

LOG PRICE OUTLOOK

Log prices continued the upward trend for September in both grades, but unpruned log pricing has fallen sharply over the past two months, down to \$134/m³ in November (Fig 1). For pruned logs, prices held at the peak of \$190/m³ for September and October, but fell to \$179/m³ in November (Fig 2). Respondents anticipate forecast price trends to follow very similar patterns in both grades throughout 2023, with a 3 month price decrease, and then a steady upswing throughout the remaining 9 months. Unpruned logs are anticipated to be \$114/m³ in 3 months, \$119/m³ in 6 months and \$127/m³ in 12 months. In the pruned grade, respondents anticipate \$171/m³ in 3 months, \$174/m³ in 6 months and \$185/m³ in 12 months.

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

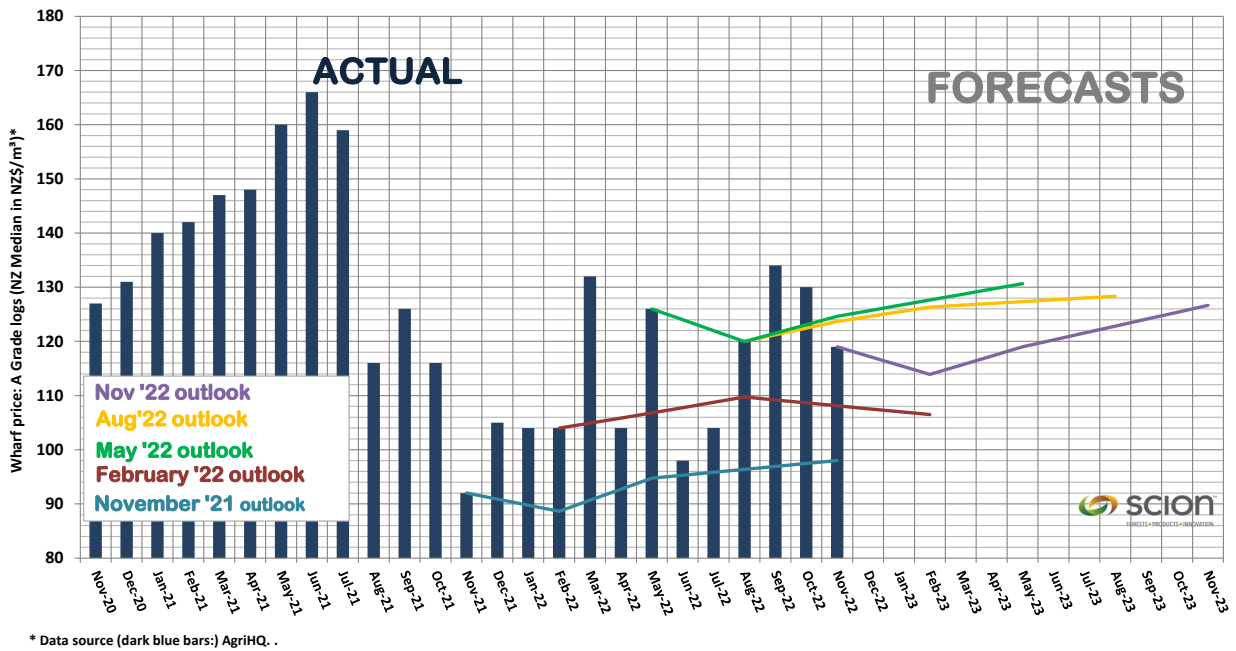
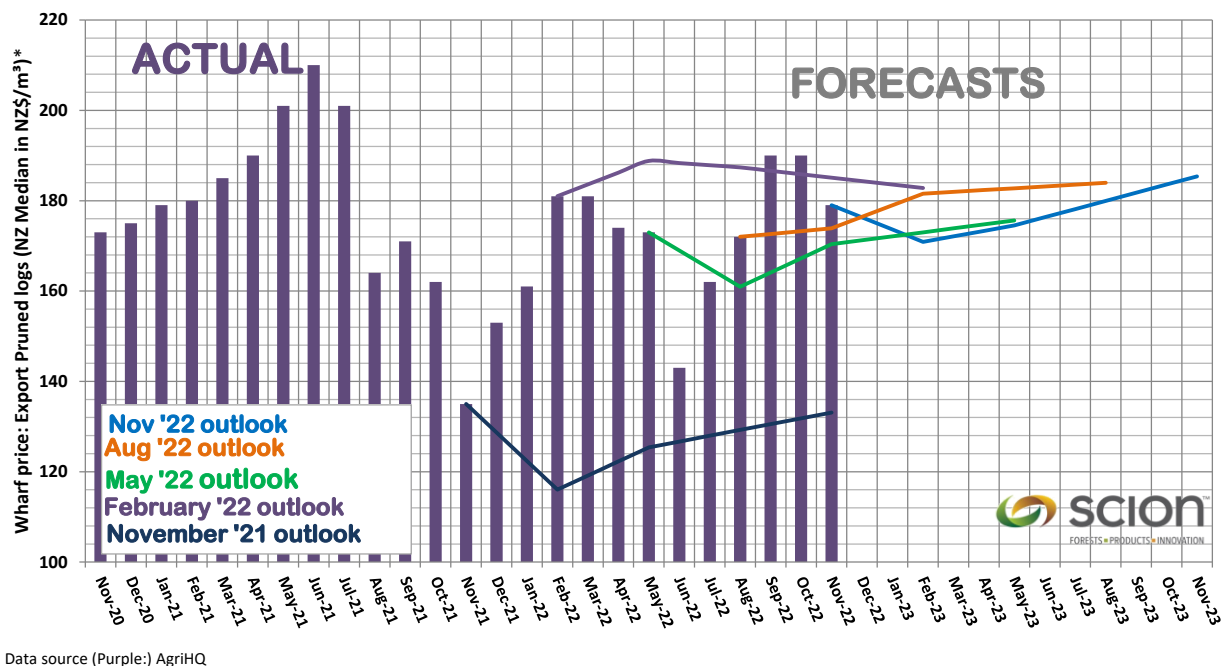


Figure 2: Forestry business expectation outlook for pruned wharf log price over the period Nov 2021 to Nov 2023 (Export pruned price)



Quarterly histograms for the coming year (pg 6-7) show log price and volume forecasts for the short (3 month), medium (6 month) and long term (12 month). There continues to be wide variation in respondents pricing and volume forecasts across both grades (Table 1). Unpruned log pricing varies by +/- 30% over the 12 month period. Pruned log pricing also shows wide ranging views, ↑30% to ↓20% over the year.

			MIN	MAX	Percentage Δ from Nov 2022
PRICE	Unpruned	3 mth	↓30%	↑15%	-4%
		6 mth	↓15%	↑15%	0%
		12 mth	↓15%	↑30%	6%
	Pruned	3 mth	↓20%	↑20%	-5%
		6 mth	↓15%	↑20%	-3%
		12 mth	↓15%	↑30%	4%
VOLUMES	Export Volume	3 mth	↓10%	↑15%	-2%
		6 mth	↓10%	↑15%	1%
		12 mth	↓5%	↑15%	5%
	Domestic Volume	3 mth	↓15%	↑15%	-3%
		6 mth	↓20%	↑20%	-2%
		12 mth	↓20%	↑20%	-2%

Table 1: Respondents' forecast changes over time to price and volumes for the next 12-month period.

Respondents have a varied outlook on export volumes also, ranging from ↓10% to ↑15% over the next 6 months, and only one respondent expecting lowered volumes in 12 months time compared with today. Domestic log volumes are likely to decrease in 2023, with respondents predicting a 2.3% average volume decrease over the next 12 months. While the majority of respondents see no change in domestic volumes in the next 3 months, several respondents anticipate volume increases or decreases of up to 15%.

BUSINESS CONFIDENCE

Business confidence is much lower than last quarter, with 52% (compared to 39% last quarter) holding a negative outlook, and just 14% of respondents expecting a positive outlook – slightly up from 11% last quarter. One third of respondents expect business to remain steady and stable over the coming year, mostly due to settling into a new normal and continued weak global demand.

- *“The general economic environment is unstable and facing many issues.”*

Reasons given for expecting positive change to business include easing inflation, new recruitment, and improved domestic demand:

- *“Easing inflation concerns, leading to improving domestic and export demand”*
- *“We are increasing our harvesting capacity by one crew”*

Those expecting a negative change in their business anticipate recession and continued low demand due to Covid policy and weak housing markets in China. Some are concerned with inflation and interest rate pressures, there is a general feeling that there are still too many unknowns and current pressing issues in the industry for conditions to improve:

- *“Continuing covid lockdowns and restructuring real estate industry in China driving down demand for all commodities*
- *“China has had a housing overbuild and will not continue to use timber at past levels.”*
- *“World recession is inevitable when real inflation statistics become available “*
- *“Lots of recessionary and inflationary pressures but much depends upon how governments and banks respond. Lots of potential for geopolitical uncertainty. Risk of high debt burdens if interest rates increase.”*
- *“Central Govt policy is making investment in forestry more challenging, and this combined with macro economic supply chain factors will in general have a negative effect on the NZ Forest Industry.”*

LABOUR SUPPLY

Figure 3: Labour supply



Eighty five percent are experiencing difficult labour supply, compared with 76% in August and 69% in February.

MARKET ACCESS

In November 2021, we asked about emerging markets for NZ forestry business, with a focus on market development and access. Respondents provided an update on some activities that have been undertaken over the past year within the following markets:

INDIA – around 50% of respondents had undertaken some activity. These included:

- Maintain a sales office in India and actively working with MPI to reopen NZ log exports to India
- Review of alternative log export fumigant to Methyl Bromide.
- Government has managed to secure phytosanitary access but details still to be finalised.

VIETNAM – around 20% of respondents had undertaken some activity. This was mostly in continuing existing market supply through regular shipments. One respondent had reduced their sales to Vietnam.

MALAYSIA – around 20% of respondents had undertaken some activity. This included a trial shipment to Malaysia this year and new customer engagement.

OTHER EXPORT MARKETS – 50% of respondents showed they were actively looking to expand and diversify into new markets where practical. This included:

- Trial shipments and market visits to Thailand
- Japan log exports
- Heavy investment in market visits to develop and build customer base – particularly China, Europe and USA, Thailand and the Middle East
- Keeping an ear open towards opportunities to diversify and expand markets where possible

One respondent noted that good market intelligence is a huge gap for the forestry sector, and may impact the sector's ability to pursue market expansion opportunities as they arise.

DOMESTIC SALES

Seven respondents provided a comment on activities to expand domestic markets. These included investigating residue and biomass for energy; expanding ETS coverage; maintaining key relationships and increasing market share:

- Working with those developing biomass markets for energy.
- Bio mass supply agreements being developed with large industrial processors
- Lots of interest in residues but price is an obstacle when there is already a fibre deficit in the CNI.
- Mixed messages from sawlog customers.
- This market is well known but stagnant. Hopefully the Forestry ITP will help in the long term.

DISRUPTION TO 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 6.2 out of 10, compared to 5.6 out of 10 last quarter.

14% indicated very low impact (<3/10); 48% indicated medium impact (between 4 and 7 out of 10) and 38% indicated a large impact (>7/10).

LIKELIHOOD OF INVESTING IN NEW EQUIPMENT

Respondents’ likelihood of investing in significant new equipment or infrastructure during 2023 is 38%.

Likelihood by different supply chain stage:

Forest Growers	31.3%
Harvesting and Forest ops	41.5%
Wood Processing	49% (based on 2 respondents only - one respondent at 98%, and another at 0%)
Shipping and transportation	45.2%

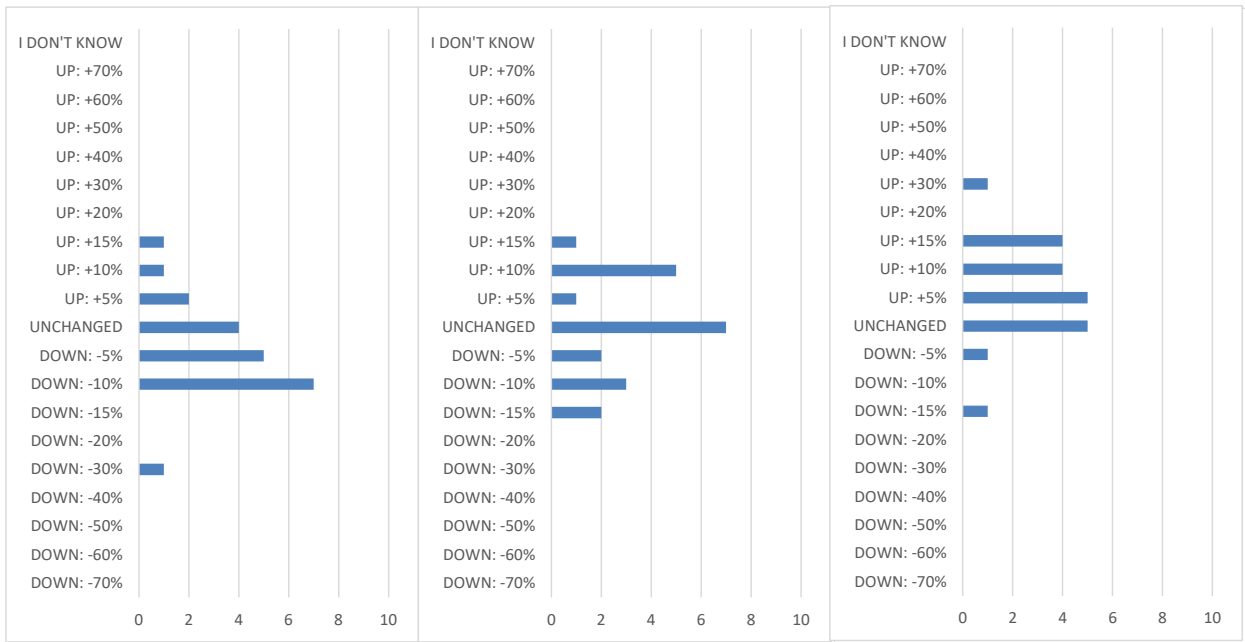
Unpruned Log Prices

Log Price as a % of prices in Nov 2022

3 Month Outlook

6 Month Outlook

12 Month Outlook

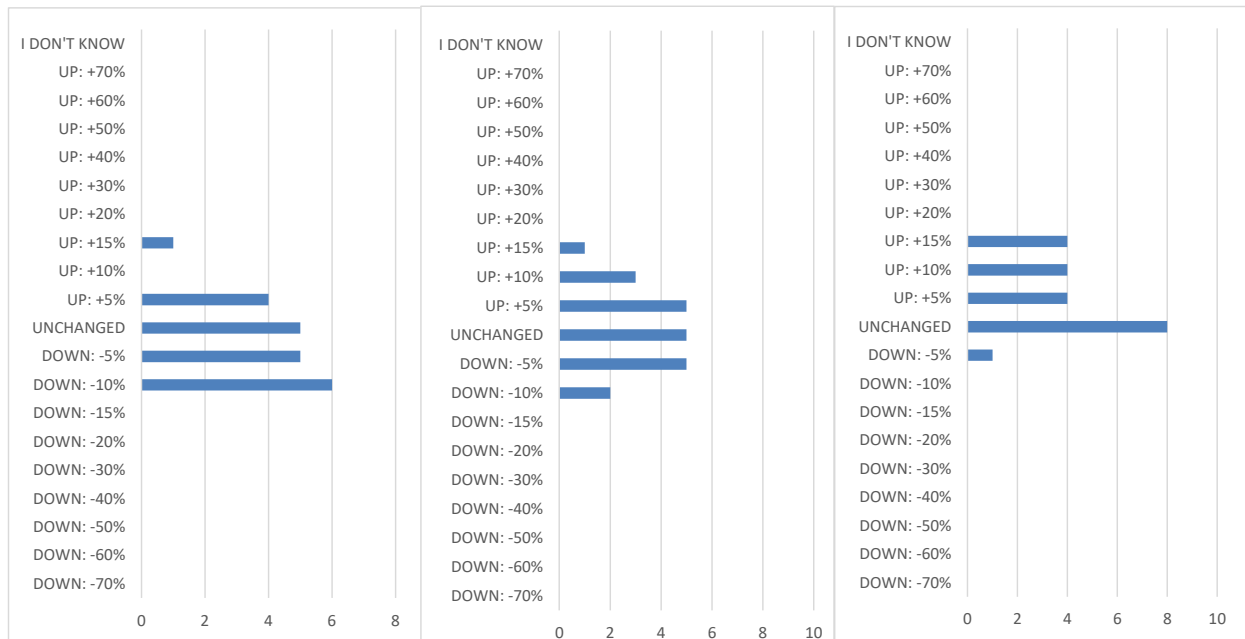


Export Log Volume as a % of Nov 2022

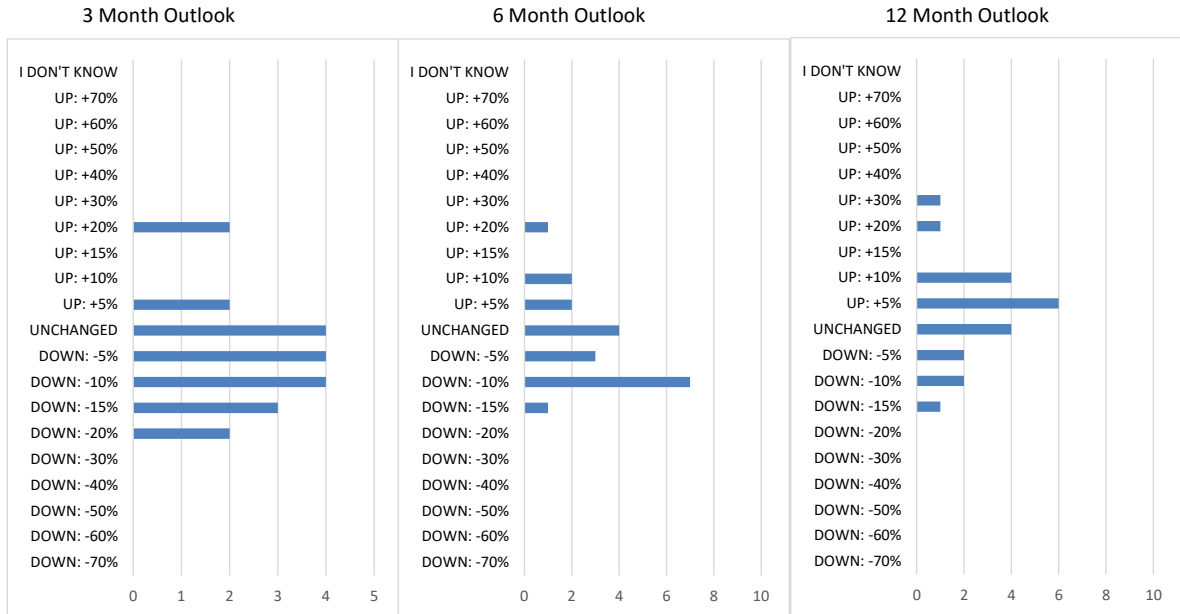
3 Month Outlook

6 Month Outlook

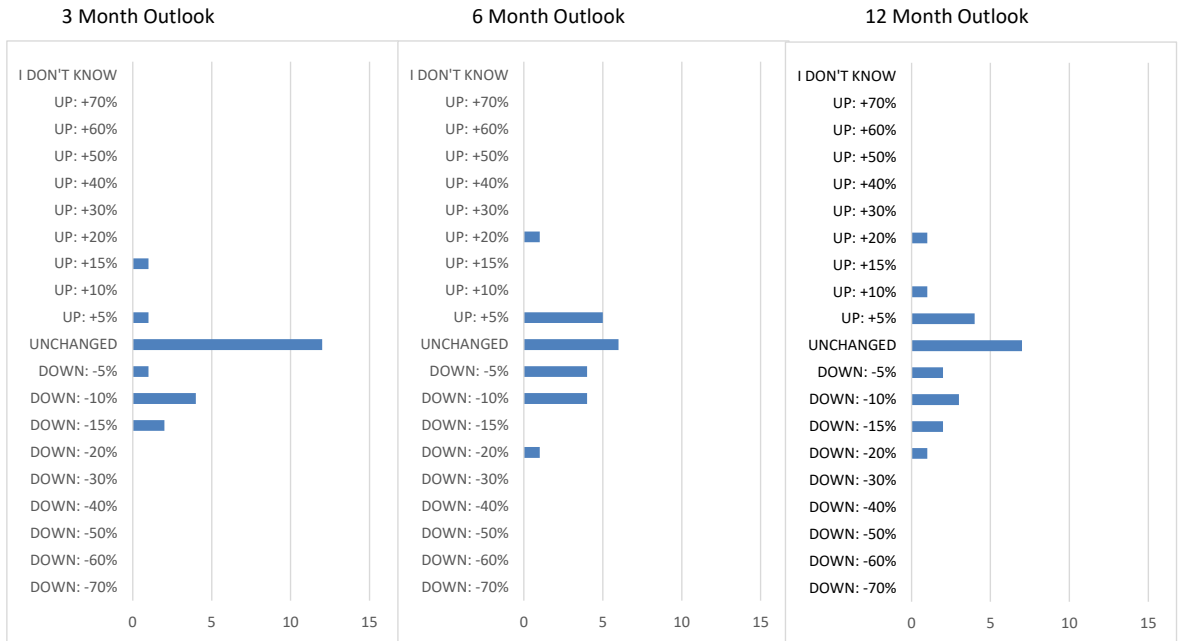
12 Month Outlook



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



Domestic Log Volume as a % of Nov 2022



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 2023.

To access previous outlook reports please visit this web site:

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ISSN 2703-5603