logs”*
- Worsening global economic uncertainty
 - *“The world economic and political situation is deteriorating “*
 - *“US/China trade war will slow global growth rates”*
 - *“Outcome will be dictated by the USA and China trade deal outcome”*
- Increased competition affecting export prices
 - *“Increased supply of better-quality Scandinavian spruce log and sawn timber into China; backloading on rail of Scandinavian and Russian log and sawn timber into China”*

- *"Log prices will have to drop if Asian markets don't improve"*
- *"China will not be able to afford NZ logs at current prices"*

USA - CHINA Trade War impacts

This issue continues to undermine confidence in the Chinese supply chain, with respondents noting the difficulties in selling lower grades at reasonable prices, lowered demand due to the reduction in remanufactured wood being on sold into the US marketplace, and growing uncertainty in forward pricing and demand leading to financially prudent short-term decisions. The largest effect is seen in reduced log prices with reports of 5%-15% current decrease on budgeted revenues.

- *"Chinese producers undercutting FJ material in local market. Also driving lumber prices down at same time as logs."*
- *"Certainly reducing re-export of processed timber products from China to US"*
- *"Timberland owners will be getting lower stumpage prices in the near future"*
- *"Most parties thought the trade dispute would resolve itself but it is becoming apparent that this might not be so. There is a lag but it is now seriously hurting the Chinese economy."*
- *"It is seriously eroding confidence in the wood processing sectors in China. It's impacting employment, availability of capital and suppliers are beginning to dump volume into China, as there are limited alternatives."*
- *"With 50% of our log production currently going over the wharf our forestry operation faces some significant challenges."*
- *"Reduction in sales from China to US has reduced demand for logs. Processed timber/mouldings sold by China to Australia has reduced in price by 9% reducing our sales of sawn clear to Australia (by product of reduced sales from China to the US)"*
- *"Reduced demand for our professional services in one of our markets."*
- *"Corewood pricing in Asia is crashing"*
- *"Causing people to sit on their hands for a while and put their cheque books away"*

Who will win the Rugby World Cup?

New Zealand is the favourite amongst our small poll (n=42) for taking out the Cup (hardly surprising given the respondent bias), but the probability isn't overly convincing - around 48%. Given the picks folks provided (see table below), the following match results might ensue¹:

Pool A – Winner = Ireland; Runner up = ????

Pool B – Winner = New Zealand; Runner up = South Africa

Pool C – Winner = England; Runner up = France

Pool D – Winner = Australia; Runner up = Wales

Quarterfinalists: New Zealand; England; South Africa; Australia

Semifinals: New Zealand beats South Africa in first match; England vs. Australia match – no clear indication who will win...

Final: New Zealand vs either England or Australia, but NZ retains the cup!

Let's see if this eventuates over the coming months!! As with all these tournaments- expect some w's – the Unexpected Upsets!

	NZ	Sth Afr	England	Australia	Wales	Ireland	France	Italy
For	20	8	4	4	3	1	1	1
Against	22	32	38	38	39	41	41	41
Probability	48%	19%	10%	10%	7%	2%	2%	2%

¹ This outcome assumes the team with highest odds wins the pool, and subsequent matches are also won based on odds provided by respondents.

Figure 3: Forestry business expectations outlook for unpruned log prices



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 Nov 2019.

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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