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BUSINESS OUTLOOK

New Zealand Forestry Business Outlook – August 2021

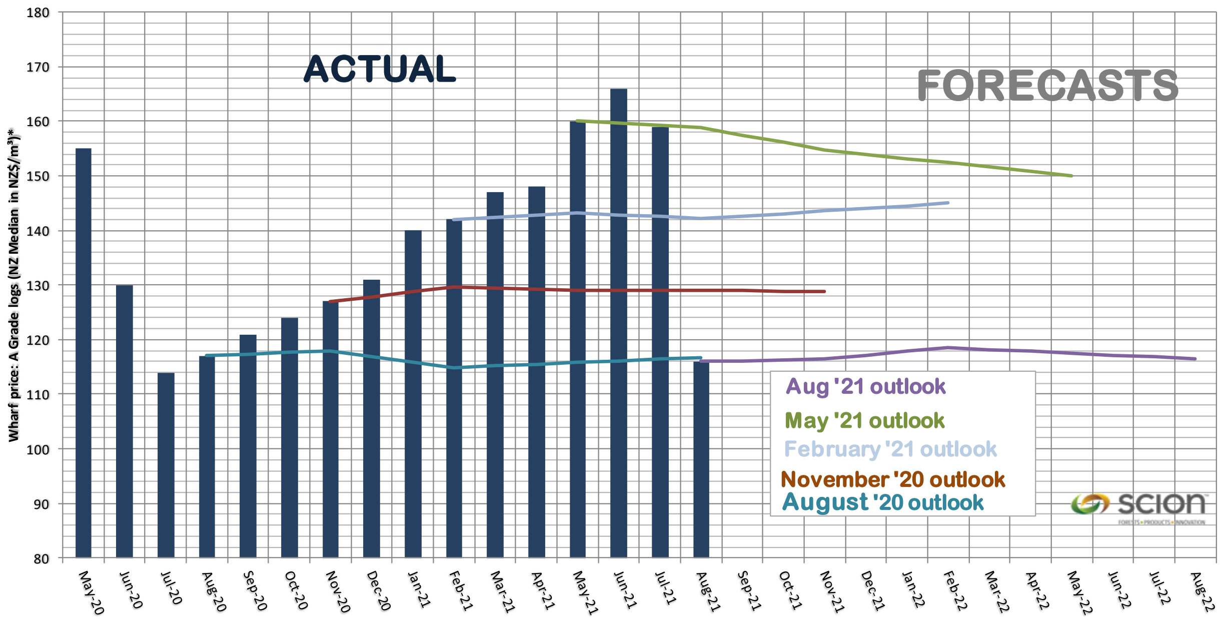
By Karen Bayne and Melissa Welsh

Summary: Thirty nine 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. Following several months of particularly high pricing, the log prices fell markedly in August 2021, back to those seen around August 2020. Ongoing supply chain disruption, the long tail of Covid, and fears surrounding the impact on trade from the Delta variant mean a higher proportion of respondents now anticipate negative market conditions going forward. While demand is still quite high, indications are that China has greater control on pricing, and that constraints on international travel, and shipping are impacting on both labour supply and the ability to fill orders. Respondents indicate, in particular, a very constrained labour market, where 34% of participants are finding it 'very difficult' to fill current positions. Log prices are expected to be fairly stable over the next 12 months, at between $155-164/m3 for Pruned logs, and $116-118/m3 for unpruned logs.

Prices for both unpruned and pruned logs have remained high during June and July. Unpruned logs recently fell to $116/m3 off a high of $166/m3 in June. Similarly, pruned log pricing rose to $210/m3 in June, and now sits around $164/m3. As anticipated by respondents in the last Outlook, log prices have peaked, and fallen, a month earlier than was anticipated, and with a harder than expected drop. The major reasons for this sudden fall are due in part to reduced demand in China, but mostly to very high shipping costs. The current A-grade pricing reflects participant predictions for August 2021 made 12 months ago. Pruned log prices are currently also similar to those anticipated In August 2020. Clearly respondents did not anticipate the large price increases that have been present over the past year, and once more respondents are indicating very little increase in price over the coming year. Prices are predicted to hold steady at around $116-$118/m3. It remains to be seen if prices will rebound much off the current price drop, or remain steady as indicated. Respondents anticipate pruned log prices to dip further to $157/m3 by November, then rebound back to stay within $160-$162/m3 from February 2022 through August.

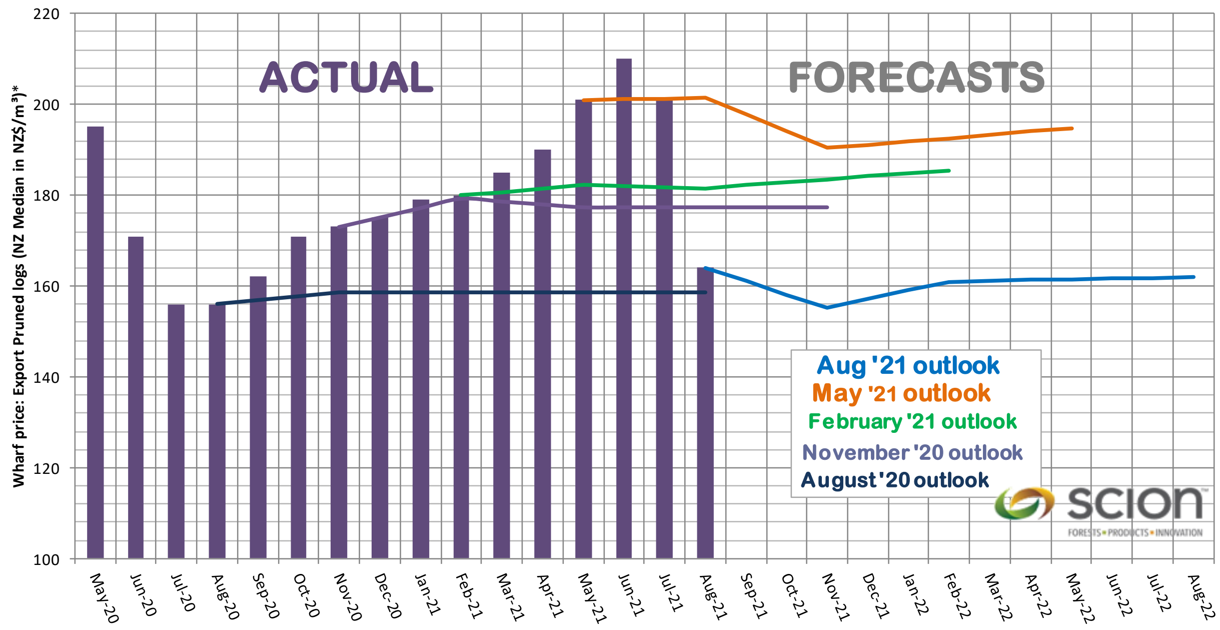
LOG PRICE OUTLOOK

Figure 1: Forestry business expectation outlook for <u>unpruned</u> wharf log price over the period Aug 2020 to Aug 2022 (A Grade is used as a general proxy)



* Data source (dark blue:) AgriHQ. Note no Agr-HQ figures are available for April 2020 due to COVID 19 production lockdown.

Figure 2: Forestry business expectation outlook for <u>pruned</u> wharf log price over the period Aug 2020 to Aug 2022 (Export pruned price)



* Data source (Purple:) AgriHQ - Note no Agri-HQ figures are available for April 2020 due to COVID-19 production lockdown

This quarter's histograms (pg 6-7) show estimates for future pricing of unpruned logs of +/- 15-20% in 3 months, and +/- 20-30% in 6-12 months. There is a wide range of pricing expectations, reflecting a greater uncertainty in any future market direction. Respondents felt export log volume will be largely unchanged on average, rising 2% within the next 6 months, with a small rise (1%) for the remainder of the year. Participants estimate prices to fall by as much as 30% over the next 3 months, but while respondents indicate a range of +/-15% for the rest of the year, most see prices as remaining largely unchanged. The majority of respondents (59%) think domestic log volumes will remain unchanged over the coming year.

BUSINESS CONFIDENCE

While the majority of respondents still anticipate a steady or stable outlook for the next year (56%), this proportion has reduced from the 87% anticipating such behavior in the May Outlook. A greater number of respondents (31%) now expect a negative business outlook, with just 13% stating the outlook over the coming year is positive.

Respondents note the continuing outbreaks and lockdowns globally from Covid impacting trade, labour and supply chains. Covid restrictions lead to lumpy log supply, and less confidence in business due to the inability to plan for the longer term. In addition, China is now seen as holding greater control in determining log price than the past quarter. A number of respondents anticipate volumes will fall, especially in the short term (next 6-8 weeks), in both export and domestic markets.

- *"China buyers are now moving back into control over log prices and they will be able to reduce buying prices slowly over the next 3-6 months. Supply and demand always balance!"*
- *"Covid, its going to get worse."*
- *"International supply and price volatility makes for good trading conditions"*
- *"There is still a "reasonably" stable demand out of China which we fill and there has been reduced supply from other suppliers (Australia) "*
- *"Effects of recent covid breakout in China are starting to be felt across the industry. A lot depends on how long this delta wave effects China."*

Reasons given for expecting a <u>positive</u> change to business include continued strong demand, coupled with the August price crash (leaving room for greater upwards price movement than at recent price peaks).

- *"With major market crash in July August 2021 I consider steady improvement overall some bumps along the way and world markets react to COVID"*
- *"Very strong market ahead in NZ"*

The major reason given for expecting <u>steady and stable</u> business is that volume reduction could ease the current shipping constraints, and lead to a follow on of more stable AWG pricing. Most saw a balance where the current high demand is being offset by impacts from Covid, leading to inability to adequately meet the demand or forecast supply chain disruptions. One respondent noted woodlot owners are likely to rethink harvesting plans due to the recent price drop off record highs.

- *"I expect a good level of overseas demand will continue and the domestic demand will increase as supply chain issues are sorted out."*
- *"Difficult to predict but expect industry to continue much as at present."*
- *"Strong markets for timber offset by a shortage and high prices for logs"*
- *"Improved logistics as demand adjusts downwards."*

Those expecting a <u>negative</u> change in their business anticipate worsening impacts from Covid. They anticipate inflation and interest rate rises, and no change to the supply chain disruptions from shipping and unsteady stock volumes :

- *"The recent activities of the Chinese government recently have indicated that it will be taking a more conservative approach within its nation and in all foreign affairs including finances."*
- *"Covid lockdowns, port congestion, bulging bubble are matters of concern"*
- *"Rising interest rates and inflation will cause the world economy to slow."*
- *"Restrictions on international travel. As an aside the impact of the current NZ level 4 lockdown will impact log prices, I am assuming that we will end up with a 20 day lockdown which could reduce volumes arriving in China and depress log stocks leading to a small bounce in price. If it doesn't happen then we could be looking at a soft 12 to 18 months"*

SUPPLY CHAIN DISRUPTION

Shipping and transportation continue to impact forestry supply chains both within New Zealand, and globally. Respondents indicate the largest disruptions being due to limited wharf and warehousing capacity, and delivery timeframes not being met (Table 1).

Port demurrage and detention costs have been most noticeable in transportation and shipping firms, the forestry businesses, and for those marketing goods. Processors have also been affected, but not to the same level (Figure 3).

Table 1: How have shipping and transportation constraints impacted your business? (where 1 = very mild disruption; and 10 = very considerable disruption)

Disruption due to inability to load or store manufactured goods (warehouse or wharf at capacity)	**7.43**
Disruption due to suppliers not receiving goods on time	**6.91**
Disruption due to suppliers not delivering goods on time	**6.45**
Disruption due to infrastructure (road closure or detours; port maintenance)	**6.18**
Disruptions due to weather (road closures or inability to berth ships)	**5.50**
Disruption in manufacturing of goods due to downstream supply chain issues	**4.78**

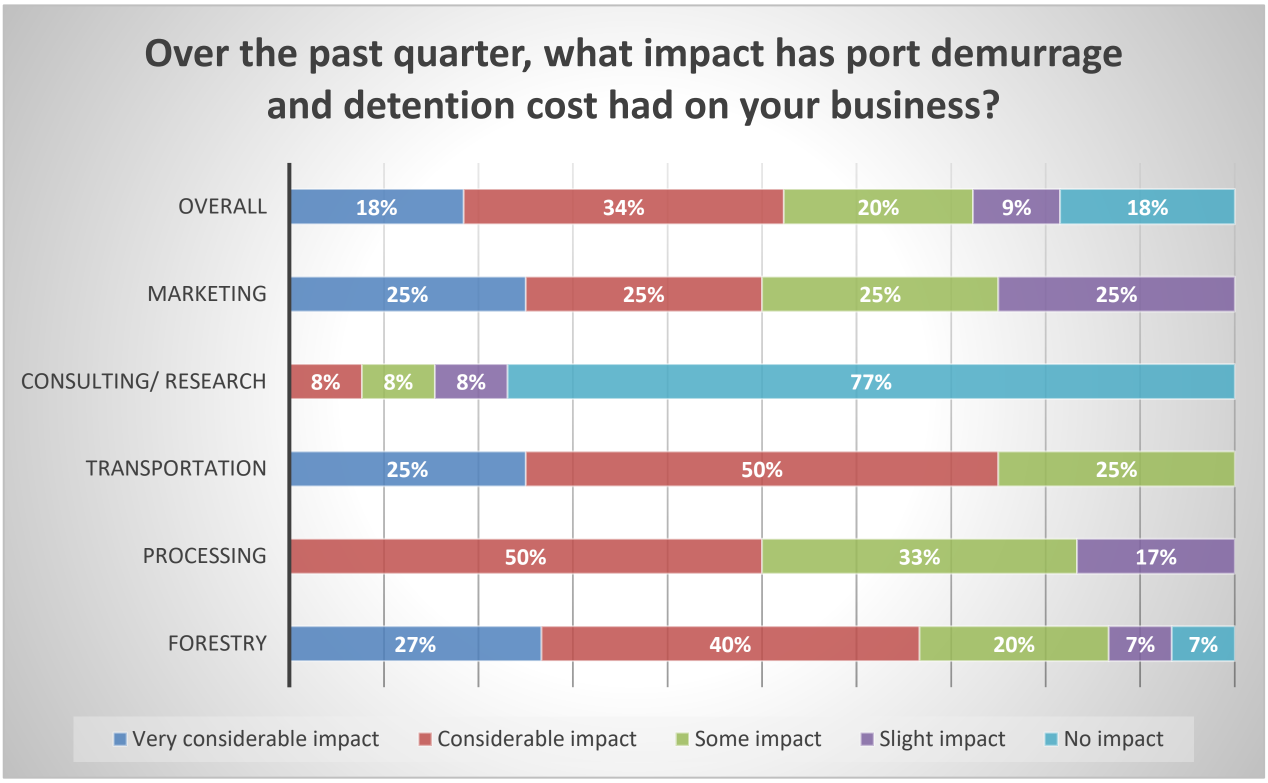


Figure 3: Port demurrage and detention costs

The international impacts from Covid-19 continue to be felt across all areas of the forestry supply chain (Figure 4). Marketing and consulting/research firms have experienced decreased international business, while trade has increased across forestry and processing firms, leading to a marked increase in the transportation and shipping sectors. In contrast, while the forest sector has had largely similar trading partners, the processing sector has shifted to a different mix of trading partners.

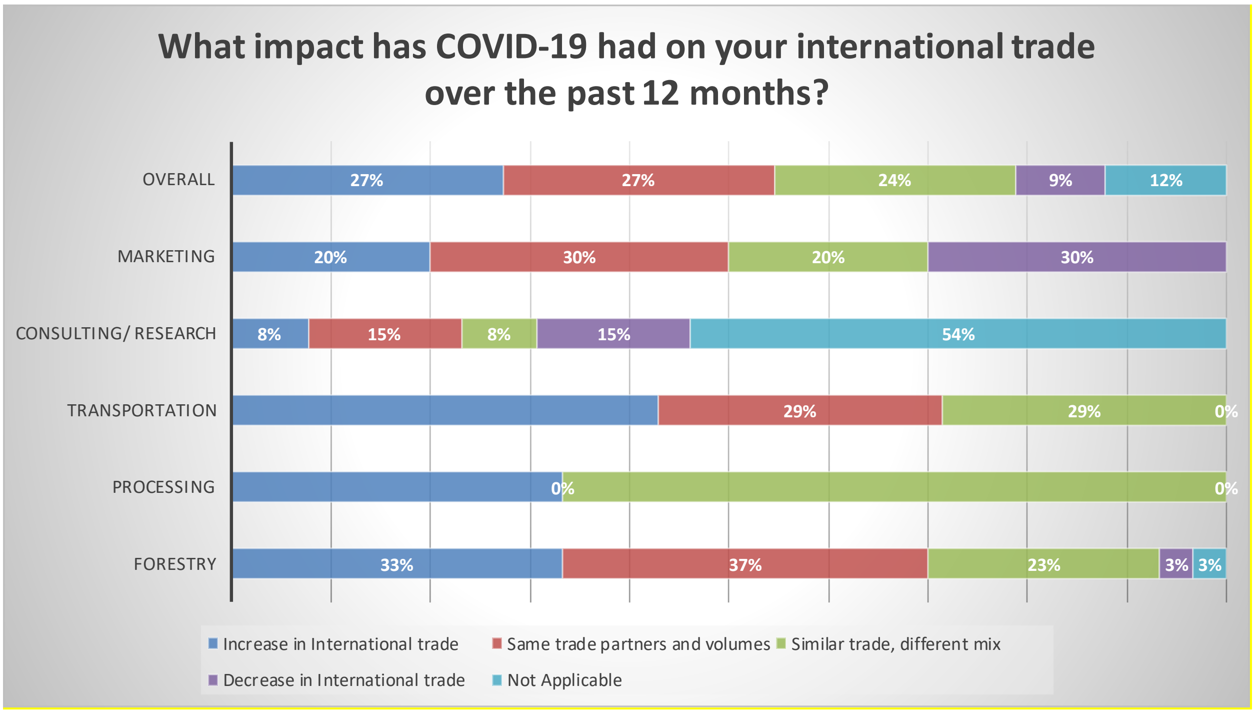


Figure 4: Impact from Covid-19 on international trade

LABOUR SUPPLY

Constraints on the supply of labour are much greater than a year ago (Figure 5). Seventy three percent of respondents indicated positions were 'very difficult' or 'difficult' to fill, compared to 44% a year ago. No respondents find labour supply very easy. Labour shortages were noted by several respondents as a reason for negative business confidence, also.

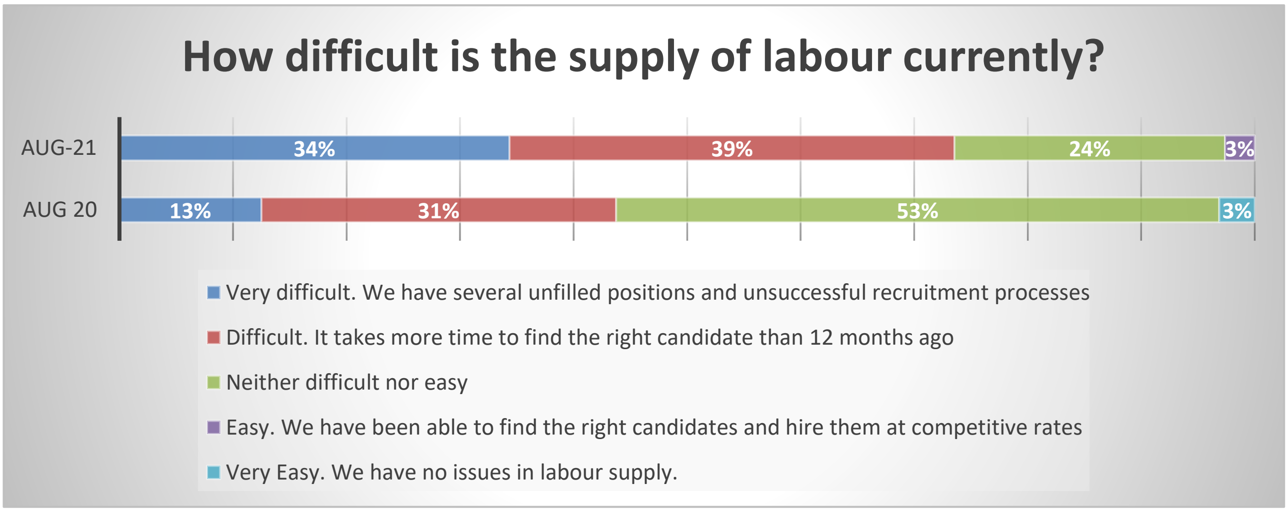


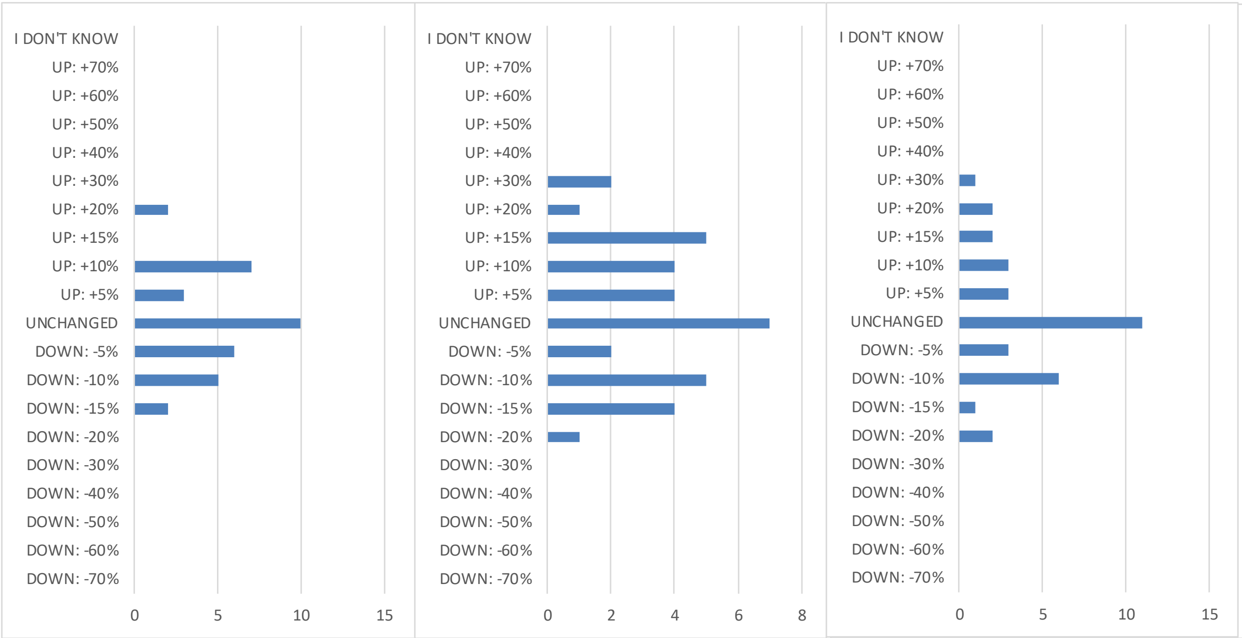
Figure 5: Difficulty in filling staff positions

FORESTRY BUSINESS EXPECTATIONS OUTLOOK - HISTOGRAMS

Unpruned Log Prices

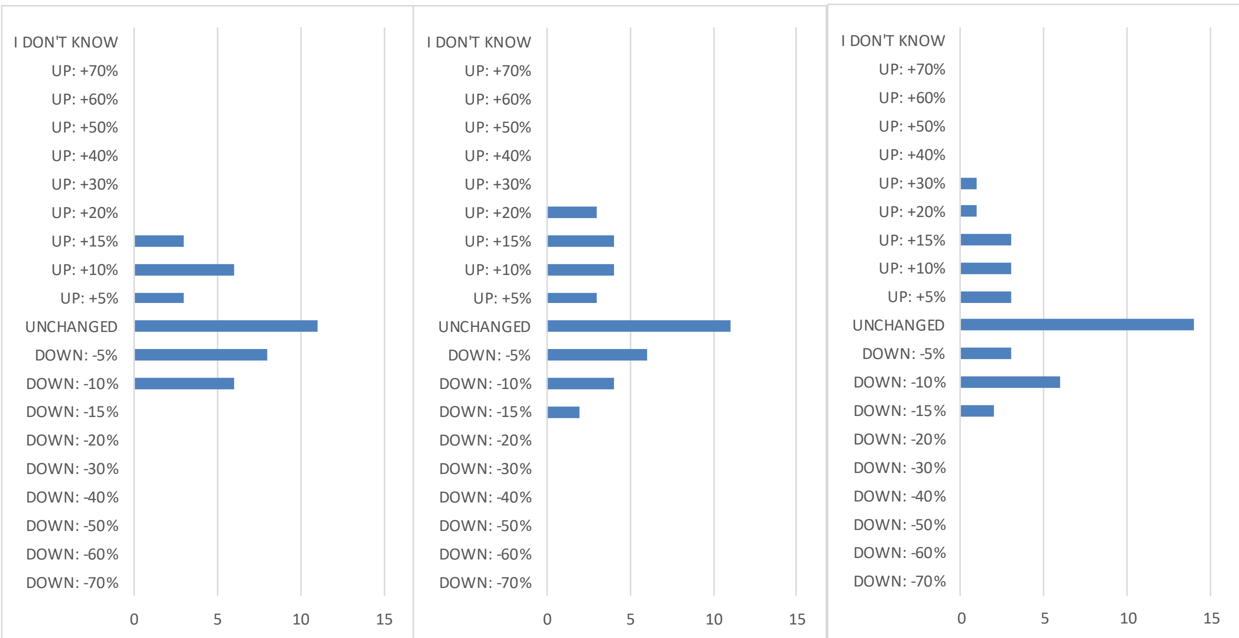
Log Price as a % of prices in Aug 2021

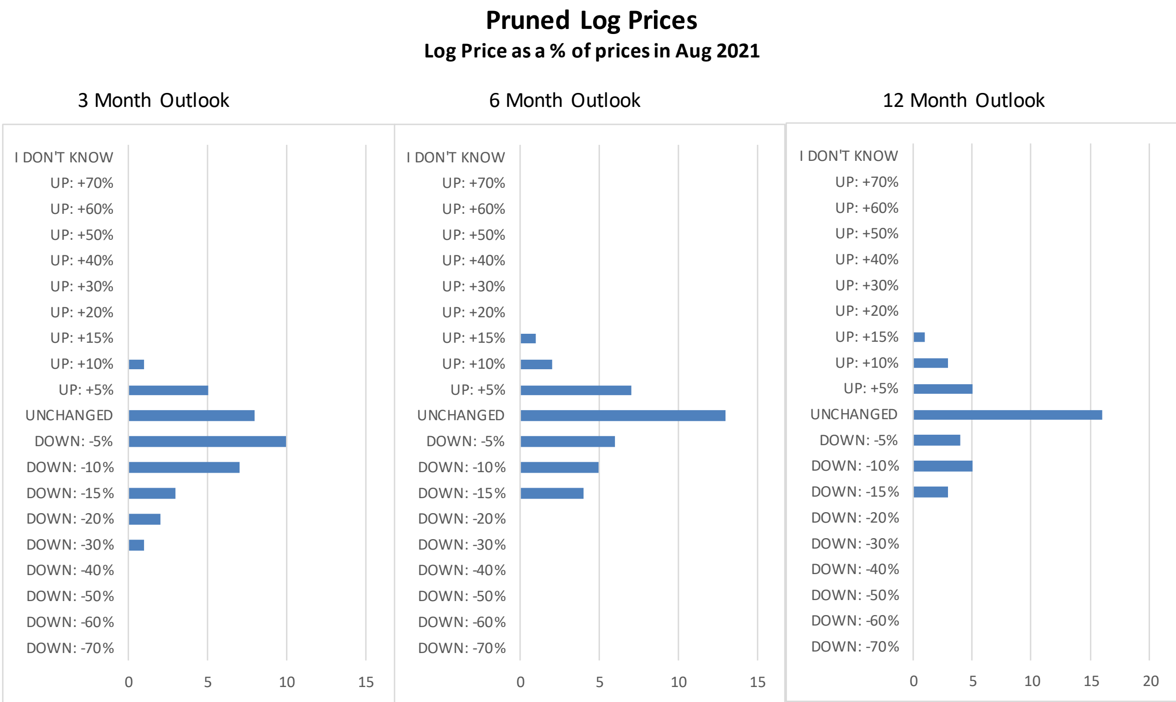
3 Month Outlook | 6 Month Outlook | 12 Month Outlook

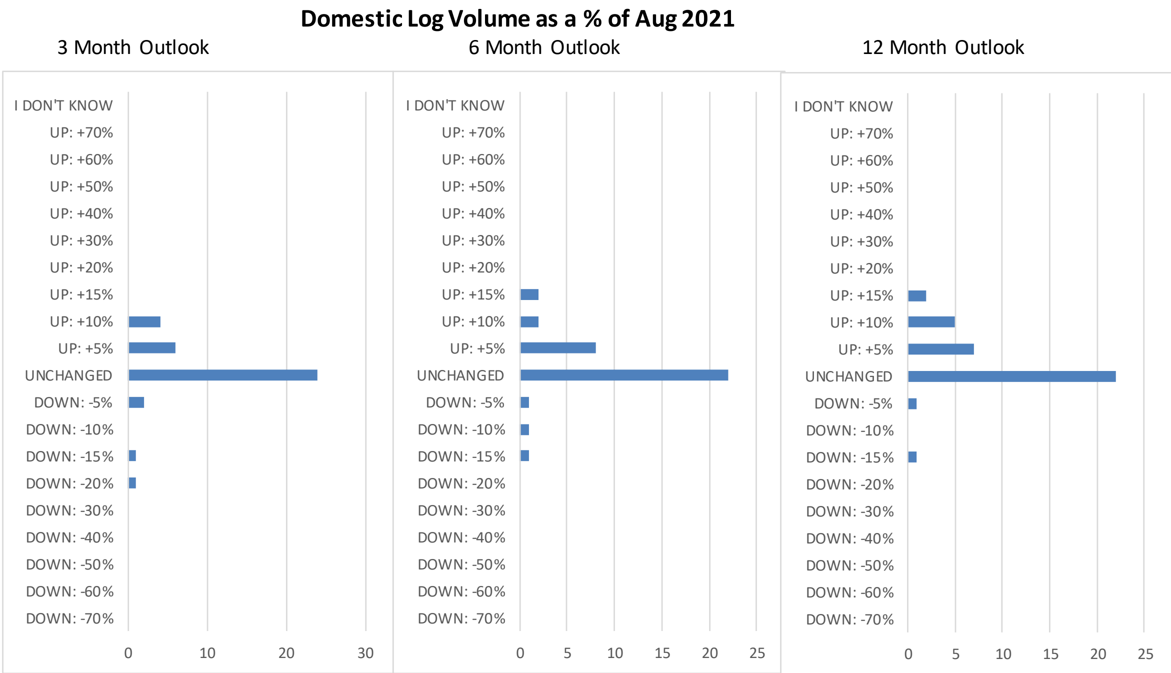


Export Log Volume as a % of Aug 2021

3 Month Outlook | 6 Month Outlook | 12 Month Outlook







Acknowledgements

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