

New Zealand Forestry Business Outlook – August 2022

By Karen Bayne and Melissa Welsh



Summary: Eighteen people from various parts of New Zealand's domestic and international forest products supply chains participated in this outlook. These participants represent a moderate component of the NZ forestry industry. Log prices over the past quarter have been volatile, experiencing a sudden drop in June to \$98/m³ for unpruned logs, and \$143/m³ for pruned logs. The past two months have seen prices rebound to \$120/m³ and \$172/m³ respectively. Respondents anticipate steady pricing for the coming quarter for both grades, with a 6-7% price rise predicted for pruned logs in the next 6-12 months. Unpruned prices are at \$120, and respondents anticipate a slow and steady price rise, to reach \$128/m³ in 12 months. For pruned logs, respondents anticipate very similar prices (\$172/m³) remaining through 2022, before an increase to \$181/m³ in 6 months, and \$184/m³ in 12 months.

Business confidence remains low, but the proportion of respondents holding a negative view has fallen from 44% to 39%. However, just 11% of respondents expect a positive outcome over the coming year. Low global demand and potential economic recession are key factors in depressed business confidence. Supply issues, especially shipping delays and difficulties with employment continue. Seventy six percent of respondents indicate it is difficult or very difficult to hire staff currently, with staff illness due to Covid and staff attrition also compounding labour shortages.

LOG PRICE OUTLOOK

Volatile pricing continues, with sharp month to month increases over the quarter as price recovered from the June price drop. Unpruned prices are at \$120/m³, and respondents anticipate a slow and steady price rise, reaching \$128/m³ in 12 months (Fig 1). For pruned logs, respondents anticipate very similar prices (\$172/m³) remaining through 2022, before an increase to \$181/m³ in 6 months, and \$184/m³ in 12 months (Fig 2).

Figure 1: Forestry business expectation outlook for unpruned wharf log price over the period Aug 2021 to Aug 2023 (A Grade is used as a general proxy)

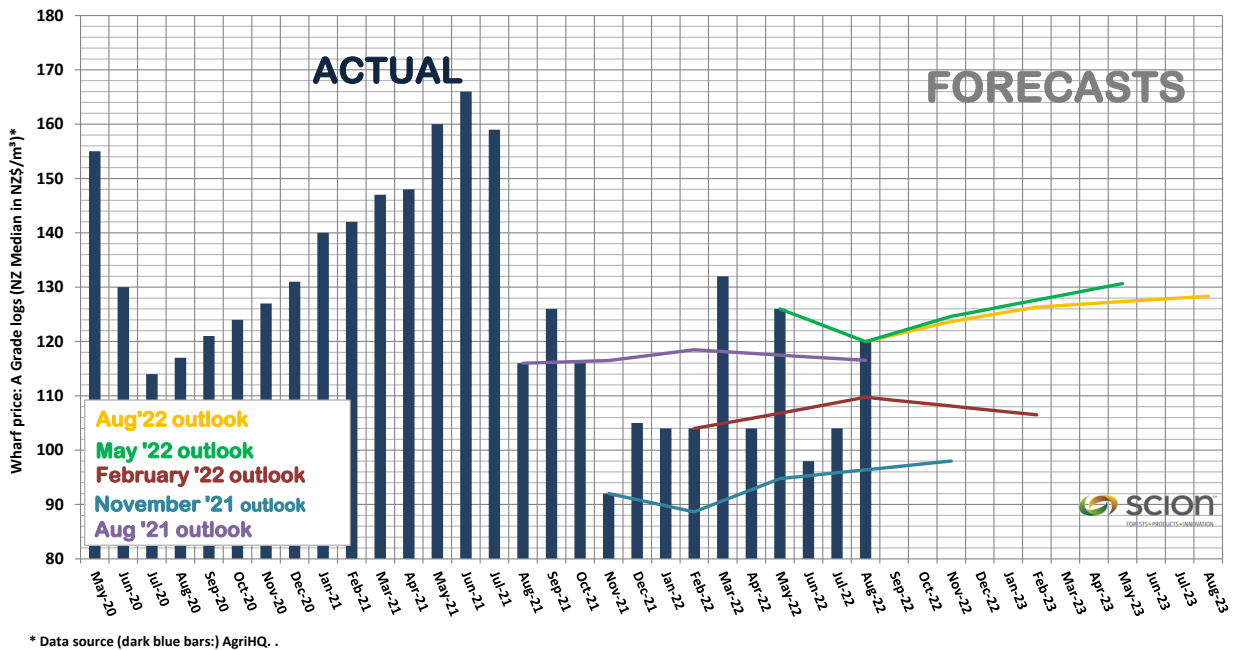
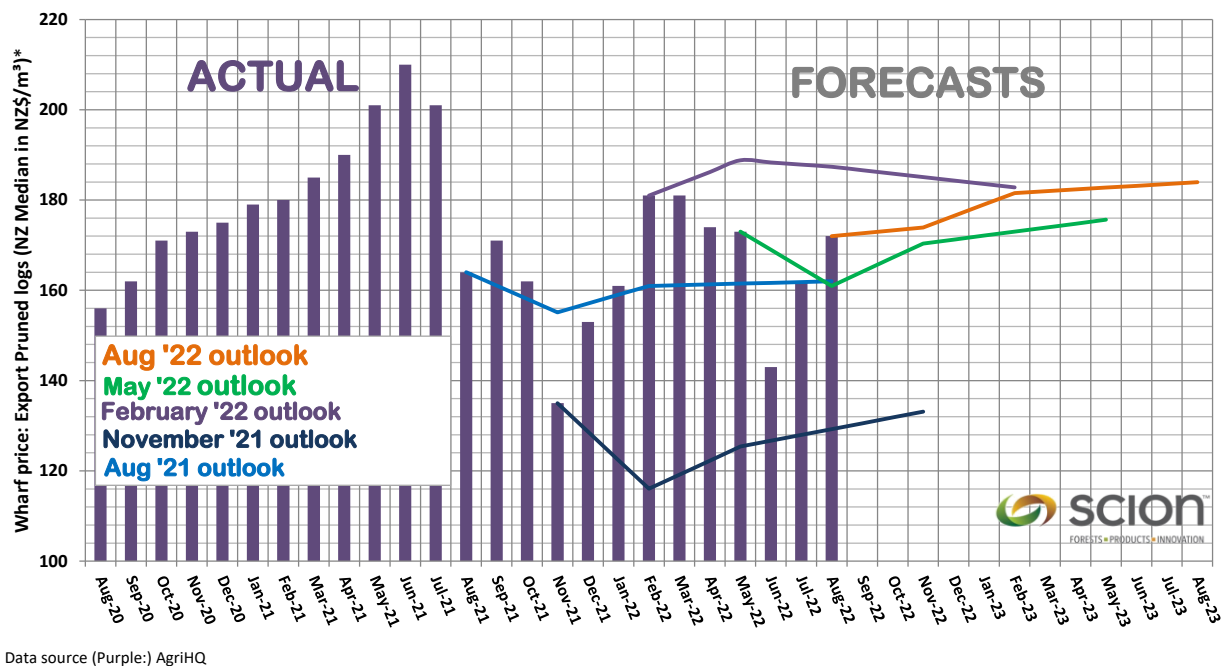


Figure 2: Forestry business expectation outlook for pruned wharf log price over the period Aug 2021 to Aug 2023 (Export pruned price)



This quarter's histograms (pg 7-8) show export log price forecasts in the short term (3-6mth) in the range of +/-15%. Longer term there is a wider degree of opinion amongst respondents on price trajectory in 6-12 months with indications of between ↑20% to ↓15% on today's price. Respondents' long term (12 month) estimates about volume are even more diverse, with many individual views ranging from a 50% increase to a 15% decrease in export volume. Overall respondents estimate an average 3% volume increase for export logs in 3 months, a 4% volume increase in 6 months, and a 6% volume increase by May 2023, with the majority view indicating no change in volume over the short term.

Pruned log pricing reflects a very disparate range of views, ranging from ↑20% to ↓15% over the next 6 months. Domestic log volumes are likely to remain steady, with respondents predicting a 1% average volume increase over the next 12 months. However, there are much wider views on where volumes will sit for domestic logs in 12 months, ranging from ↓5% to ↑20%.

BUSINESS CONFIDENCE

Business confidence remains low, with just 11% of respondents expecting a positive outlook – down from 17% last quarter, and 39% (compared to 44% last quarter) holding a negative outlook. Half of respondents expect business to remain steady and stable over the coming year. Stable conditions are attributed to more balance long-term in markets and oil supply constraints getting back to normal.

Reasons given for expecting a steady or positive change to business include improving or balancing export demand:

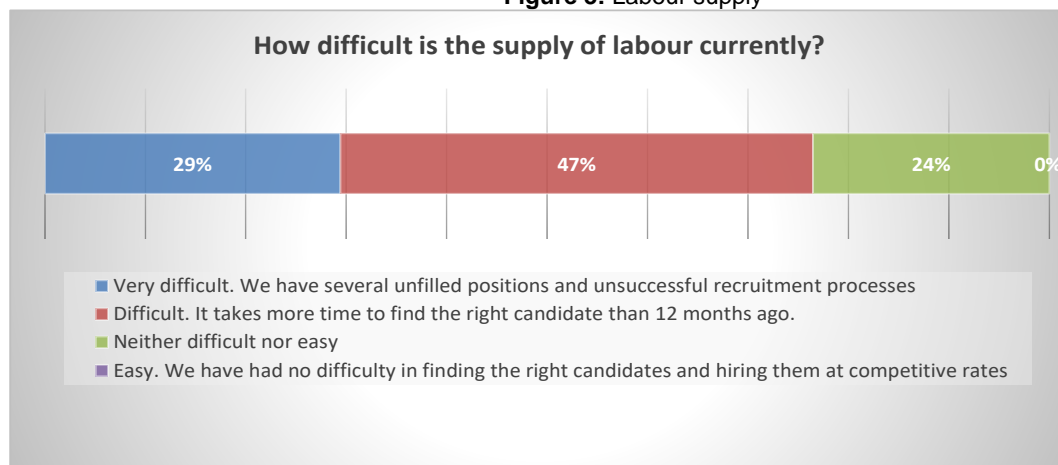
- *“Although overseas markets are uncertain there are signs of improving demand”*
- *“Markets may soften in the short term then balance out”*
- *“Oil supplies are normalising now that Saudi, China and Russia are overcoming the USA sanctions”*

Those expecting a negative change in their business anticipate international instability, government policy moving in the wrong direction, economic recession, and decreased global demand due to high stocks:

- *“Uncertainty..in global shipping and access issues to markets”*
- *“A short-term upward blip but there is a risk of global recession.”*
- *“Our markets most likely heading into recession”*
- *“Government policy absurd and unhelpful”*
- *“Major reduction in China demand for NZ Logs “*
- *“Softwood log and lumber inventory in China is still high and demand weak.”*
- *“Merchant Yards are starting fill up with stock.”*
- *“With constant Covid lockdowns and cash strapped developers the log market is unlikely to improve”*
- *“Major increase in Russian and European Timber supply already happening with a 30-50% reduction in all CIF Timber prices CIF China”*

LABOUR SUPPLY

Figure 3: Labour supply



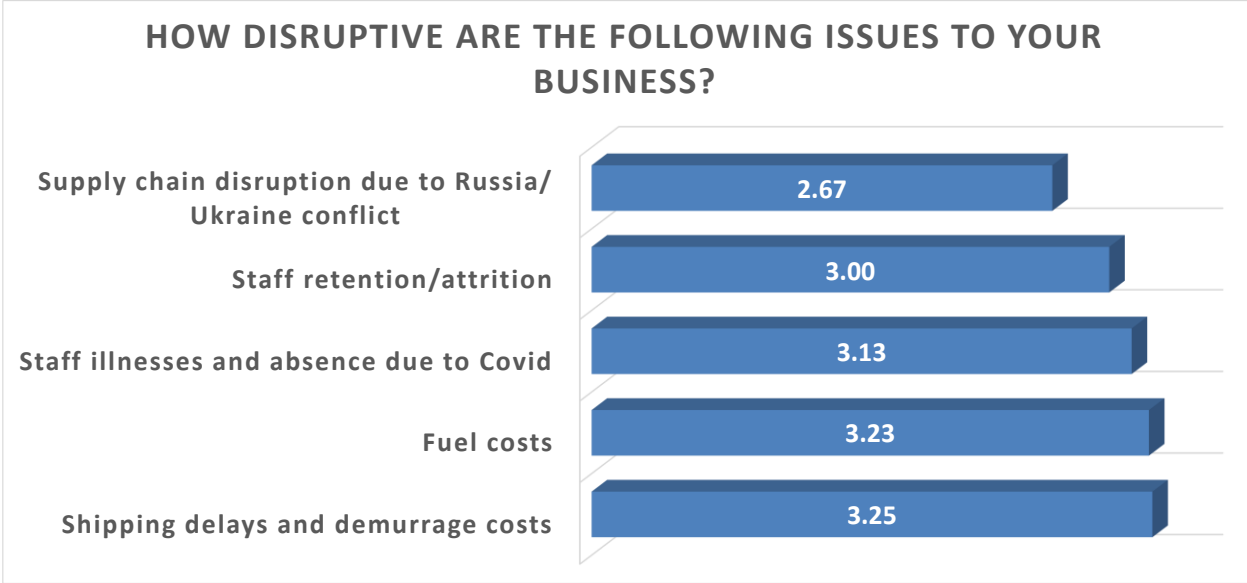
76% percent are experiencing difficult labour supply compared with 69% in Feb, and 73% in Aug 2021.

CURRENT DISRUPTIONS TO BUSINESS

Respondents were asked to rank five current disruptions in terms of most disruptive to least disruptive. The most disruptive aspect currently continues to be shipping delays, with fuel costs also highly ranked as a disruptor (Fig 4).

Staff illness and staff retention are noticeable disruptors, while the current European conflict is not seen as a substantial disruptive force in New Zealand forestry business.

Figure 4: Weighted average responses for rankings of disruptive forces on New Zealand forestry business



We also asked the question “On a scale of 1-10 (where 1 = very mild disruption; and 10 = very considerable disruption) how have shipping and transportation constraints impacted your business?”

The average score was 5.6 out of 10, compared to 5.8 out of 10 last quarter. 24% indicated very low impact (<3/10); 35% indicated medium impact (between 4 and 7 out of 10) and 41% indicated a large impact (>7/10).

LONG TERM DOMESTIC SUPPLY AGREEMENTS

We first raised this topic in November 2016, and then again in August 2020. Comparing the August 2020 responses to today, there is similar overall support for the idea, although many more of those who are supportive now indicate they strongly agree with the concept. No respondents think the idea would stimulate deforestation, the majority now feel that regional economies would benefit and growers would be incentivised to produce higher value wood. Substantially more respondents disagreed that the industry would lose free market principles and freedom to operate. Compared to two years ago there is now little concern that such a policy would lead to New Zealand becoming uncompetitive in the international marketplace.

What do you think will happen if NZ Forestry locks into long-term supply agreements with domestic processors and create a disconnect in pricing between domestic and international markets? (August 2022)

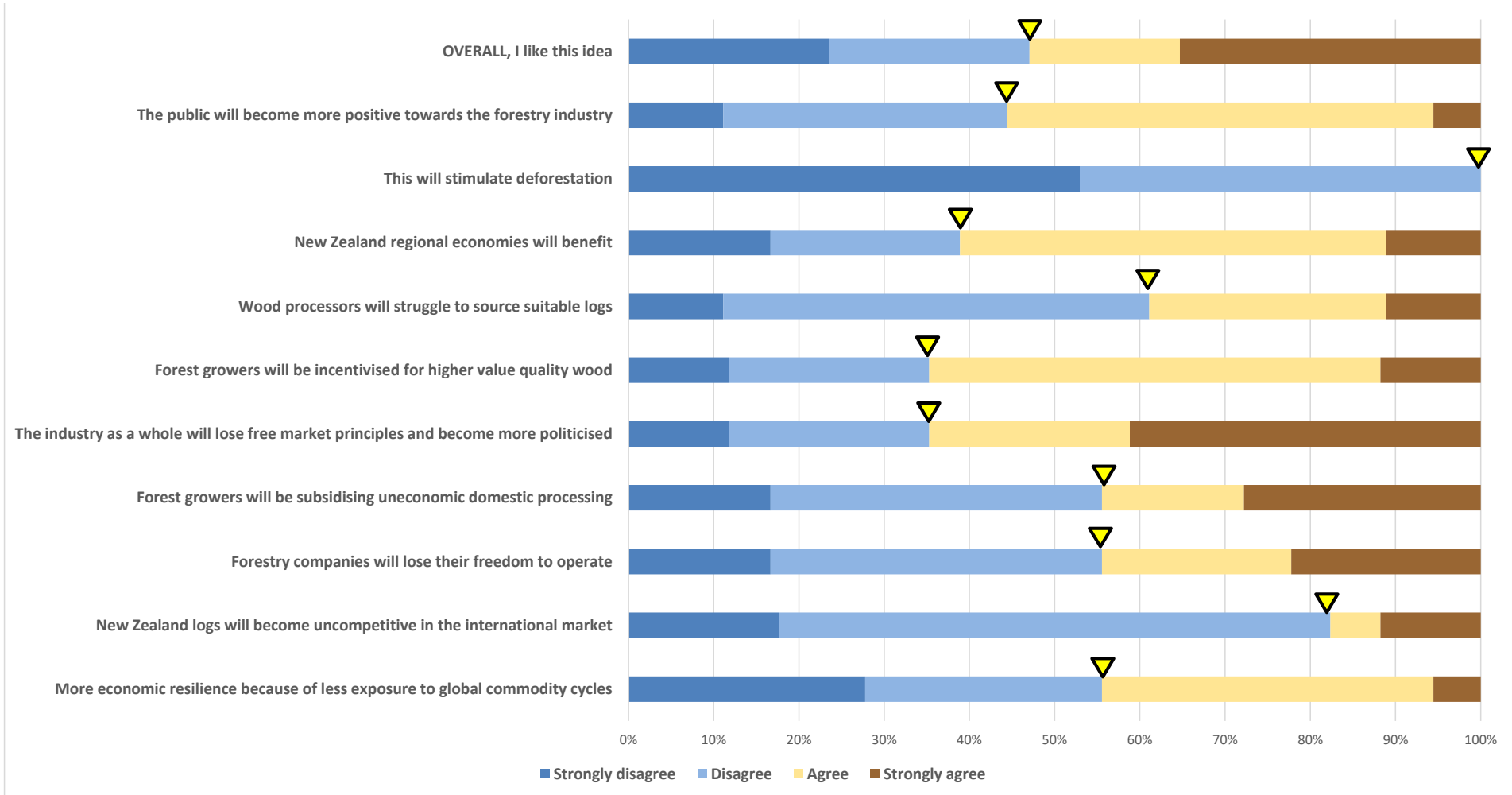


Figure 5a: Agreement with possible outcomes from long term domestic supply agreements

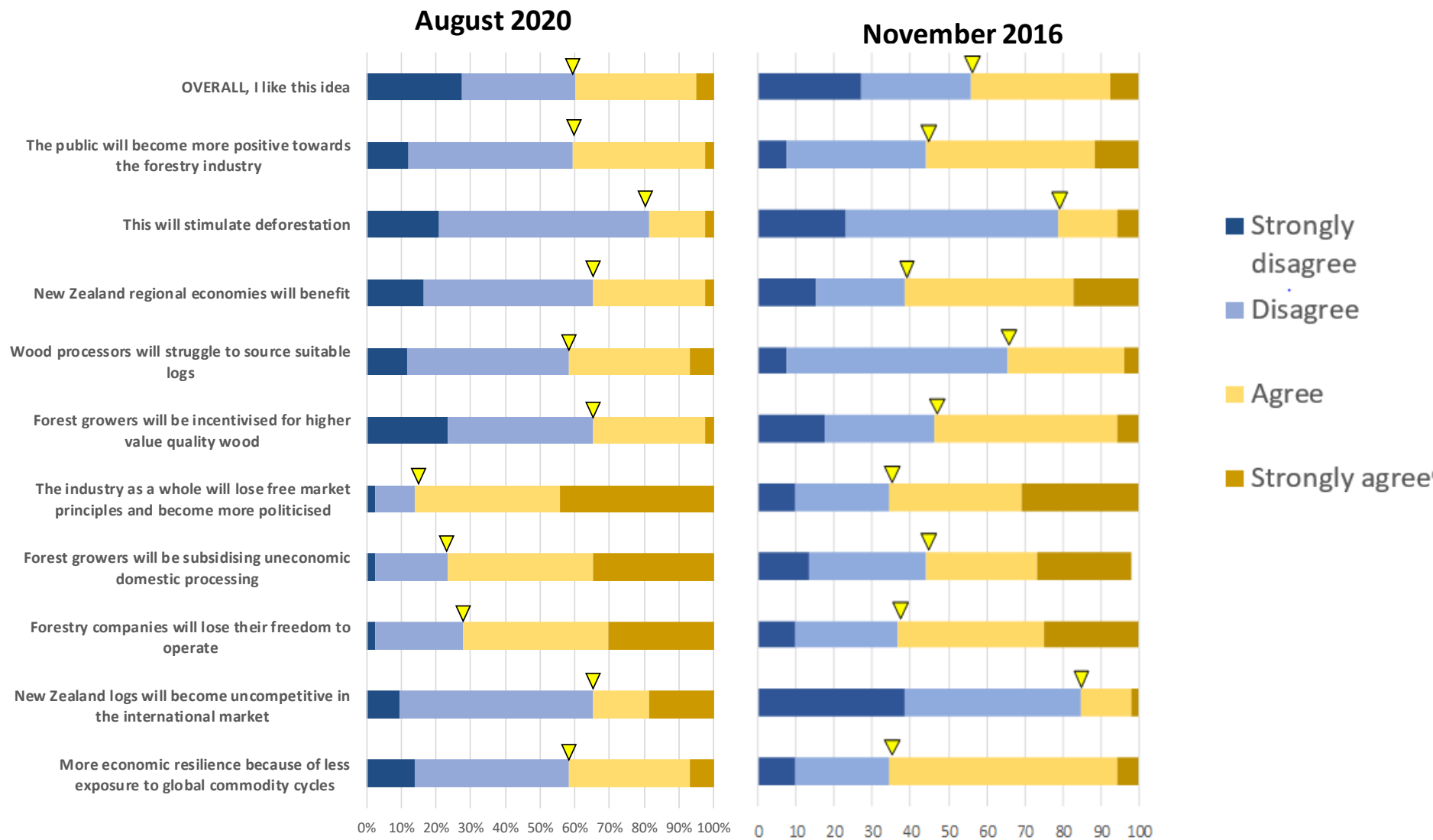
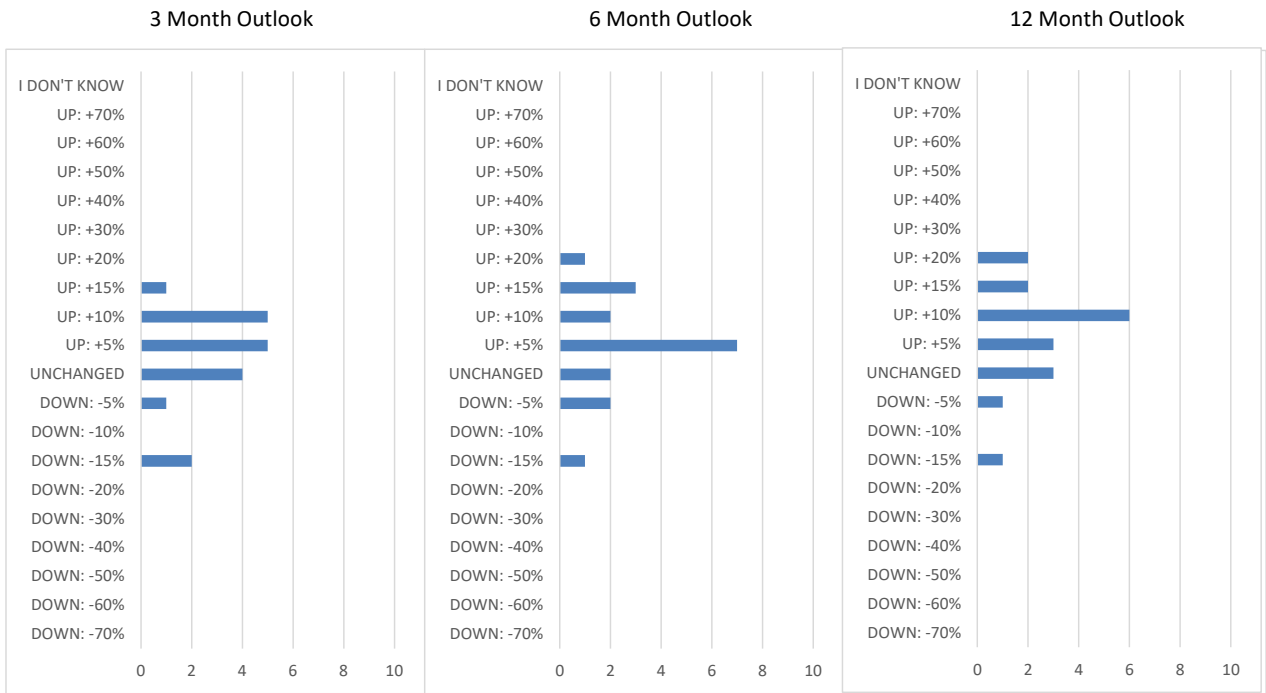


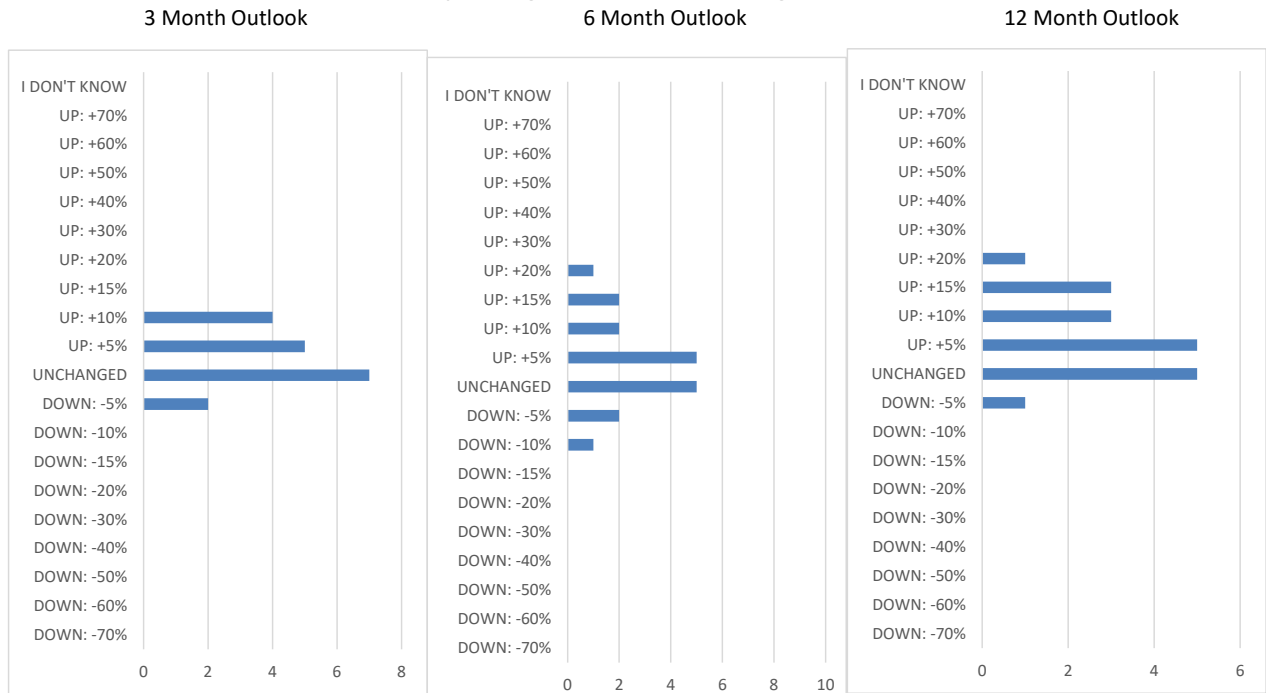
Figure 5b: Historic responses to proposition of longterm domestic supply agreements

Unpruned Log Prices

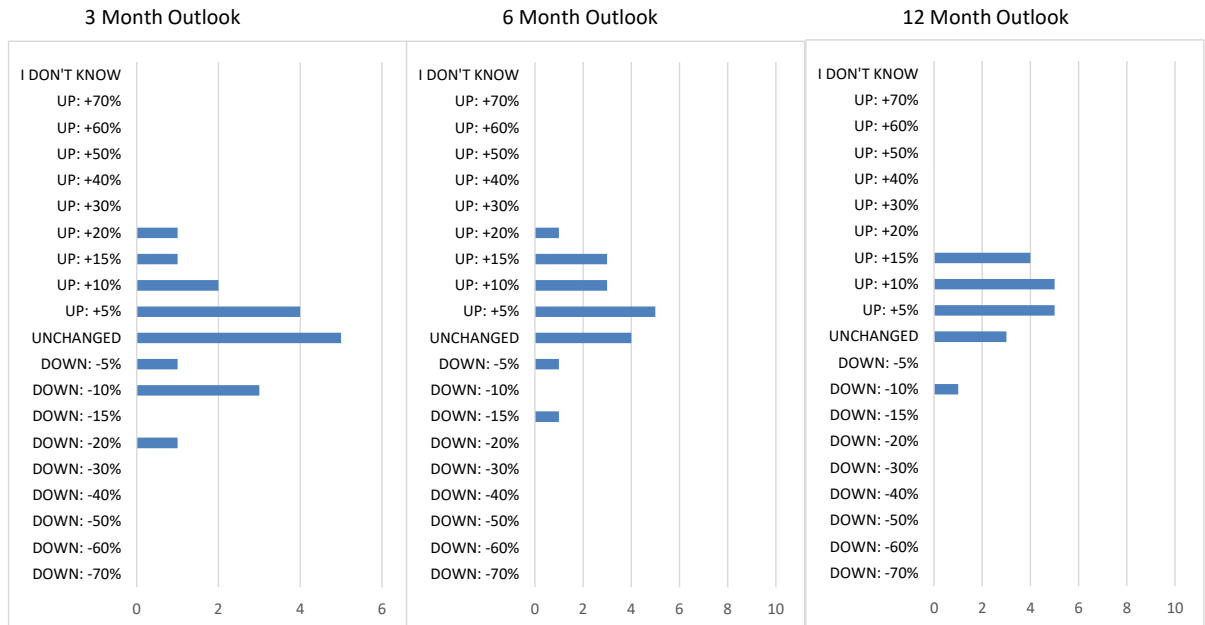
Log Price as a % of prices in Aug 2022



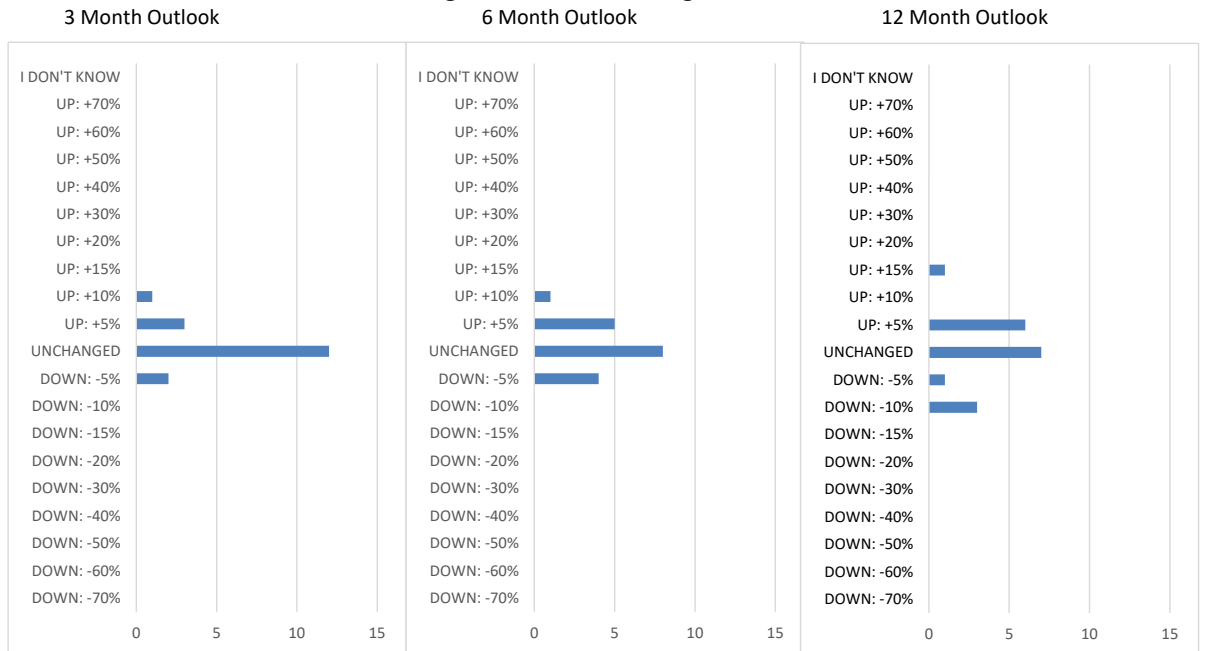
Export Log Volume as a % of Aug 2022



Pruned Log Prices Log Price as a % of prices in Aug 2022



Domestic Log Volume as a % of Aug 2022



Acknowledgements

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