

New Zealand Forestry Business Outlook – Feb 2021

By Karen Bayne and Melissa Welsh



Summary: Forty-two 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. With the exception of last year's price spike in May, log prices are at their highest in 18 months. Respondents expect log prices to continue a higher than average pricing for the next 12 months given strong demand for logs and lumber and restrictions on global supply. The influence of the Russian tariff increase in conjunction with an Australian export ban into China are anticipated to have significant positive impacts on New Zealand business this year, though the ongoing shortage in containerised transportation may restrict capitalising fully on buoyant conditions.

Respondents expect to see continued upward movement in log prices for both unpruned and pruned grades over the following quarter, before a steadying in price by year end and a slight upward price increase in early 2022. In unpruned grades, following 6 months of very regular price increases, prices improved markedly in January and a slight increase followed in February. Prices are currently at \$142/m3 and reflect previous 1st quarter increases of higher than average prices. In pruned logs, a similar pattern has occurred

but not as marked, with prices currently at \$180/m3. Future log price volatility is anticipated to be relatively minor compared to the previous 18 months (Figures 1 & 2), with prices in 12 months reaching \$145/m3 unpruned and \$185/m3 pruned.

LOG PRICE OUTLOOK

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

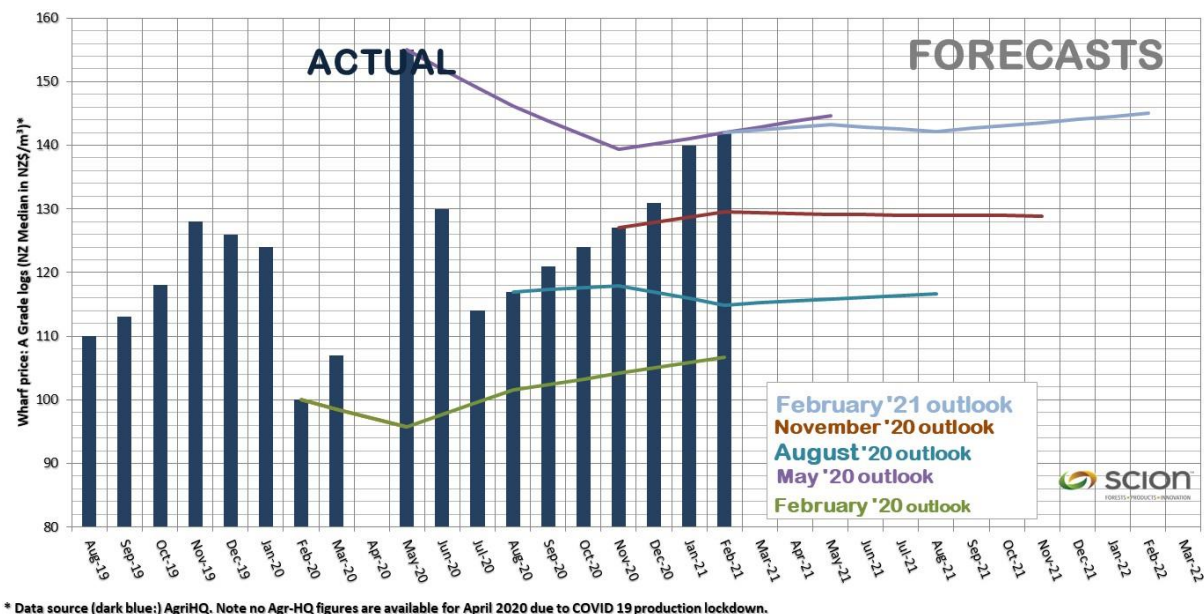
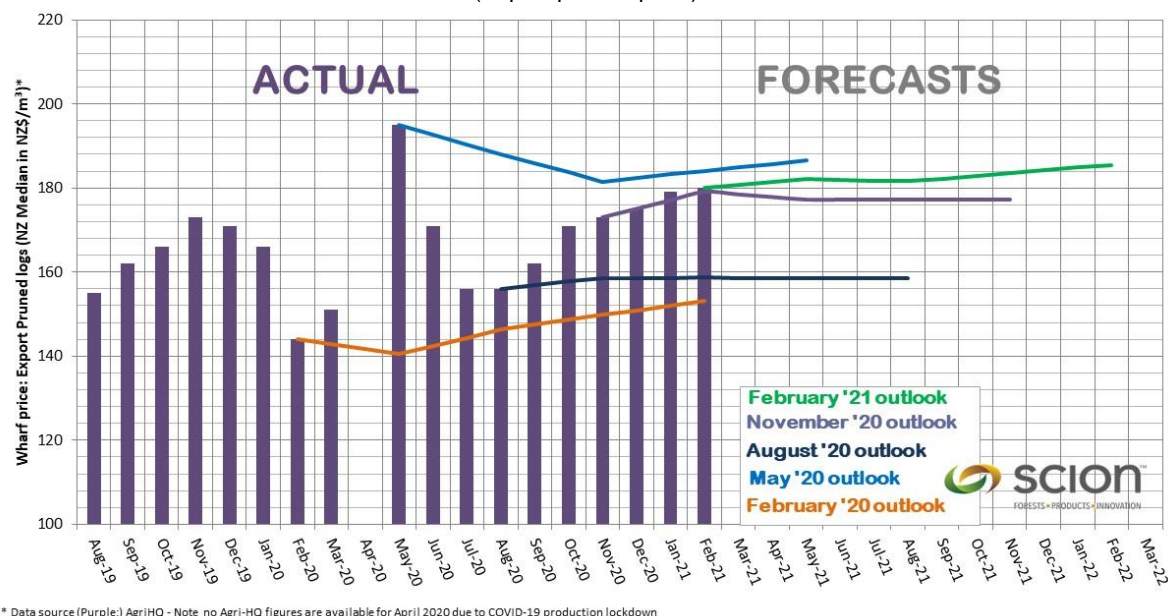


Figure 2: Forestry business expectation outlook for pruned wharf log price over the period Feb 2020 to Feb 2022 (Export pruned price)



In contrast to previous Outlooks, this quarter's histograms (pg 5-6) show a widening range of views around potential changes in price. For export logs, participants estimate price changes between $\uparrow 20\%$ and $\downarrow 20\%$, with average volume movement of $\uparrow 3\%$ in 3 and 6 months, and $\uparrow 5\%$ in 12 months.

All but one respondent anticipates domestic log volumes to increase (due to construction demand), though most anticipate this to be less than 5% (average of 4% log volume increase in 12 months). Pruned prices again show a wide range of respondent perception between ↑20% and ↓20%.

BUSINESS CONFIDENCE

Respondents show similar or slightly improved optimism to last quarter with strong market demand, a positive outlook to Covid from vaccine rollout, and the export trade environment altering in response to Russian tariffs giving respondents reasons for this optimism. Just 10% now expect things to worsen, while nearly half (47%) anticipate a positive outcome and 43% expect very stable and steady conditions.

Respondents expect the market to remain very strong, and the supply of softwood logs to tighten. One respondent even stated that *“New Zealand should understand that it will be in control of the Chinese log market in 2021”*, with a possibility for further price increases if these are introduced slowly. In addition to log price increases, sawn timber markets show optimism as construction activity in several key markets (e.g. Australia, US and NZ) will increase.

- *“Raw log exports from Russia banned from 1/1/22”*
- *“NZ now has preferential access to China due to Australian embargo and proposed Russian export laws.”*
- *“Port stocks are lower than expected for this Chinese New Year.”*
- *“We are still in a demand-driven market with few incremental supply options available to feed the Chinese market for logs AND sawnwood”*
- *“NZ Domestic timber demand will continue to increase”*
- *“The Chinese market has started the year strongly, and I expect this will continue for 4 to 6 months at a minimum”*
- *There will likely be some fluctuation in the market but overall changes will average out and end on a high.*

Reasons given for expecting a positive change to business include the strong global demand and tightened supply availability (especially into China), continuing housing demand, Covid recovery, and US sawnwood price spikes:

- *“Good global demand for wood, Russian Tariffs”*
- *“Chinese economy recovering”*
- *“There will be a slow recovery this year”*
- *“Positive COVID news internationally”*
- *“Strong China mkt. Strong domestic mkt”*
- *“US sawnwood prices have shot to new record highs and this will limit both log and sawnwood exports to China”*
- *“More European sawnwood will end up in the US due to high prices, limiting exports to China.”*
- *“India is flooded with Aussie logs, diverted from China. Will stay away from NZ logs. May stabilize in Q3.”*
- *“Export demand and prices have moved at twice or even three times the pace of our Domestic market”*
- *“China will continue to want to buy logs from NZ.”*
- *“Other log supply/and or lumber substitute tight ex Germany and Russia, no cheap reliable supply remains in the world”*
- *“USA housing market strong at 1.7m housing starts; Australian housing market strong; NZ housing market is strong.”*

Reasons given for expecting steady and stable business included positive economic drivers and good growth potential and improved market stability:

- *“The sector is moving along well and in good shape”*
- *“All the signals are that there are positive drivers in the Industry, however, we are currently at levels that have historically been 'peak' and I am unsure what positive growth there is left still to move up in price significantly.”*
- *“Logging and cartage capacity is currently tapped, so in the short-term not a lot of extra capacity available, and the lead time is medium-term for this to grow.”*
- *“I expect a steadying of business activity and some uplift as the Covid vaccine is rolled out and some progressive relaxation of the borders controls occurs.”*
- *“Strong focus on tree planting (Both exotic and native).”*
- *“Order files are strong”*
- *“Expect Australia and China to sort their conflict out.”*

Those expecting a negative change in their business reflected woodlot ownership and regional supply of logs:

- *“Plantation volumes in region shrinking, and woodlot owners have different drivers round harvest decisions, resulting in a reduction in overall volume”*

IMPACT OF CURRENT INTERNATIONAL MARKET CONDITIONS

The largest impact on New Zealand business for the past quarter appears to be linked to export trade disputes of competitive suppliers and China (US and Australia) and the market trade changes as Russian log tariffs increase. The latter is also causing markets to shift and prepare for the ban on raw logs from January 2022. These conditions, along with the US election outcome all provided a positive weighted index in terms of market conditions for New Zealand business (Figure 3). In contrast, a slightly negative weighted index was seen in the shutdowns due to the Chinese New Year and ongoing shortage in containerised supply. A slight negative impact was felt from the political situation in Myanmar, due to the proximity to some of our larger trading partners. Looking forward, similar impacts will be felt throughout 2021, but the impacts of Russian tariffs and the China/Oz trade dispute will be felt more strongly, while political situations (US and Myanmar) weaken in impact. There is likely to be a stronger impact from the shortage of containerised cargo. Similar impacts to the previous quarter are expected from the US China trade dispute, despite change in US leadership.

Figure 3: Impacts from international market conditions over past quarter (Weighted average)

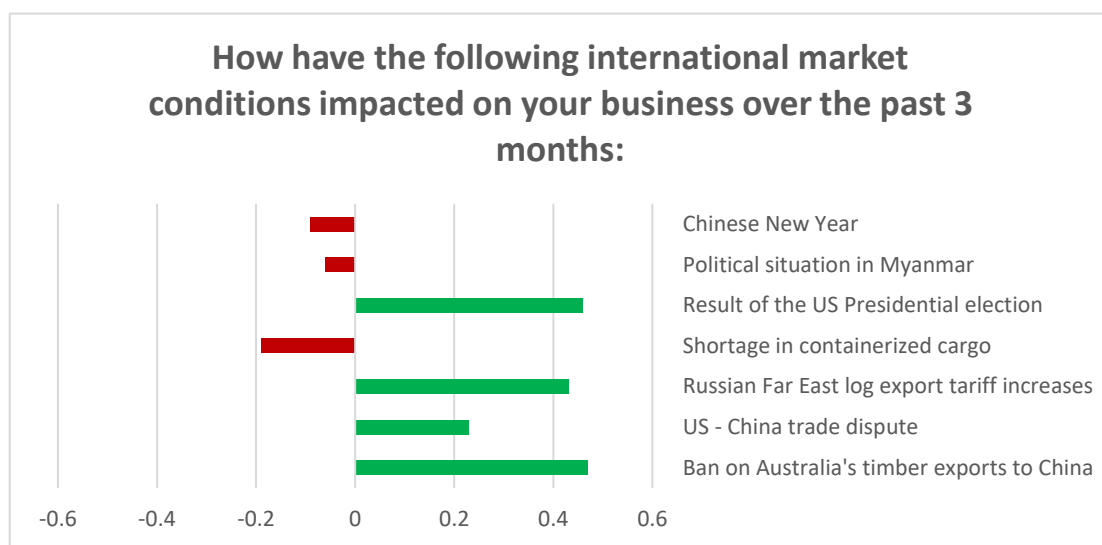
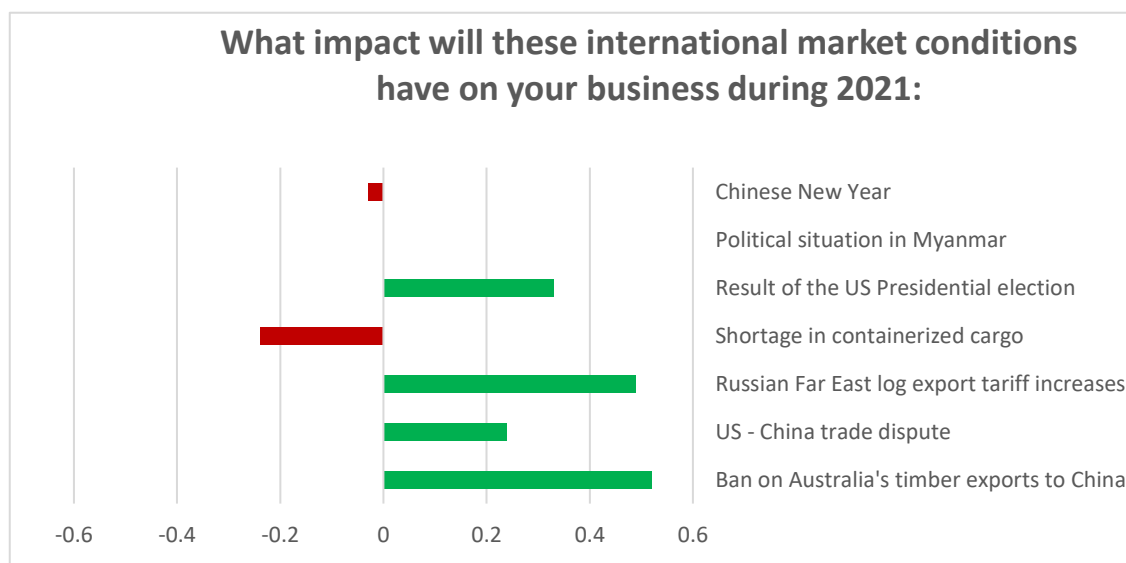


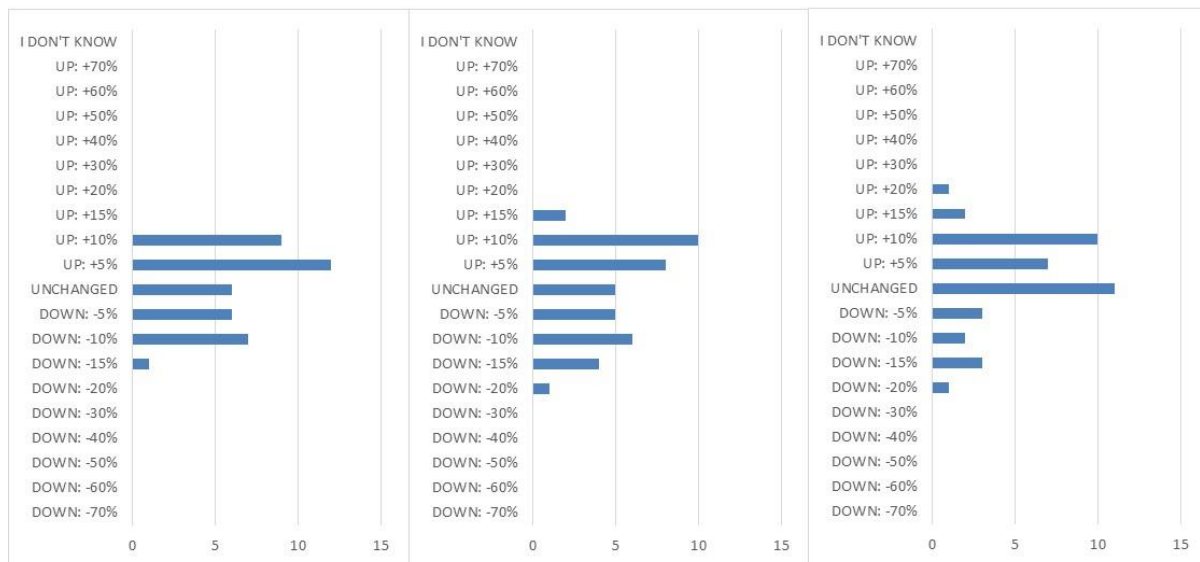
Figure 4: Anticipated impacts from international market conditions for 2021 (Weighted average)



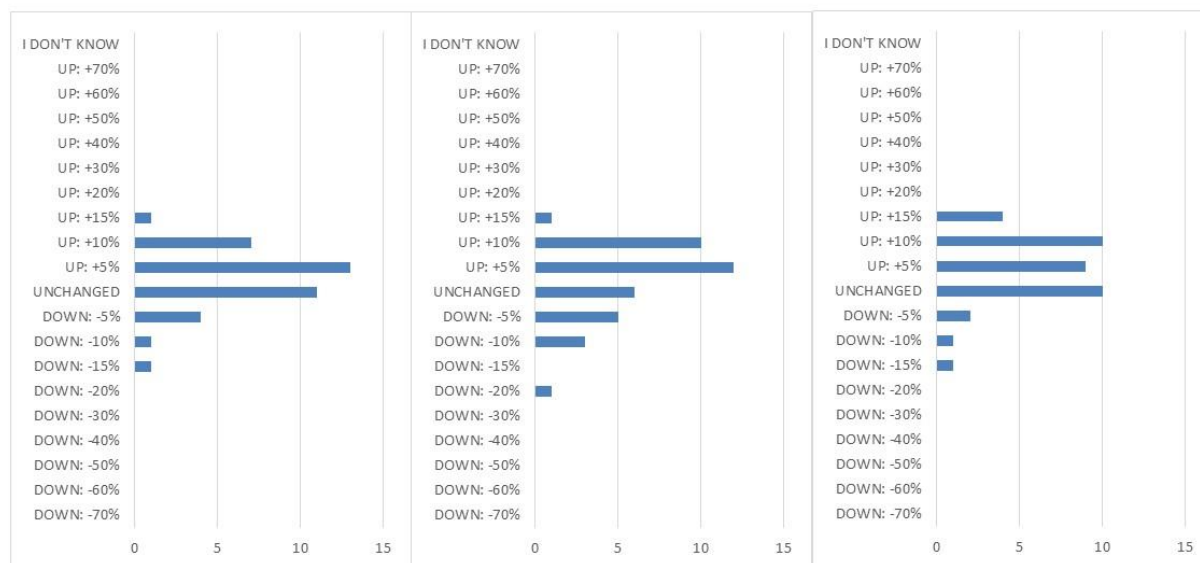
FORESTRY BUSINESS EXPECTATIONS OUTLOOK - HISTOGRAMS

Unpruned Log Prices

Log Price as a % of prices in Feb 2021

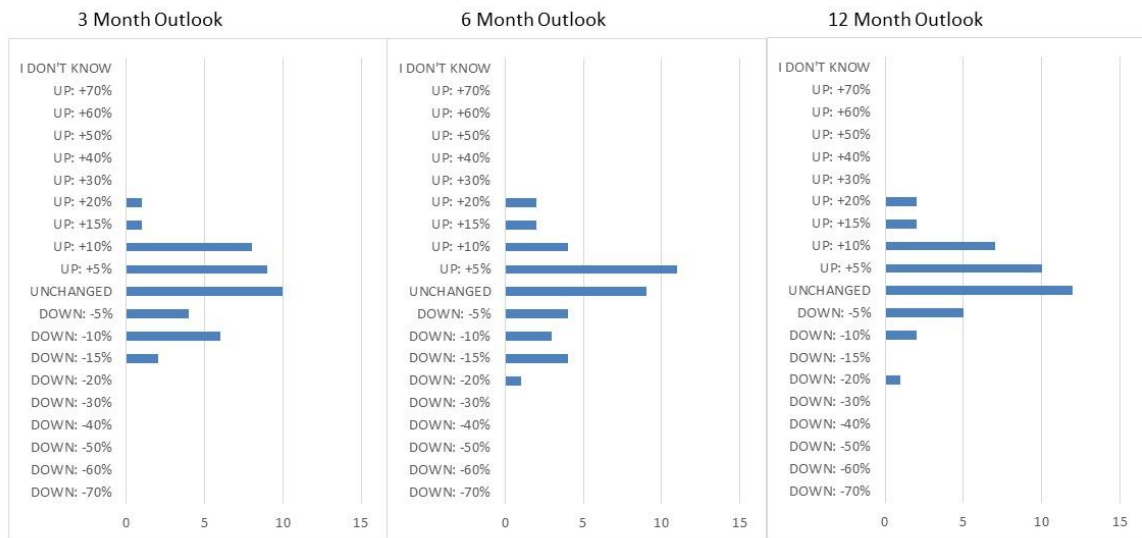


Export Log Volume as a % of Feb 2021

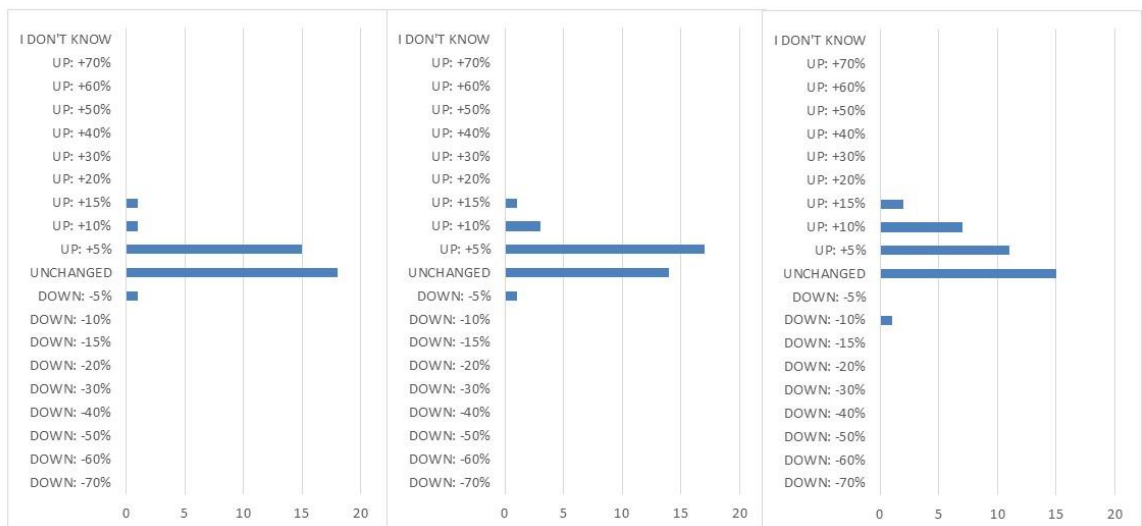


Pruned Log Prices

Log Price as a % of prices in Feb 2021



Domestic Log Volume as a % of Feb 2021



Acknowledgements

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