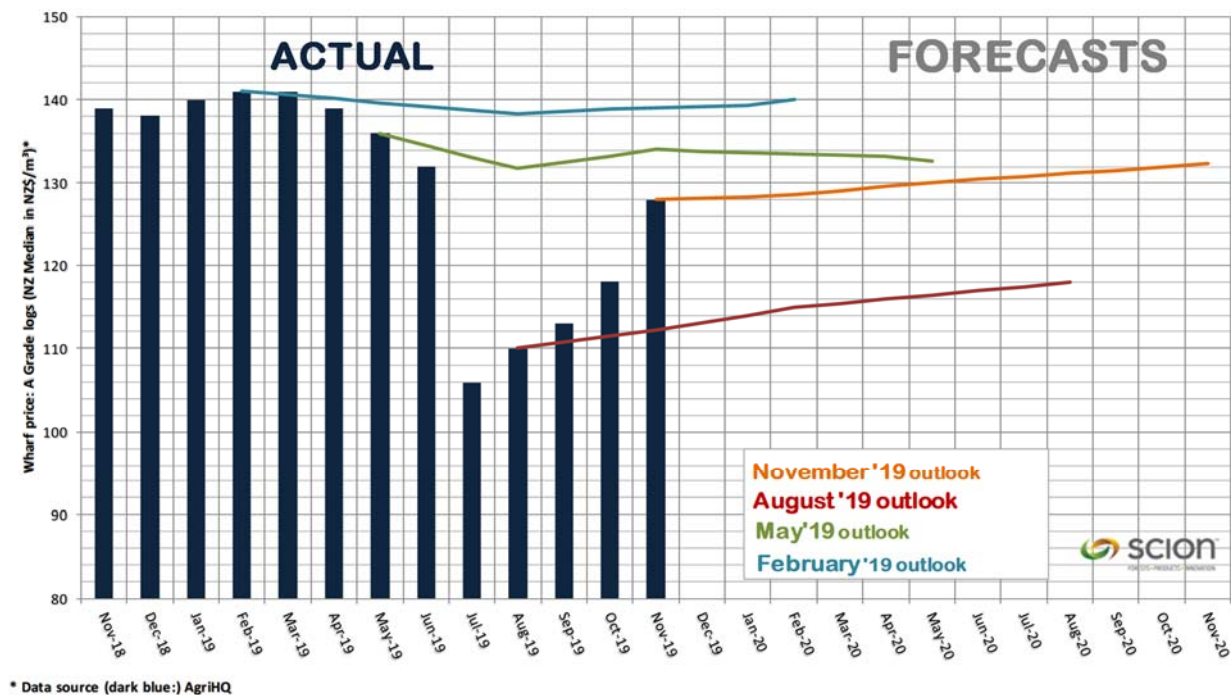


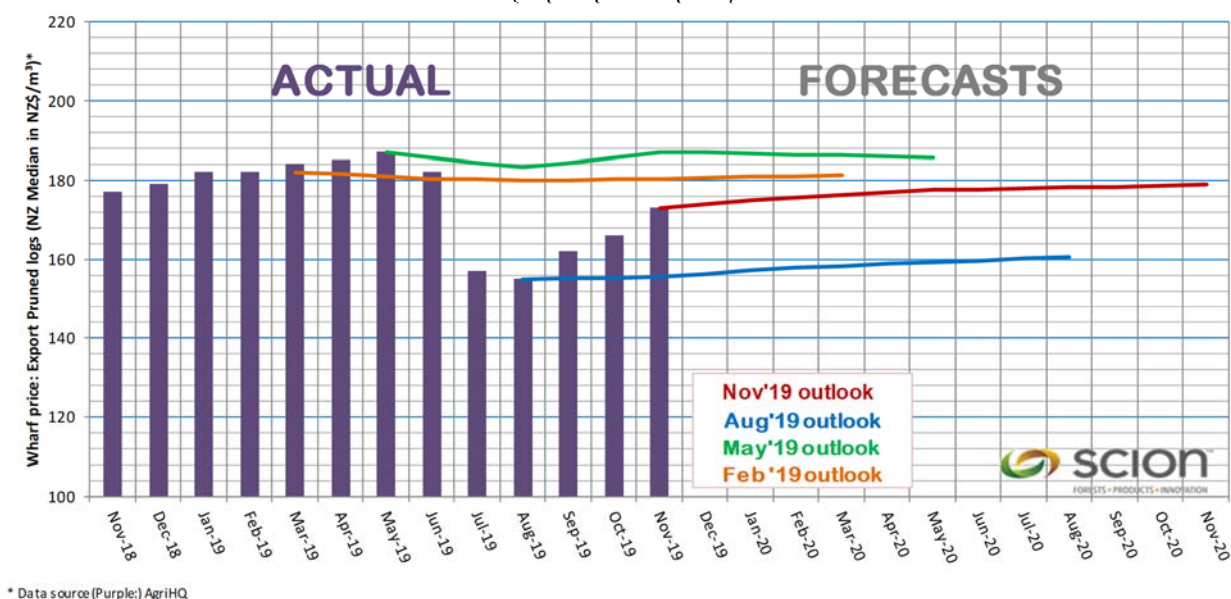


**Figure 1:** Forestry business expectation outlook for unpruned wharf log price over the period Nov 2018 to Nov 2020 (A Grade is used as a general proxy)



From July through October, unpruned log prices rose at an average monthly rate of \$3/m<sup>3</sup> per month, however the past month has seen prices increase \$10/m<sup>3</sup> from \$118/m<sup>3</sup> to \$128/m<sup>3</sup>. This quarter's recovery has been higher and faster than that indicated by respondents in our Aug 2019 Outlook. This outlook anticipates a moderate continuing price increase at the average rate of +\$0.35/m<sup>3</sup> per month to reach \$132/m<sup>3</sup> in November 2020.

**Figure 2:** Forestry business expectation outlook for pruned wharf log price over the period Nov 2018 to Nov 2020 (Export pruned price)



Respondents to the pruned log price outlook in August 2019 anticipated a rather modest recovery back to just over \$160/m<sup>3</sup> by Aug 2020. Since the low of \$155/m<sup>3</sup> in August, markets have seen a much greater rate of price improvement averaging +\$6/m<sup>3</sup> each month, reaching a current value of \$173/m<sup>3</sup>. This Outlook, similar to the unpruned log prices (figure 1) respondents do not anticipate the sharp rate of increase to continue, but anticipate a gentle yearly increase similar to the trend from the August Outlook,

back to around \$180/m<sup>3</sup> by Nov 2020 (figure 2). This would return the market price back to Nov 2018 prices. In 3 months time, the outlook is for \$176/m<sup>3</sup>, and in 6 months time, the outlook is for at wharf price of \$177/m<sup>3</sup>.

The histograms (pg 6- 7) show most respondents clustered between ↑10% and ↓5% change in unpruned log prices in the short term, and between ↑15% and ↓15% change in unpruned prices over the longer term. A few respondents anticipate greater decreases of up to ↓50%.

Anticipated log volumes over the coming year were greater in spread amongst respondents, but more consistent long term and were clustered between ↑20% and ↓10% change, however again one respondent anticipated a substantial decrease in log volumes going forward.

For pruned logs, the histograms are very consistent around an unchanged price in the short term, and ↑15% and ↓5% change although a greater proportion of respondents foresee increased change in pruned prices in the longer term. Once again a few respondents saw more substantial decreases in pruned log pricing, and more importantly, these were not necessarily the same folks who had indicated the substantive unpruned price decreases.

## Business Confidence

Business confidence shows the majority (60%) are expecting the coming year to either remain stable or steady, with an even split between the other 40% in anticipating positive change, or worsening conditions. This indicates a quite diverse opinion in terms of how the industry might fare within a year's time. Those working in sales and marketing, wood processing, government agencies and research were largely more positive in outlook than forest growers – 27% of forest growers expect a negative change in business over the coming year. Those involved with shipping, harvesting and transportation were more likely to select steady and stable business conditions.

The US-China trade situation, increasing supplies of European better-quality logs into our key market, current log price downturn and competition for domestic timber, and the weakened Chinese economy are the main factors in the lowered confidence. Respondents expecting prices to recover also noted that a stabilized market would remain steady at best. There are indications that a few are looking at increasing supply to alternative markets as a diversification strategy, though methyl bromide fumigation will restrict some trade options.

- *"China may have peaked as a log destination"*
- *"China's environmental crackdown on trucks (versus rail) internally"*
- *"Spike in wood from Europe"*
- *"Ongoing China slowdown and negative impacts from US-China tariffs"*
- *"There are many warning signs in the Chinese economy"*
- *"There's going to be volatility in all markets over the next 12 months, heading into US presidential elections"*
- *"NZ timber industry too reliant on the domestic markets, need to collaborate to supply large overseas markets"*
- *"Even though we are in a slump currently, there seems to be confidence that markets have bottomed out and will slowly come back to a new norm"*

Reasons given for expecting a positive change to business included optimism within the US-China trade war, the upwards movement in log prices since July, and more farm planting:

- *"Greater afforestation on farms"*
- *"Price recovery"*
- *"NZ forestry was tested by the current log price drop and was resilient."*
- *"Prices have started to rise again"*
- *"Some compromise might happen in the trade war"*
- *"I am figuring that Trump and China will come to some sort of pact over international trade heading into next year's US election"*

Reasons given for expecting steady and stable business included forward workflows, tempered by weakening and unstable market conditions:

- **Pipeline of forward work:**
  - *"Long term supply contracts to long term customers"*
  - *"An established business with clear strategies"*
  - *"We have a stable 12 month forecast for our log cartage"*

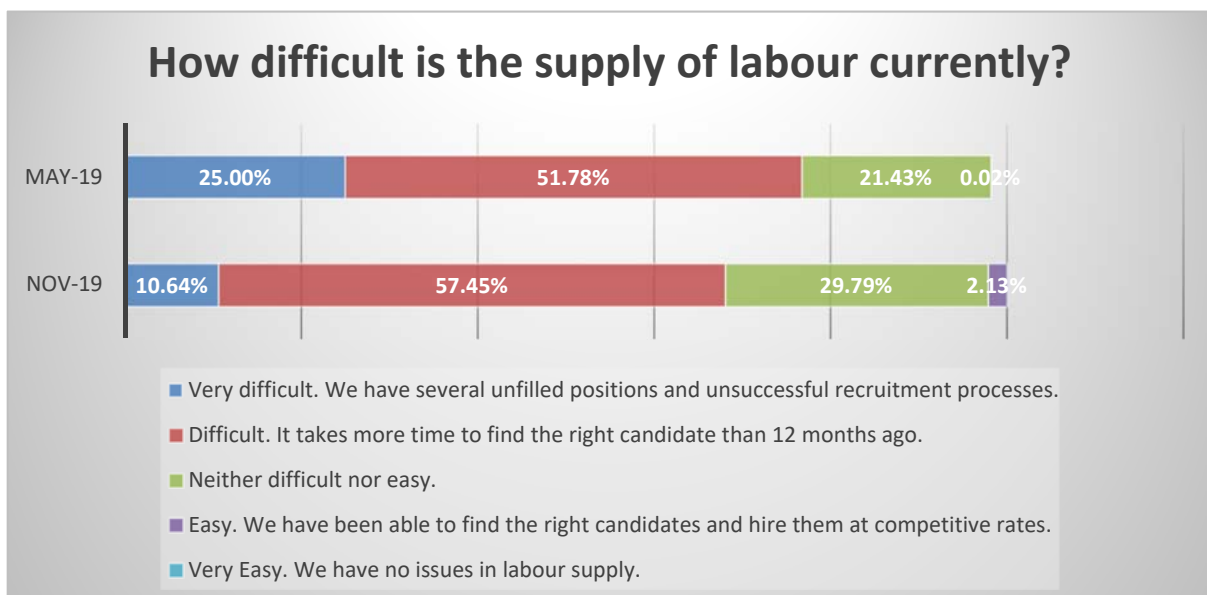
- "At the moment we are very busy, I think that will continue for the next 12 months based on government policy and reviews"
- "I am not trying to increase my work flow!"
- **Signals of market downturn**
  - "China's furniture industry will continue to weaken if the US-China tariff war continues."
  - "There is a gradual fall in international trade and prices"
  - "Still too much supply chasing an unstable market demand in China and other markets"
  - "NZ's available harvest volume is maxed out"

Those expecting a negative change in their business felt that as uncertainty settles, the China situation could worsen, especially coupled with Chinese New Year slowdowns. The increasing European supplies will be sold at discount prices, impacting the ability for our log prices to recover.

- **Chinese slowdown:**
  - "The longer term economic outlook in China is negative and the construction sector is a large component of the economy"
  - "Reduced tariff on log exports from the US to China adding to the log supply to China"
  - "China market will crash"
- **Political and social influences**
  - "Chinese New Year will have an effect on the log market "
  - "USA China tariff debate ongoing"
  - "Heading into 2020 Chinese New Year will have an effect on log exports"
  - "Hong Kong situation could escalate destabilising East/West relations and impacting trade across the wood fibre sector".
- **Increased European wood imports into East**
  - "European beetle wood"
  - "Continuing influx of European Union logs will weigh down supply options for NZ. The storm damaged logs will continue to be sold at a significant discount weighing down the market generally"
  - "Increasing European SW log and lumber volumes shipping to China"

## LABOUR MARKETS

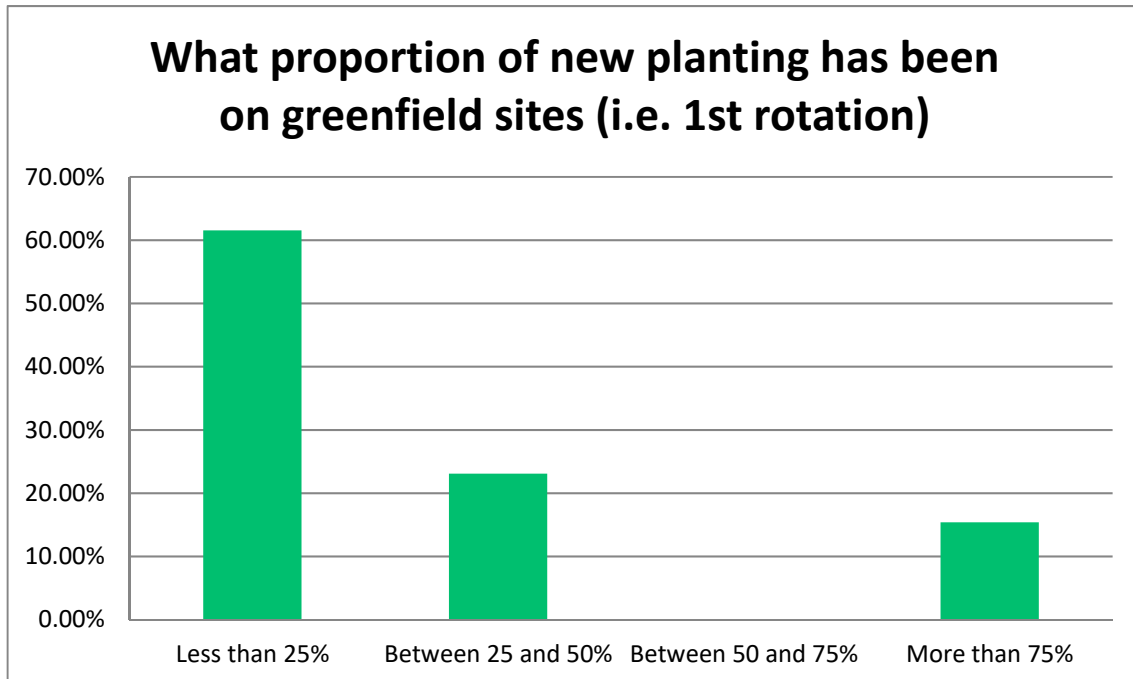
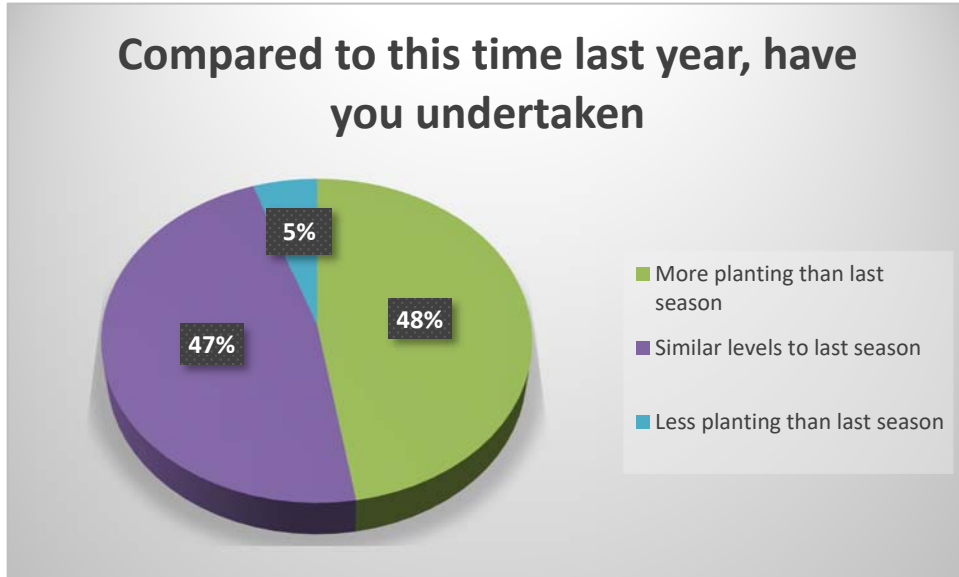
It appears that the ability to attract staff in the labour market has improved slightly since May, although most respondents still indicate difficulties in filling positions:



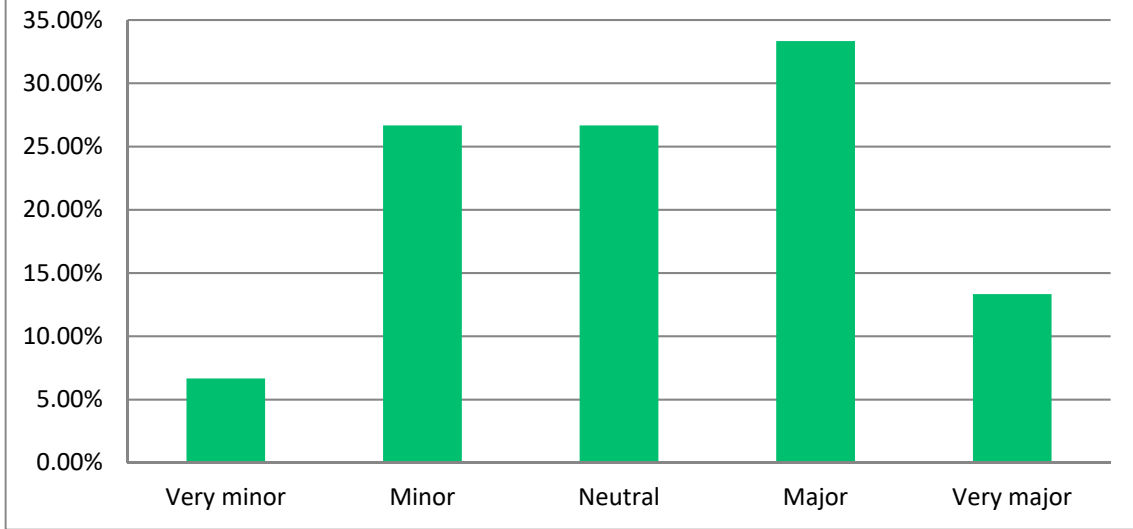
There appears to be a shortage of specialised skilled workers across the forestry value chain, including export sales and logistics, research staff, silviculturalists, timber machinists and saw doctors, fitter and turners, and Class 5 drivers. Much of the difficulty in finding labour resides in a lack of experience or qualifications in applicants for these specialist positions, along with a difficulty in getting sufficient general hands and labourers who are reliable and who want to work. The forestry sector indicated particularly tight labour markets for logging and harvesting, and planting crews.

## AFFORESTATION

There has been an increase in planting year on year, with only 5% of respondents who are undertaking planting (n=19) having planted less than during the 2018 season. Much of the activity is in replanting, though 15% of respondents have had more than 75% of planting occurring on new areas. Nearly half of those undertaking planting (46%) stated carbon prices have a major or very major influence on the decisions to plant.



## How much of a factor is carbon pricing in your decisions to plant?



## Forestry business expectations outlook - Histograms

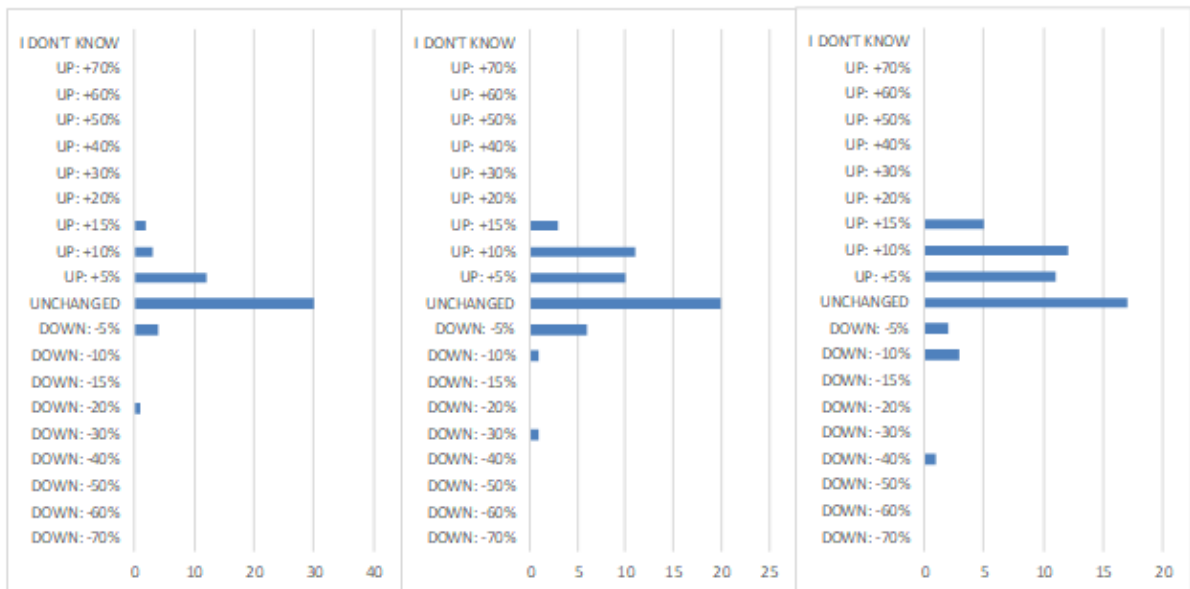
### Pruned Log Prices

Log Price as a % of prices in Nov 2019

3 Month Outlook

6 Month Outlook

12 Month Outlook





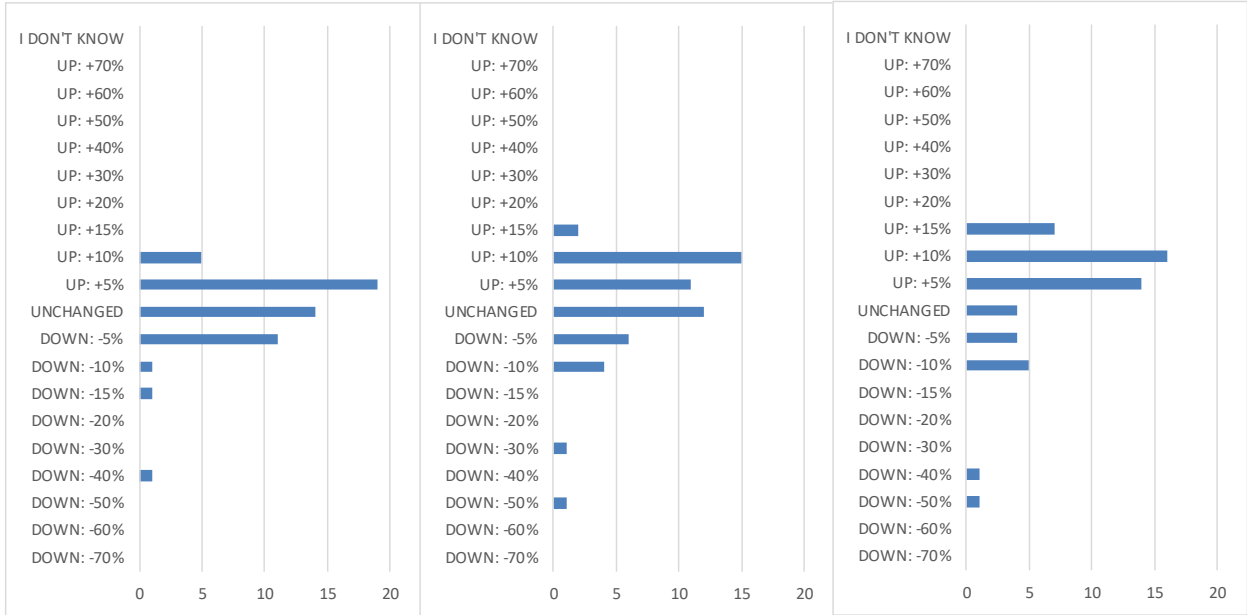
## Unpruned Log Prices

Log Price as a % of prices in Nov 2019

3 Month Outlook

6 Month Outlook

12 Month Outlook

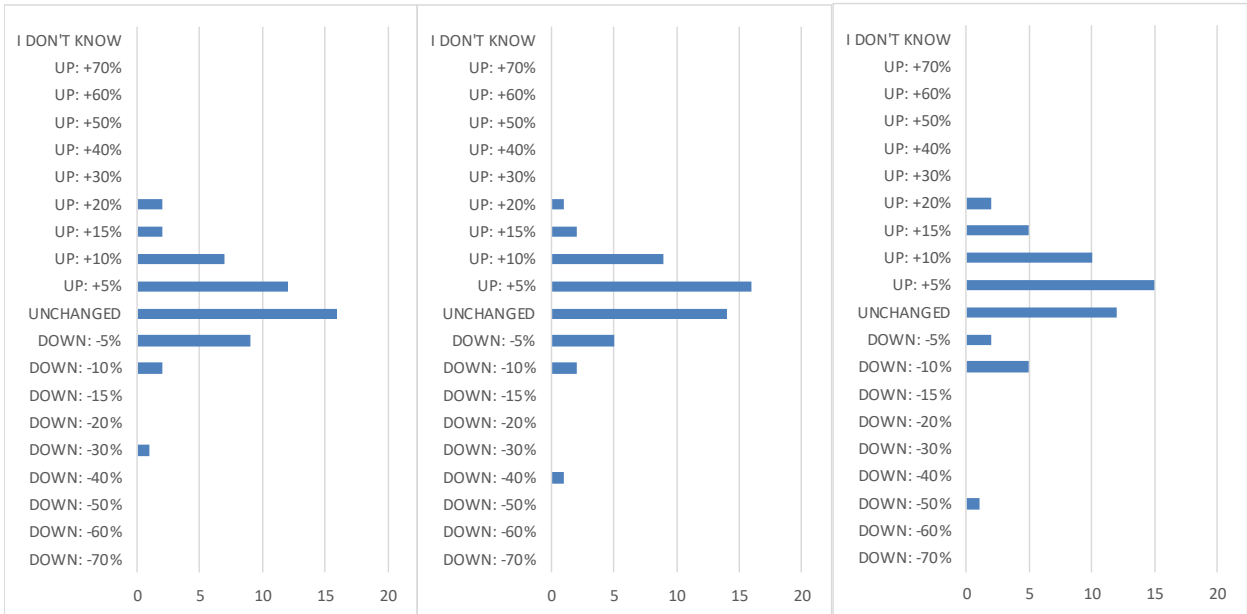


## Log Volume as a % of Nov 2019

3 Month Outlook

6 Month Outlook

12 Month Outlook



## 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 Feb 2020.

To access previous outlook reports please visit this web site:

<https://www.scionresearch.com/lpo>

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