

By Karen Bayne and Melissa Welsh

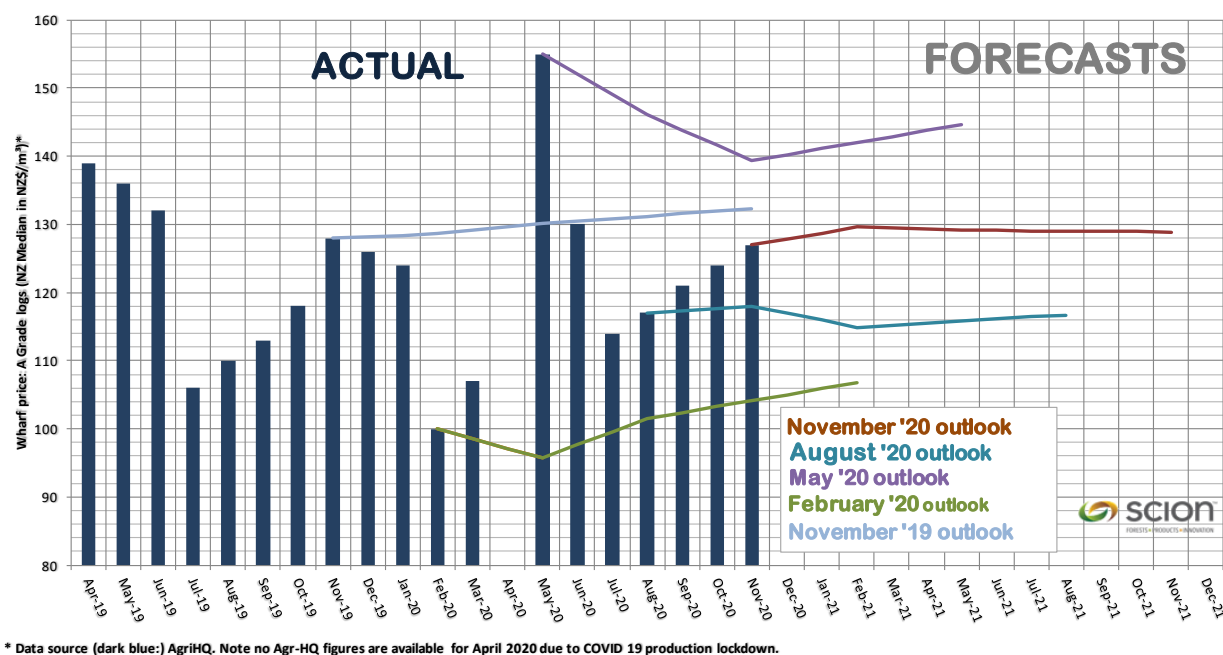


The majority now anticipate a positive or steady and stable year ahead, with much fewer (just 12.5%) respondents indicating negative business confidence. Respondents expect unpruned prices to average between \$128-\$130/m3, and pruned prices to reach \$177/m3 during 2021. This is significantly higher than that predicted in the past quarter, and reflects the positive log price movements experienced this quarter and buoyant currency exchange rate during November to 0.7USD, as well as the optimistic business confidence currently within the sector.

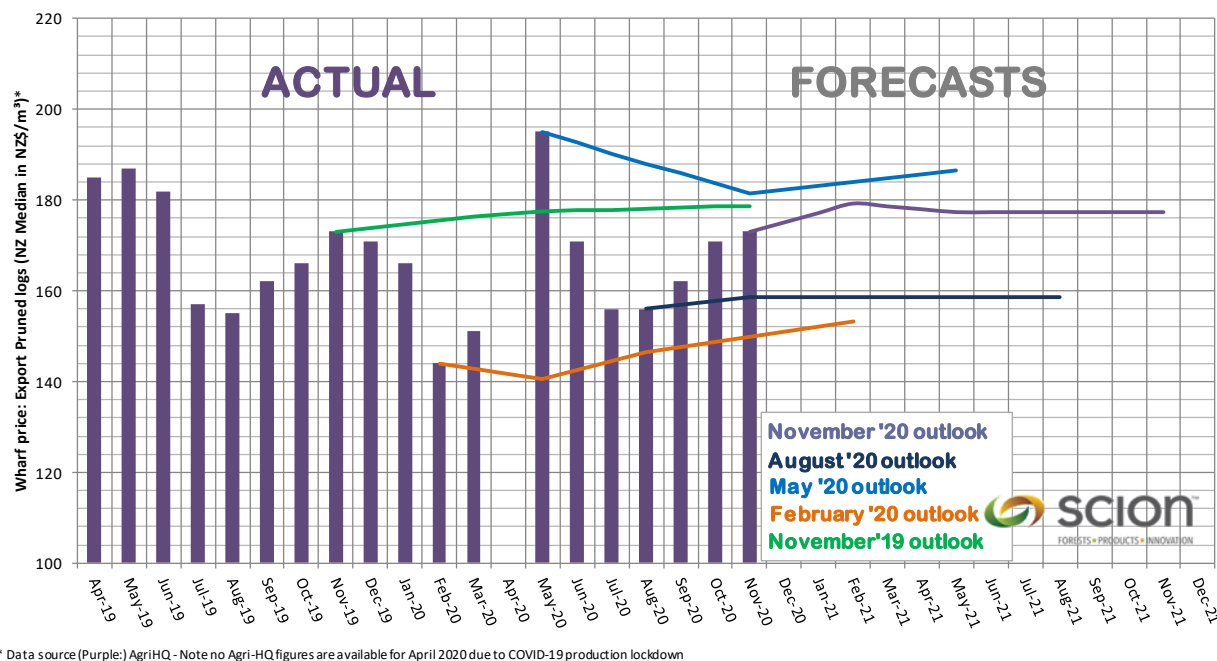
Respondents anticipate a slight rise in prices over coming quarter prior to Chinese New year, with further quarters showing very stable pricing in both pruned and unpruned log grades (Refer Figs 1 and 2). Respondents expect unpruned prices to average between \$128-\$130/m3, and pruned prices to reach \$177/m3 during 2021. This is significantly higher than that predicted in the past quarter, and reflects the positive log price movements experienced this quarter and buoyant currency exchange rate during November to 0.7USD, as well as the optimistic business confidence currently within the sector.

## LOG PRICE OUTLOOK

**Figure 1:** Forestry business expectation outlook for unpruned wharf log price over the period Aug 2019 to Aug 2021  
(A Grade is used as a general proxy)



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



This quarter's histograms (pg 7-8) continue to provide a range of views around potential change in price and volume, though narrowed compared to previous quarters. For export logs, participants estimate changes of between  $\uparrow 20\%$  and  $\downarrow 15\%$ , with average volume movement of  $\uparrow 2\%$  in 3 months,  $\uparrow 6\%$  in 6 and 12 months. For domestic volumes, participants overwhelmingly expect a limited change in volume at  $\uparrow 2\%$  across the 12 months.

Less than a quarter of respondents expect domestic volumes to reduce, reflecting improved market conditions in the construction sector.

## BUSINESS CONFIDENCE

Respondents are now much more optimistic for the 2021 business environment providing secure trade and more clarity and stability in policy, as well as markets becoming more buoyant. In contrast to last quarter with 35% expecting negative conditions, this has lowered to just 12.5% expecting things to worsen. Half of respondents expect conditions to be stable and steady, while 37.5% see positive opportunities for business over the coming year.

Respondents expect the market to pick up, with the proviso of reduced likelihood of lockdown, and the longer timeframe for international competitors to recover economically. There are also expectations that the international market demand will increase, though global wood trade flow may be impacted by recent announcements from Russia and China:

- *"Govt policy becomes settled and export log trade into China"*
- *"Reduced international supply"*
- *"All the global uncertainty will benefit NZ exports"*
- *"All depends on further waves of COVID-19, as further lockdowns will cripple trade"*
- *"European Spruce volume offsetting China stimulus and Russian withdrawal"*

Reasons given for expecting a positive change to business surrounded our competitive advantage compared to international suppliers, and growing demand in construction:

- *"North American forest owners will have to make a profit by higher priced sawlogs."*
- *"NZ likely to offer a more stable business platform than most of our competitors"*
- *"Much will be impacted by how the China ban of Australia commodities will play out. If the ban stick China demand for NZ logs will increase significantly"*
- *"China's ban on log exports from Queensland ... will create opportunity for NZ log exports"*
- *"Buoyancy in the NZ economy is increasing - particularly in construction sector"*

Reasons given for expecting steady and stable business included stable government, a positive industry outlook, and greater balance between negative uncertainty and positive stability:

- *"I expect business activity to stabilise in the post-Covid environment"*
- *"Funding predominantly secure".*
- *"I doubt market will be stable but positives and negatives are probably equally likely."*
- *"New Government will give stability"*
- *"Our business is more affected by government policy than by short term fluctuations in the business environment"*
- *"Things seem relatively balanced for us."*

Those expecting a negative change in their business expect continued political disruptions heightened by Covid-19:

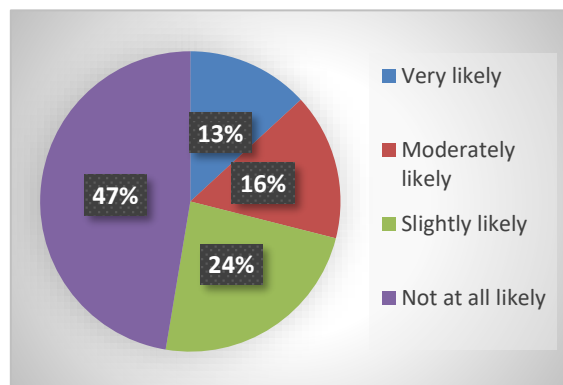
- *"Political unrest, Covid\_19 are going to play a major role on world economy in the next year or so"*
- *"Continued global disruption caused by the Corona virus"*
- *"Covid uncertainty"*

## IMPACTS ON FORESTRY BUSINESS DUE TO COVID-19

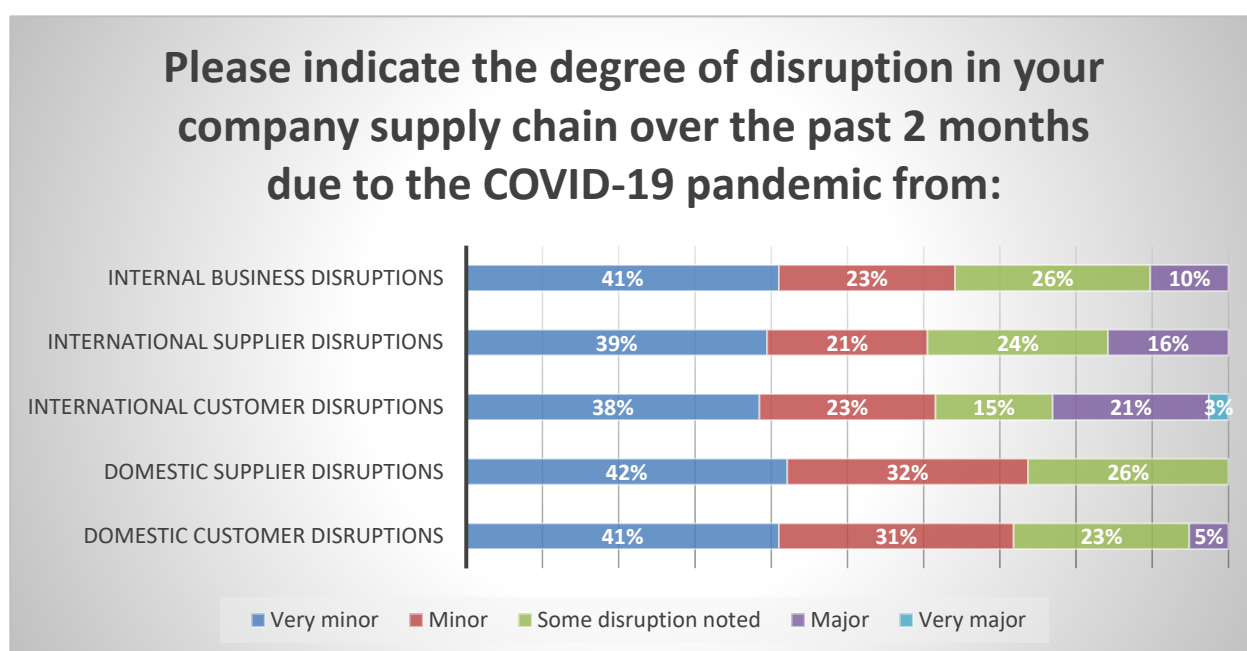
Investment in infrastructure seems unlikely for most (Figure 3), though 29% are likely to invest.

Following last quarter, most of the disruption to business because of Covid-19 is now very minor to minor across all five supply chain areas (Figure 4). Shipping issues appear to be causing some of the major disruption, along with difficulty in staffing.

**How likely are you to invest in new equipment and infrastructure over the next 12 months (i.e. upgrade large machinery; plant or facilities)?**



**Figure 3:** Investment in infrastructure and equipment



**Figure 4:** Disruption to forestry business supply chains due to Covid-19

## CHINESE MARKET DEMAND

The majority of respondents expect less volatility within the Chinese market than in 2020, though recent trade announcements are likely to impact on price and export circumstance. China's announcement in November of a ban on Australian forest products, in conjunction with log cessation from Russian tariffs and European competition stabilising due to container shortage, should open up increasing Chinese demand for New Zealand log grades. China's government has also introduced a stimulus package to increase demand, and is particularly seeking a range of more stable markets such as New Zealand to trade with. However, this demand is likely to be offset by three factors: the Russian ban on export logs only comes into effect in early 2022, while most respondents anticipate the Australian wood ban may well have eased by late 2021; Most mills in China are now back to full capacity, so it is unknown how much demand is truly likely to increase; and the New Zealand government risks the potential to be linked to Australian interests in political sphere. Should the latter happen and China decide to take a similar wood tariff move to show political strength to small nations such as New Zealand, this places New Zealand wood trade at large risk due to the inability to quickly defer such large volumes of logs and sawn timber to alternative markets. In addition, global supply of low-grade logs is swamped, and likely to worsen as global stimulus packages for

construction post-Covid are increasing the volumes of lumber felled, and looking for markets for pulp grades. Some respondents therefore expect slower volume growth in log exports internationally.

- *"Not at all unless they categorise us similar to Australia."*
- *"New Zealand volumes up as Australia in trade war with China"*
- *"NZ presenting itself as a stable economy"*
- *"China using market power to flex political muscle"*
- *"Market still volatile with political uncertainty between China and other countries that may be to NZ's favour"*
- *"Most mills are running close to 100% now in China"*
- *"Sawn Timber big risk of China import Ban"*
- *"Logs should continue because Australia now banned and Russia about to implement log export Ban"*
- *"Economic stimulus through construction projects should increase demand for NZ logs."*
- *"Spruce logs will keep price increases suppressed and continue to flood the market with low quality logs."*
- *"Demand for NZ logs will increase to compensate for the loss of logs from Australia."*
- *"Australian logs will be allowed into China again within 12 months"*
- *"China is getting supply from more countries which will limit NZ growth to that market"*
- *"Demand in China will increase with their economy increasing as per history"*
- *"US Tariffs will have a continuing drag on demand"*
- *"Competition from Europe is expected to stabilise mainly because of shipping/ container cost issues"*
- *"Demand will initially rise on the back of the Log exports from Russia ceasing, then will drop"*
- *"A dip in demand due to slower levels of growth due to difficult trading conditions internationally"*
- *"Stimulus offset by European supply will be flat to negative despite Russian withdrawal from log market"*
- *"Chinese government is stimulating demand the only issue will be how much wood from elsewhere finds its way into china."*

## SOFTWOOD MARKETS

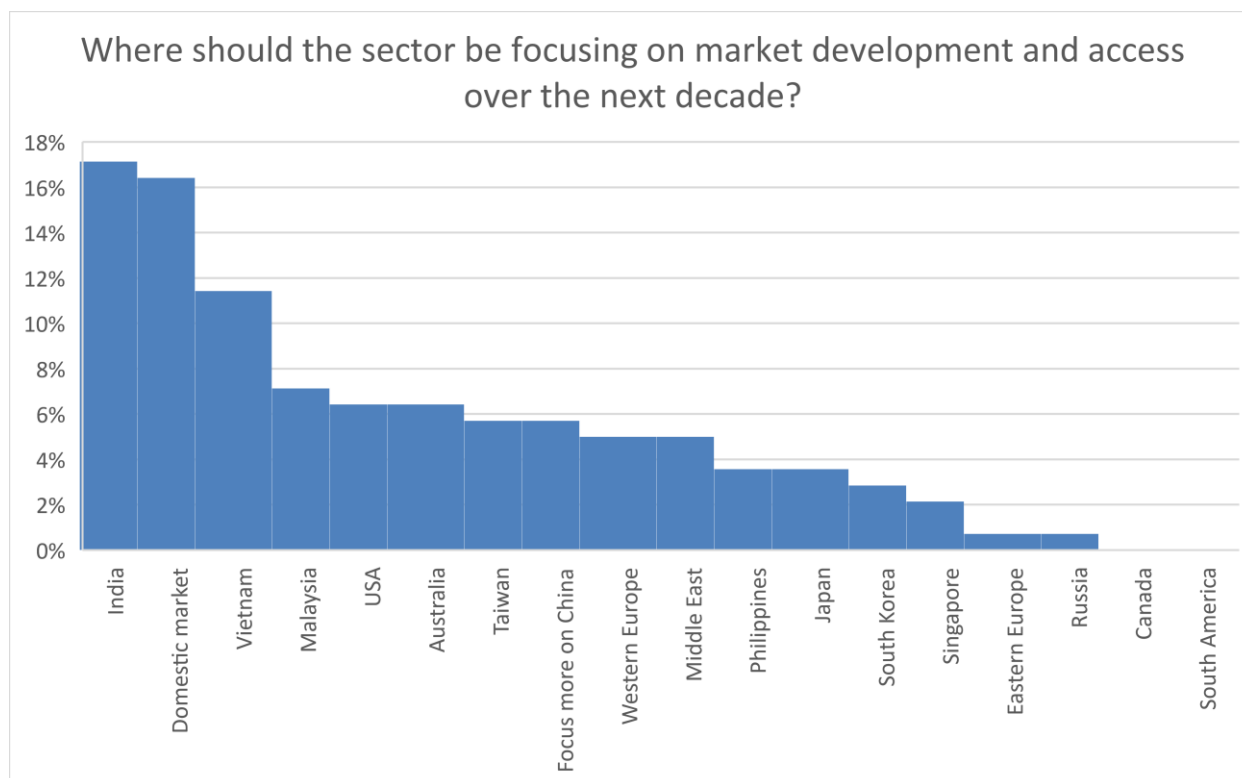
Respondents note the volatility present in the supply chain, particularly in areas impacted by multiple and prolonged lockdowns. Lockdowns are disrupting not only the supply chain, but economic activity as people 'cocoon' and spend more on health care and homewares over travel and experiences/ entertainment. While retail and personal consumption is down, there is a steady demand for wood due to construction and renovation projects, particularly post-COVID as governments seek to stimulate the economy once more. North America and Europe are seeing steady demand and greater softwood supplies coming onstream to meet this. The difficulties of border regulations for wood products due to COVID-19 include quarantine for shipping crews, and greater timeframes to unload cargo. Shipping therefore is impacting all markets, but particularly impacts those firms highly dependent on inter-regional and international trade flow. Continuing lockdowns in some of our main trading nations has reduced demand (e.g. India) while competition from suppliers in Europe (e.g. Germany) has reduced as the industry shutdown for a period. One respondent notes that European lockdowns "are pushing up demand for radiata". Lockdowns have also reduced building activity, which is then re-activated with a vengeance post-lockdown. Such volatility further impacts on supply chain disruption.

- *"Everything is crazy busy"*
- *"Economy is now focused on home and health"*
- *"Germany spruce log flow to China reduced due to Covid 19 shutdown"*
- *"Managing ship crews is challenging with quarantine restrictions. COVID-19 has affected demand both positively and negatively."*
- *"Increased Credit Risk"*
- *"Lockdowns restrict building, reducing demand for softwood lumber, but also reduce supply as mills shut down due to exposure to the virus"*
- *"There are more risks associated to shipping wood across borders, more regulations and with that comes challenges and opportunities"*
- *"Covid 19 has affected the softwood market negatively by lockdowns, supply chain disruption, financial tightness, etc."*
- *"Good for government stimulus in infrastructure"*
- *"Off take at the ports in China is picking up. But there is more supply coming on stream from Europe and North America."*

## MARKET DEVELOPMENT

This month, we asked participants to indicate where they saw the New Zealand forestry sector should be focusing efforts, either to expand into new markets, or increase the impetus in existing markets (Figure 5)

**Figure 5: Market development opportunities, as seen by respondents**



Reasons behind seeing the top-rated regions as needing focus include:

**India:**

- High and growing population with limited native resource base
- Not currently part of the recent free-trade deal, offers bilateral trade agreements
- Ease of access
- Not many competitors, limited focus on this market by other suppliers
- Offers alternative log market to China
- Processing costs low, labour supply high
- many new infrastructure projects are in pipeline
- Need to continue focus – still much more potential here.

**Domestic market:**

- huge opportunity to push timber into mass construction
- Government policy currently very supportive
- Need to add value to our products
- Increase domestic processing capacity to service Australia and Western Europe, as these will be severely limited in supply due to future pest incursion and fire. Europe also will be short of sawn timber from Russian ban.
- We don't do this well, and need to find out why...

**Vietnam and Malaysia:**

- Low cost manufacturing countries are increasingly capable of converting logs into housing products
- Government policy
- Large population and growing economies across South-east Asia, with a likely increasing demand for a range of products. We don't do this well, and need to find out why...

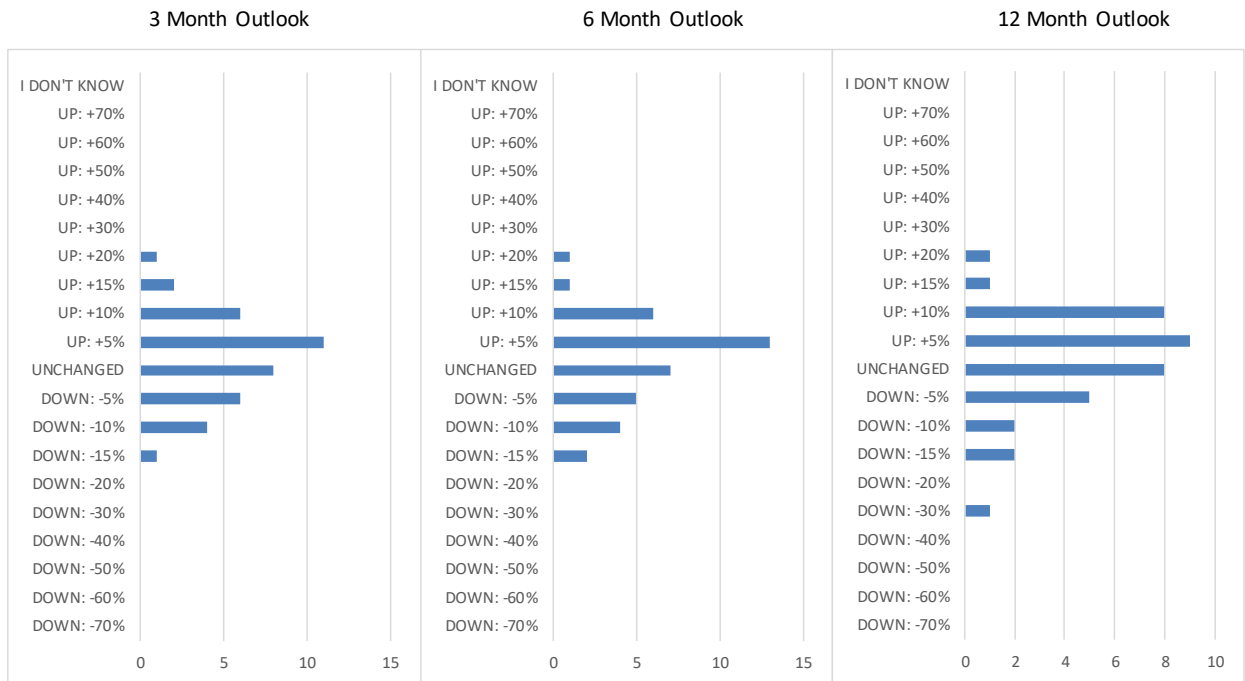
**USA and Australia:**

- Stable markets
- Offer much larger margins / more wealthy consumers
- Already established timber housing markets
- Less shipping volatility

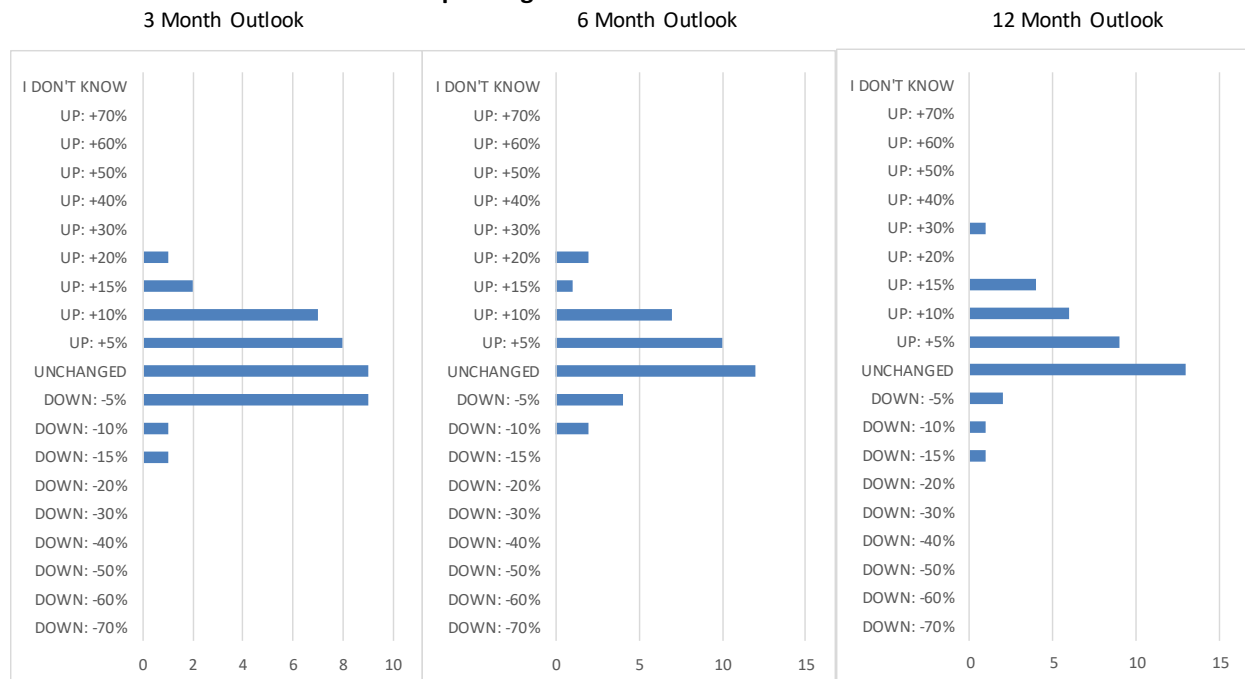
## Large population and growing economies

### Unpruned Log Prices

Log Price as a % of prices in Nov 2020

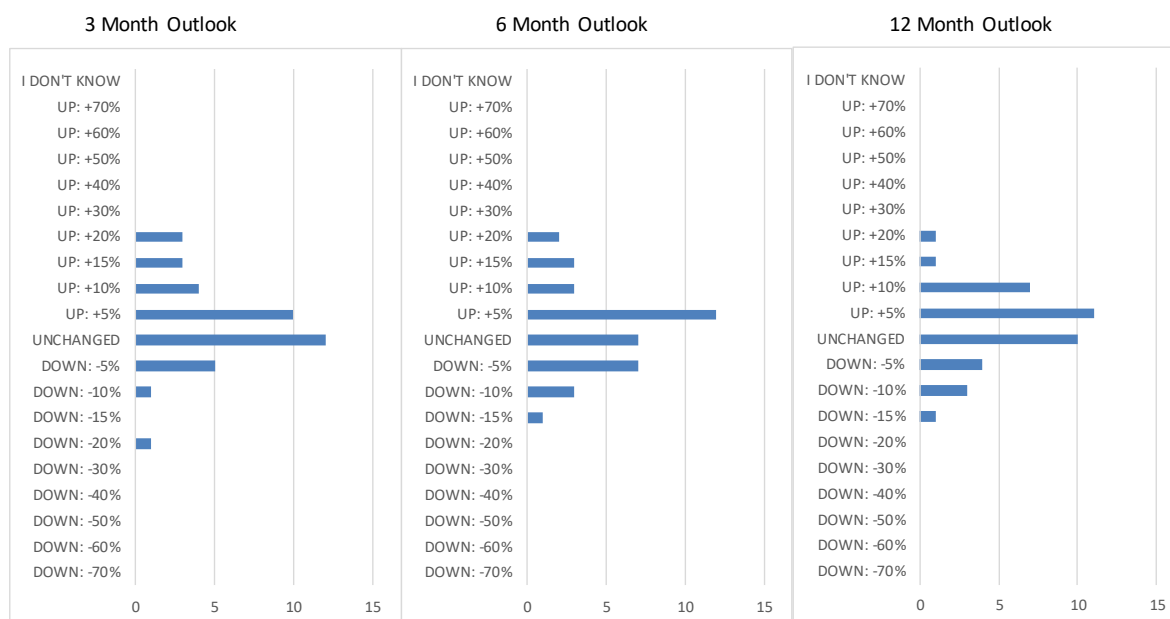


### Export Log Volume as a % of Nov 2020

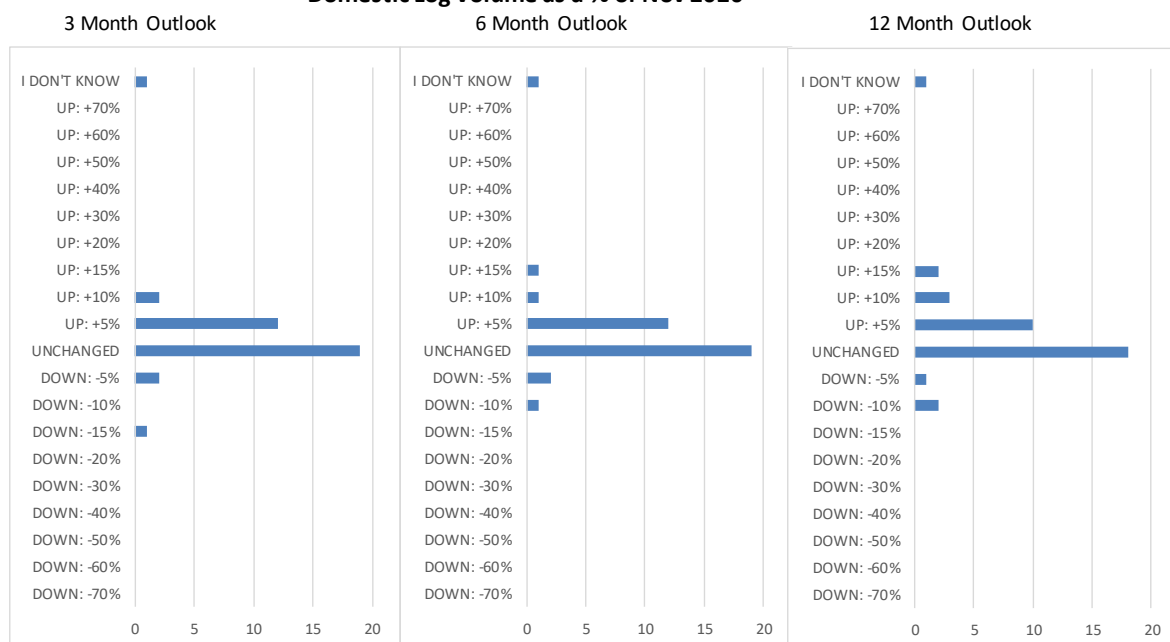


## Pruned Log Prices

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



## Domestic Log Volume as a % of Nov 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 February 2020.

To access previous outlook reports please visit this web site:

[www.scionresearch.com/lpo](http://www.scionresearch.com/lpo)

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