

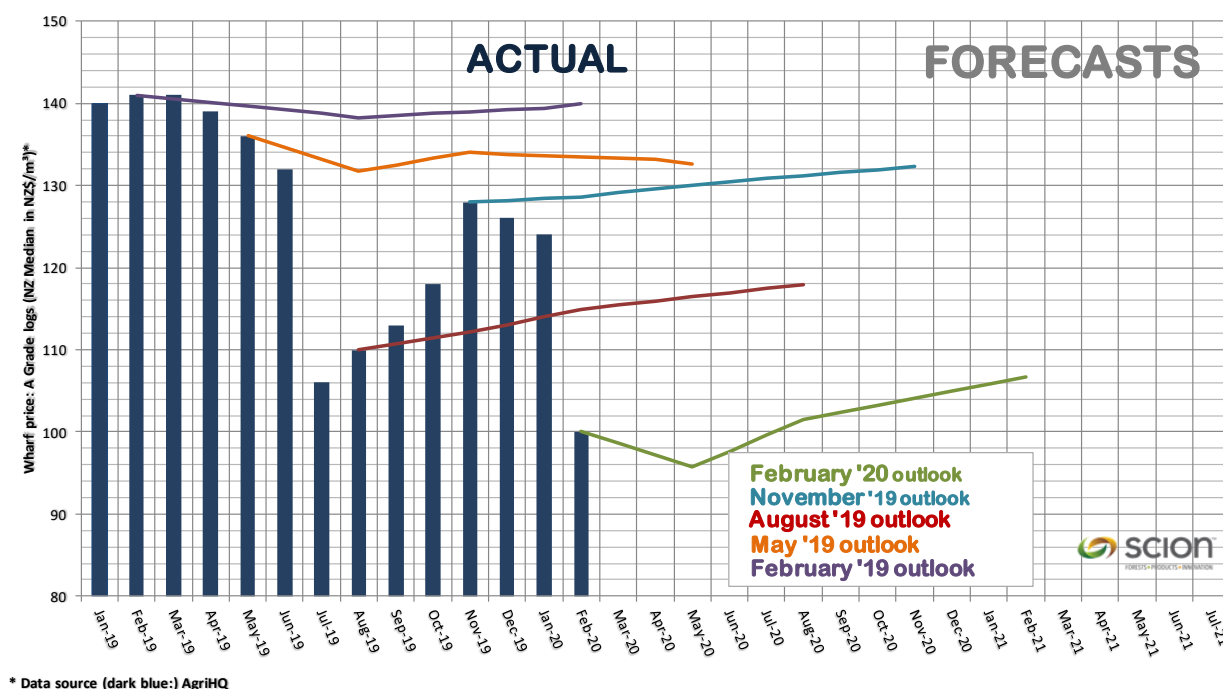
By Karen Bayne and Melissa Welsh



Looking forward, respondents see further price decreases for both pruned and unpruned logs short term, before a subdued recovery to around \$107/m<sup>3</sup> for unpruned, and \$151/m<sup>3</sup> for pruned logs respectively, by February 2021. Respondents did not anticipate the impact of coronavirus on market conditions to improve much before late April or early May at the earliest. While the price recovery from July 2020 is anticipated to occur at a much faster rate than was being projected following the July-Aug 2019 price fall, it is clear that participants expect the coming quarter to remain particularly challenging across the whole of the forest sector value chain.

## LOG PRICE OUTLOOK

**Figure 1:** Forestry business expectation outlook for unpruned wharf log price over the period Feb 2019 to Feb 2020  
(A Grade is used as a general proxy)



Following rapid price increases during Spring of 2019, prices began to fall at a rate of \$2/m<sup>3</sup> per month between November and January. The industry then took a triple hit in late summer: The Chinese log market was already oversupplied when the market shut down for Chinese New Year, and the recent coronavirus outbreak has caused ongoing impacts in the Chinese supply chain, both at the wharf and in factories. Reduced labour due to quarantines has severely reduced offloading capacity at Chinese ports, with upstream impacts into our own domestic supply chain, slowing harvesting production, and wider forest sector business.

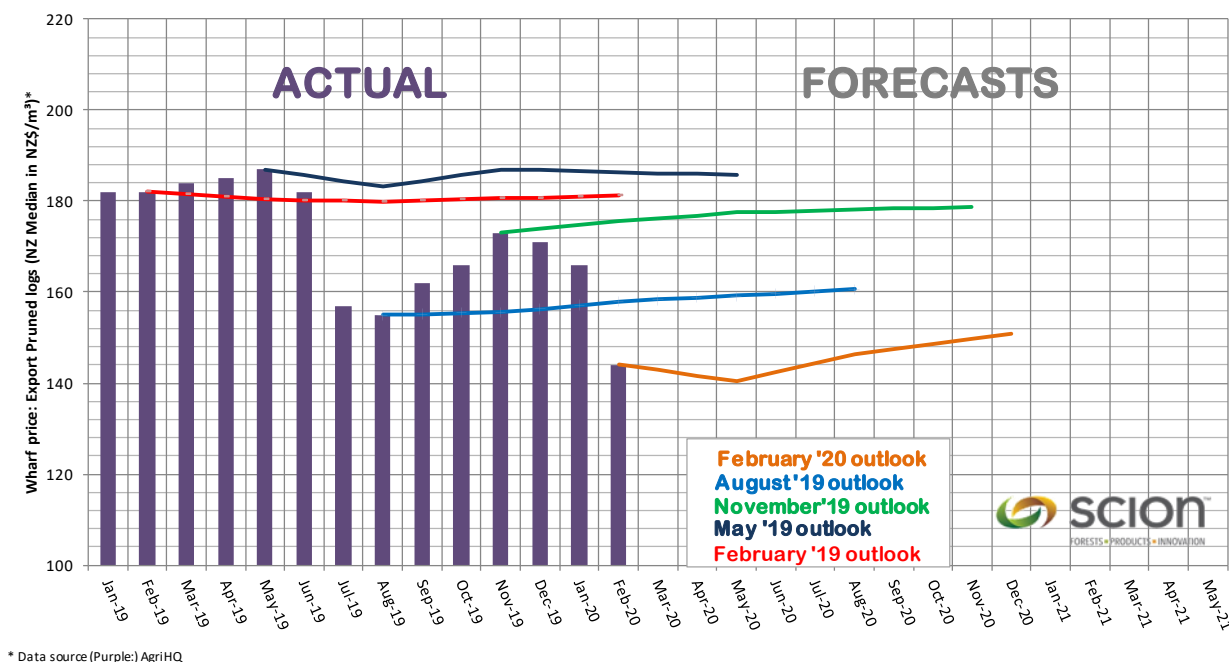
Figure one shows the volatility in the unpruned market price conditions during 2019, where the industry was riding the crest of a price peak of just over \$140/m<sup>3</sup> 12 months ago. Following a very steady and stable pricing environment during 2018, participants at that time expected similar conditions to prevail during 2019. Instead, the unpruned log market is currently at its lowest price level since Q2 2015.

Participants predict prices to fall further, mainly due to the delayed effects from coronavirus impacting log supply for the coming quarter, before a steady but fast recovery back to \$107/m<sup>3</sup> by Feb 2021.

Figure 2 reflects a very similar trend in pricing outlook for pruned logs, back to \$151/m<sup>3</sup> by Feb 2021 after further short-term price falls.

Although respondents indicated a higher 12-month percentage price increase than for the more recent Scion log price outlooks of 2019, the log price outlook remains very conservative given the past two years' monthly average prices, reflecting weak business confidence, the volatility experienced during 2019, and the exposure to the weakened Chinese economy.

**Figure 2:** Forestry business expectation outlook for pruned wharf log price over the period Feb 2019 to Feb 2021 (Export pruned price)



The histograms (pg 6- 7) also show a very diverse range of opinions on where log prices are headed. Unpruned prices are expected to be ↑ 7% in 12 months, ↑2% in 6 months but ↓4% over the next 3 months. Participants ranged across an average 40-45% difference in pricing opinion for each of these outlook periods.

Similarly, pruned prices are expected to be on average ↑ 6% in 12 months, ↑2% in 6 months but ↓2% over the next 3 months, with wide ranging price opinions of between ↑10% to ↑30% for the 12 month outlook period.

The participant expectations on export log volumes were also particularly widespread, ranging from ↓40% to ↑30% anticipated volume change for the next 3 months — not surprising given the very uncertain current conditions — so it is very difficult to know what may unfold!! Uncertainty remained wide even out 12 months, however, though the outlook shows an average volume increase of just 1% on Feb 2020.

In contrast, the majority of participants expect domestic log volumes to remain unchanged, with fairly stable volumes, particularly in 12 months' time (average of ↑1% change in volume), however a few participants expect short term growth in domestic volumes as logs are diverted away from weakened export markets, to supply mills with current strong demand. Others expected lower domestic volumes during the next 3-6 months due to lower harvesting volumes overall, and a rebound in the international demand with price recovery after the coronavirus clears.

## BUSINESS CONFIDENCE

Business confidence has weakened substantially, with just 17% of respondents expecting a positive change for the year, and the majority (60%) expecting a negative change in business activities over the next 12 months. We are in very different market conditions from a year ago, when business confidence was very high, log prices had peaked at \$141/JAS m3 and just 8% expected negative change in business conditions during 2019.

In recent weeks, the US-China trade situation has been overshadowed by the outbreak of corona virus (COVID-19), which further slowed the Chinese return to work following Chinese New Year closures. This also comes following a drop in prices of \$NZ11/ JAS m3 in January. Log prices remain fluid, and it is increasingly

difficult to get a clear picture of the evolving situation. These current instabilities, along with an oversupply of export logs due to the reduction in offloading capacity at Chinese ports and increasing supply of spruce logs, provide for a constrained outlook in the near future, which commentators expect to be similar in impact to the July 2019 price fall. However, participants noted the expectation that longer term demand for logs will continue to be strong, both domestically and within key export markets, despite the current supply constraints. Price recovery for logs might take a longer timeframe than was previously anticipated.

- *“China log market will gradually recover as covid-19 infection rate peaks and declines”*
- *“Market uncertainty”*
- *“The increased log supply....will drive prices down”*
- *“I expect a gradual increase in prices for the [European] better quality logs and timber”*

Reasons given for expecting a positive change to business:

- *“China will bounce back quickly”*
- *“Corona virus will have come and gone”*
- *“Looking to expand our forestry estate.”*
- *“Over correction in current prices”*
- *“Current over supply will not cause a long term impact – plenty of demand when the Chinese return to work”*
- *“Trump won’t rock the boat too much in an election year”*

Reasons given for expecting steady and stable business included continued demand, particularly domestic; and anticipation of swift recovery in market conditions following the Covid-19 outbreak.

- *“The China log market will gradually recover”*
- *“A small reduction in price and in volumes still leaves a massive and buoyant trade in logs for NZ in the NZ/export business.”*
- *“the domestic log market will remain steady”*
- *“Our business is less affected by short term changes than most so we are likely to continue as per usual, assuming the markets resume after the virus issues are resolved over the next 6 months.”*

Those expecting a negative change in their business were focused on the competition into markets from European spruce, combined with short term impacts from coronavirus delaying price recoveries in our key Chinese log market.

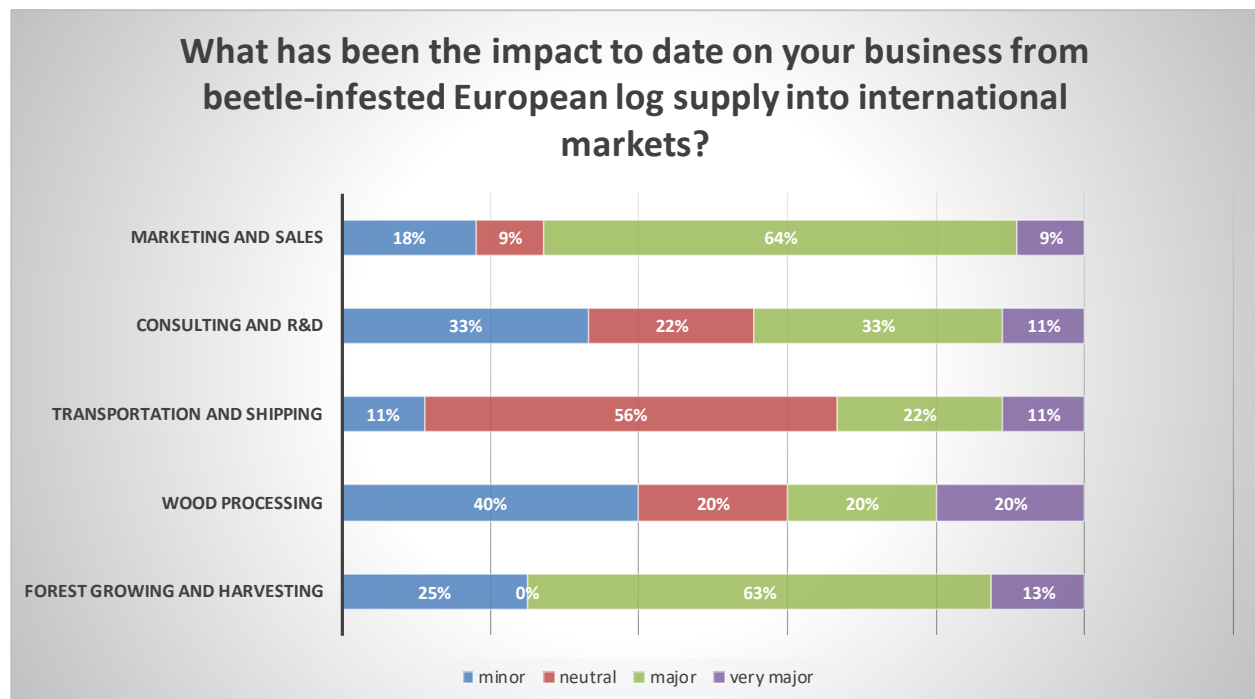
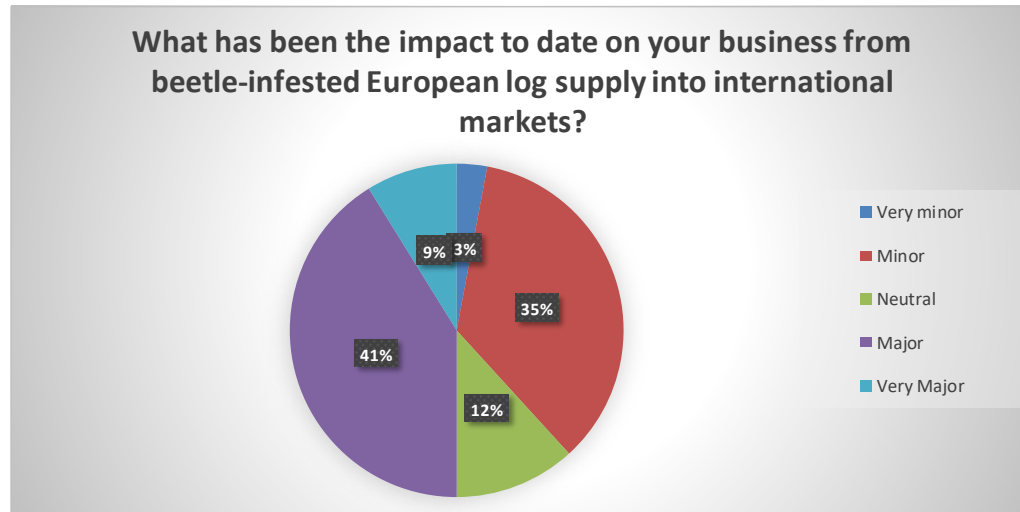
- *“Short term market instabilities driven by the coronavirus outbreak will negatively impact our industry”*
- *“Forest owners will look for markets outside of China”*
- *“China market will be difficult this year, not least because of the increased supply from Europe”*
- *“Coronavirus and elections”*
- *“China is oversupplied. even allowing for the Coronavirus effect”*
- *“Short-term effect is definitely negative but it is uncertain how pronounced the downturn will be and how long it will last for.”*
- *“NZ election will also have an effect”*

Some people provided more detailed outlooks on the current situation, including quantitative estimates:

- *“Export Pruned Log price will remain same as it will be artificially held up by increased NZ Domestic Demand (despite the closure of several Pruned sawmills---the fittest will survive and prosper as per the “Law of the Jungle”)”*
- *“Export A Grade Log Price will decline as much as 25% caused by increased harvest of Bavarian salvage logs and the sheer weight of new Russian sawn timber production becoming readily available worldwide. There are many new high tech Sawmills being commissioned in Russia and many more planned.”*
- *“The coronavirus will kill all growth opportunities in China for the next 3 months as getting inventories down to anywhere close to normal levels will be the key to getting back to a balanced market. The European spruce log exports should be at least 10 million m3 in 2020 (vs. about 7.5 million m3 in 2019. The market for construction-grade logs will become absolutely saturated as volumes from Europe compete with US PNW, BC Coast and Russia - ouch! NZ A grade should feel only some pressure, but lower grades of radiata directed at the construction market will face severe competition and low prices.”*
- *“The high inventory due to the corona virus will last a few months. Once the market recovers the ceiling price will likely be set by the price at which South American supply to China becomes viable again.”*
- *“Prices have dropped at least 30% in last month. I do not expect they will recover that loss for some time. I believe NZ harvest rate will remained constrained as a consequence of European Union Spruce supply at current levels for at least another 12 months.”*
- *“Thoughts are the next 3 months will be very hard due to high stockpiles. China will import more from Europe by Rail [cheap freight]. Forest owners will look for markets outside of China”*

## EUROPEAN LOG SUPPLY

The impact on the sector from oversupply of lumber out of the European forest due to beetle infestation has been mixed. Half of respondents indicated major or very major impacts; while 38% indicated the effects were minor or very minor, and 12% stated the impact as neutral:

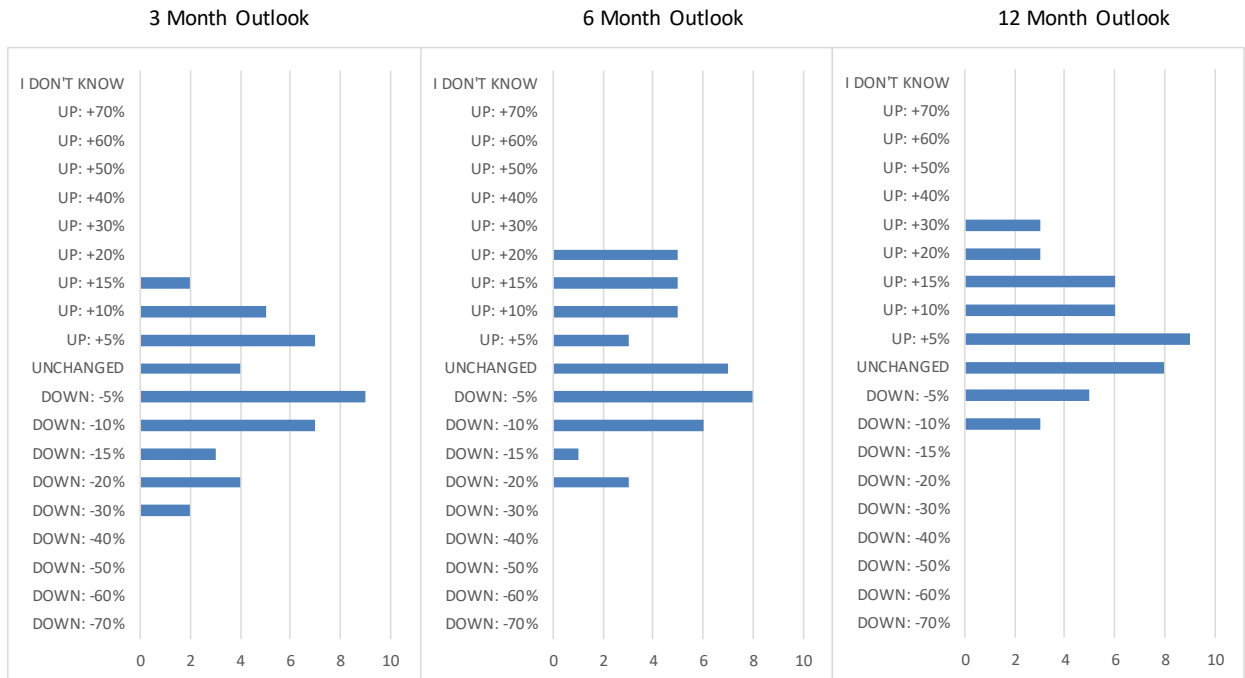


The impact by operation shows forest growing and harvesting along with marketing and sales operations have experienced major impacts, while transportation and shipping have not been as badly impacted. The majority of wood processors had only minor or neutral impacts, possibly as they are not competing in the same markets as the European imports. However, 20% stated the beetle-infested log supply had a very major impact on their business. Wood processors stated the reduced domestic harvest due to international oversupply into Asia had had a follow on impact of reducing the already constrained New Zealand pruned log supply, with major impact on their business. One processor also stated a significant change in trading partners had occurred.

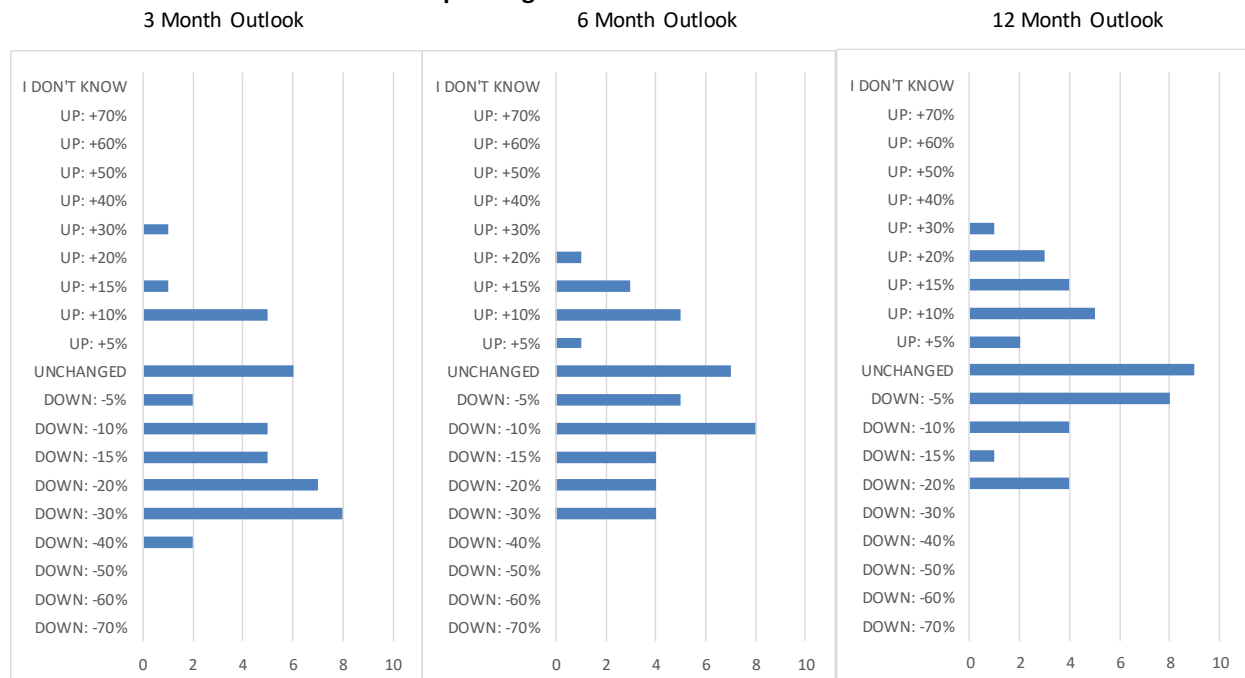
## FORESTRY BUSINESS EXPECTATIONS OUTLOOK - HISTOGRAMS

### Unpruned Log Prices

Log Price as a % of prices in Feb 2020

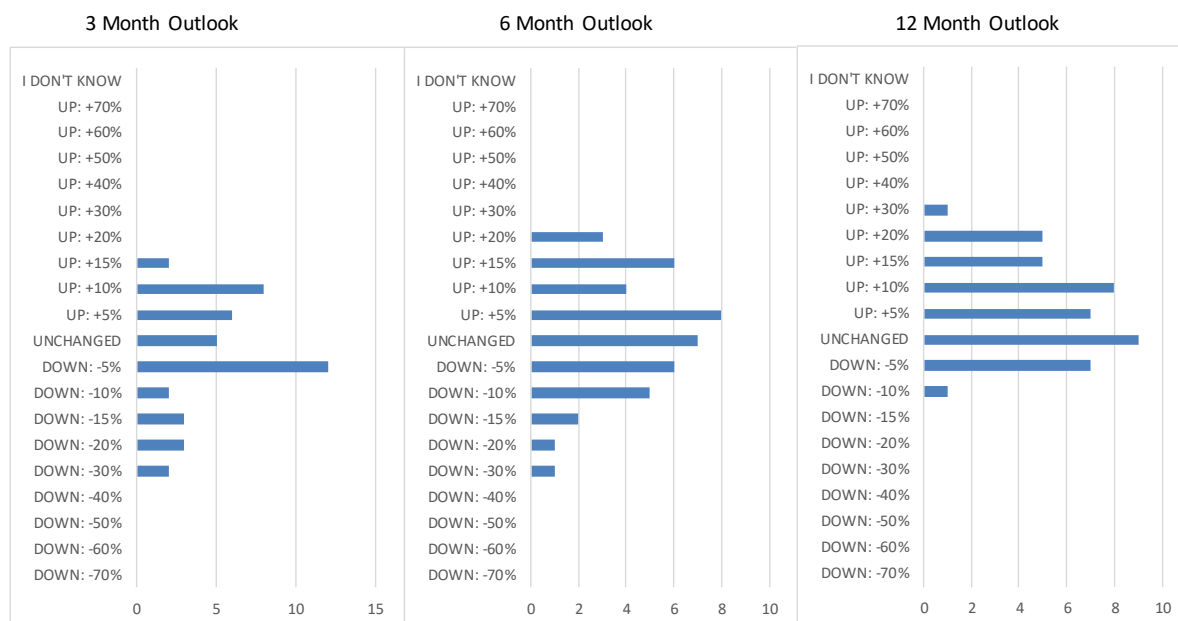


### Export Log Volume as a % of Feb 2020

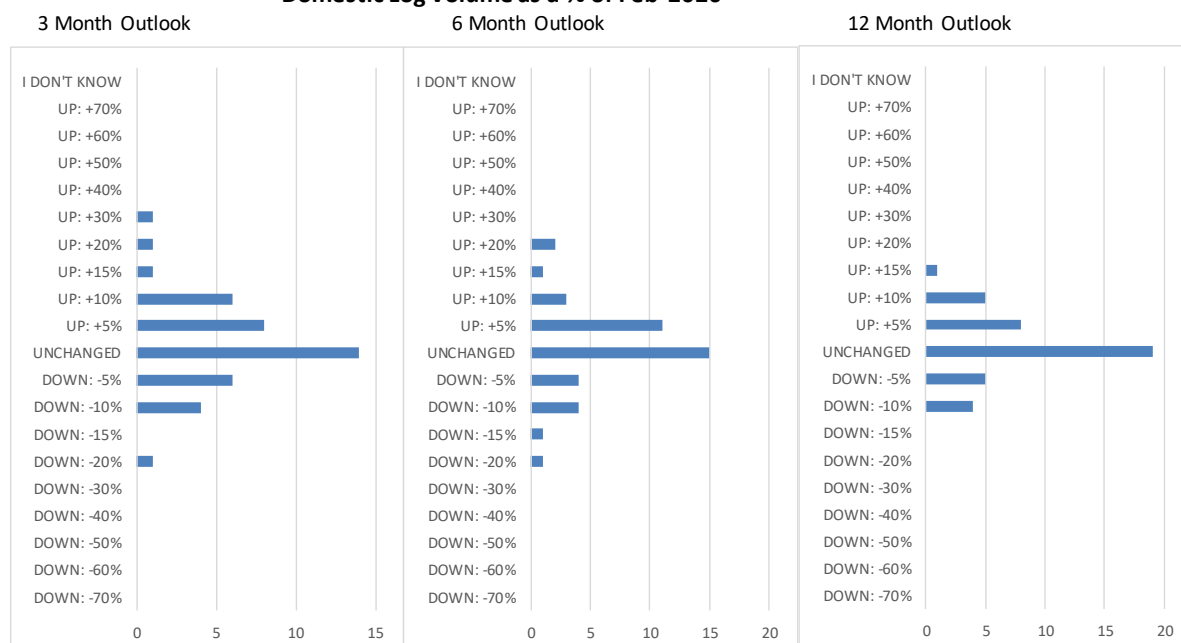


## Pruned Log Prices

### Log Price as a % of prices in Feb 2020



## Domestic Log Volume as a % of Feb 2020



## 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 May 2020.

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>

For more information contact: [Karen.Bayne@Scionresearch.com](mailto:Karen.Bayne@Scionresearch.com)