

New Zealand Forestry Business Outlook – December 2018

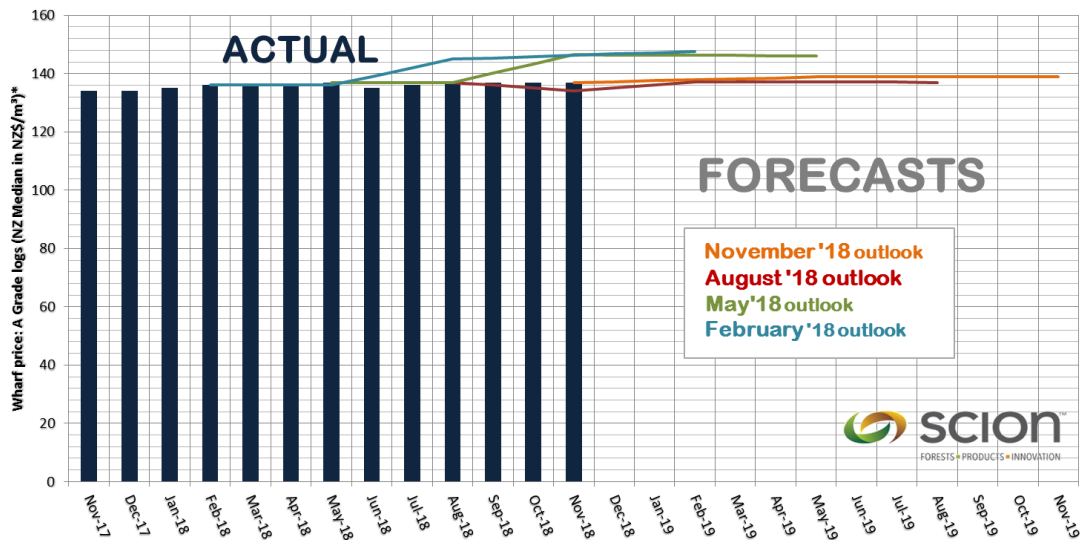
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Until 15 January 2019 this document's distribution is restricted to participants of the Scion Log Price Outlook.

Summary: Fifty-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. Log price outlooks remain stable, with only little positive movements expected in log prices. Volumes are also anticipated to be relatively consistent with perhaps a 3% increase in a year time. As with the last outlook, most of the respondents do not expect any impact of the 1 Billion Trees Policy on their business in this year. The word cloud above is very similar to previous outlooks - China and market demand are always in the focus of respondents, however, less caution about the impacts from the USA-China trade war were apparent from comments, and some positive business confidence from the current upswing in sawn timber markets was noted.

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 Nov 2018 to Nov 2019

Although the forecast this month looks very flat, this does not necessarily indicate that respondents saw about 1.5% change, but rather that those expecting an increase are balanced by those anticipating a decrease in log prices, with a weighted average equating to roughly that of inflationary adjustment.

Business Confidence

This quarter, business confidence is strong, with 92% of respondents expecting the coming year to either remain stable or steady, or provide positive change. The majority (64%) of respondents expect a stable and steady year ahead, with just 8% of respondents anticipating a negative change to their business. It appears to be a good season for forestry, though some didn't expect any positive change due to market and economic uncertainties.

- *"I think the NZ Government are keen to be seen to be running a steady ship.*
- *"Good market conditions and steady demand from multiple markets is shaping up to provide a stable 2019."*
- *"More volatility expected, therefore higher risk, but upsides and downsides. Overall outlook remains neutral."*

Business confidence was slightly higher for those operating in Asia, and also in the South Island.

Reasons given for expecting a positive change to business included:

- Strengthened domestic demand
- Shortage of supply internationally, potential price increase:
 - *"Continued global log shortage of older and bigger trees of desired species in almost all markets."*
 - *"Indonesian and Malaysian supply in particular are downtrending."*
 - *"Price of logs is likely to be stronger and am positive for that reason."*
- Increased harvesting:
 - *"potential harvest in the Gisborne region is growing."*
 - *"Our age class means we have to harvest more."*

Reasons given for expecting steady and stable business included:

- Downstream customer confidence:
 - *"Discussion with log purchasers/ exporter who in the past two weeks appear more positive than 6 weeks ago."*
 - *"It should be a steady year for contractors and machine purchases so my business should remain steady."*
- Strong market demand:
 - *"business is very stable and positive"*
 - *"The domestic market is underwritten by solid and potentially sustainable domestic demand for a wide range of log grades. "*
 - *"Steady demand in multiple markets"*
 - *"The export market is very much driven by China, and provided the trade dispute with the USA does not worsen, it should be business as usual in Asia."*
 - *"Exports are robust in our finished products."*
 - *"Overseas markets continued hunger for wood"*
- Uncertainty and volatility, mostly from geopolitical factors and competitors in export markets. Some saw positive gains being eroded due to higher labour and contracting costs, while others are wary of the impact on New Zealand trade of increasing sawn timber supplies into China from our competitors.
 - *"1BT has potential to be inflationary, particularly with respect to silvicultural labour"*
 - *There is always the possibility of a global financial shock as there are many geopolitical factors as play."*
 - *"we cannot ignore the threat sawn lumber entering China is to NZs log trade."*
 - *"I think any increases in prices and volumes for export logs will be eroded by higher labour and contracting costs."*
 - *"There is too much uncertainty with trade wars, Brexit and China's debt problems."*
 - *"China also is attempting to break free from the debt-financed stimulus of the past, also an official gauge of manufacturing sector worsened last month. Secondly Russian lumber into China at 20mm3/year. "*

Those expecting a negative change in their business over the next year expected a slowdown in trade with China:

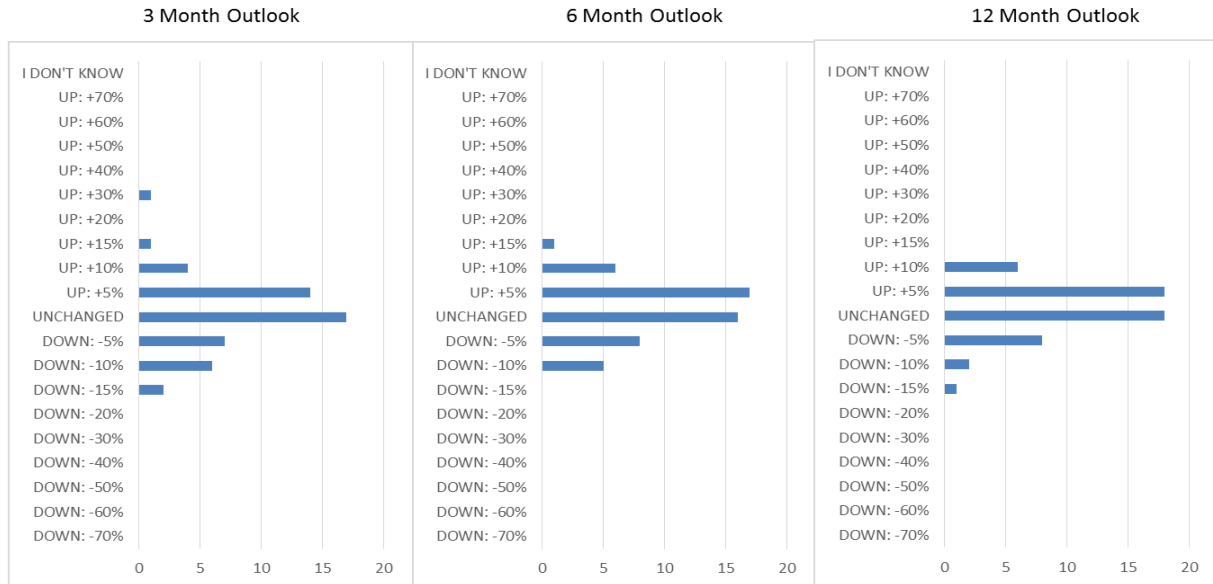
- *"China growth slowing markedly. Trade war with USA causing issues in China. "*
- *"too much uncertainty in China and the Chinese hate uncertainty and become reluctant to place orders. Too much supply and not enough stable demand, so a weak outlook."*

The 1 Billion Trees Policy

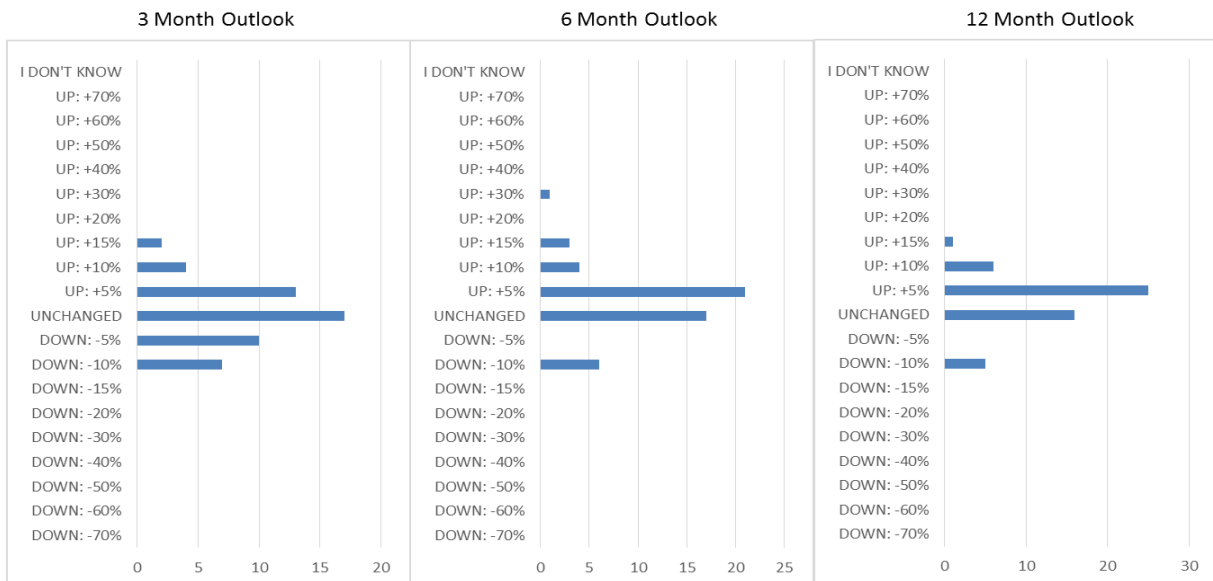
There was no correlation between a respondent's business confidence and the expected impact from the 1 billion trees policy. Over 80% of respondents saw no impact on their business in the coming year due to this policy. Those who saw a positive impact from the billion trees policy were involved in wood processing, and research and development; those who saw a negative impact on business were from larger forestry enterprises involved in forest growing, and pulp and paper processing.

Unpruned Log Prices

Log Price as a % of prices in Nov 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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