

## New Zealand Forestry Business Outlook – February 2023

By Karen Bayne



**Summary:** Log prices have risen steadily over the summer to \$136/m<sup>3</sup> for unpruned and \$195/m<sup>3</sup> for pruned by the month of February. In both grades, respondents anticipate prices to rise further over the next quarter, and to hold steady at \$143/m<sup>3</sup> and \$207/m<sup>3</sup> respectively, for the remainder of the year ahead. Respondents anticipate an average rise of 3% in export log volume over the 12-month period (peaking at +5% in August), and a slight decrease (↓1%) in domestic volumes by February 2024, compared to February 2023 volume.

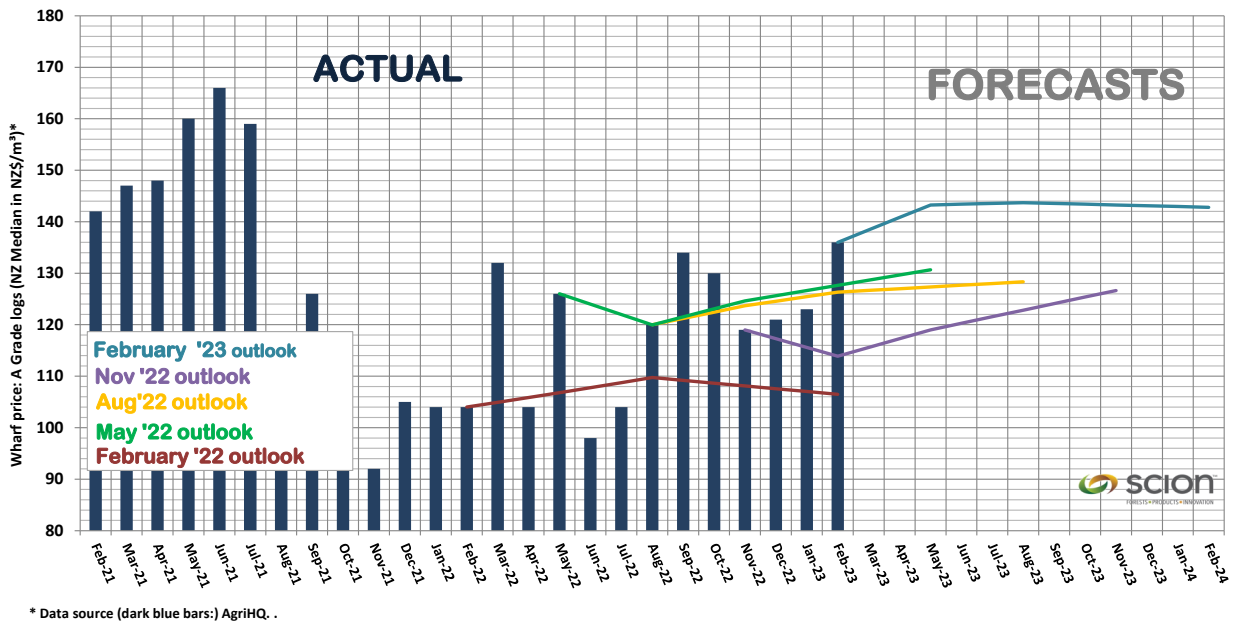
Business confidence is improving, with 40% of respondents expecting a steady and stable year ahead, 27% holding a positive outlook, and 33% seeing a negative outlook on the year. Much of the confidence is from major markets reopening. A lack of access to international markets (especially India and China) in recent years has impacted volumes traded. This is not only due to lower physical shipments, but also the inability to travel and meet with clients and customers, impacting future sales. It is good to hear from our respondents that market access is improving on many fronts, and to note Covid is no longer a headline feature of our word cloud.

### LOG PRICE OUTLOOK

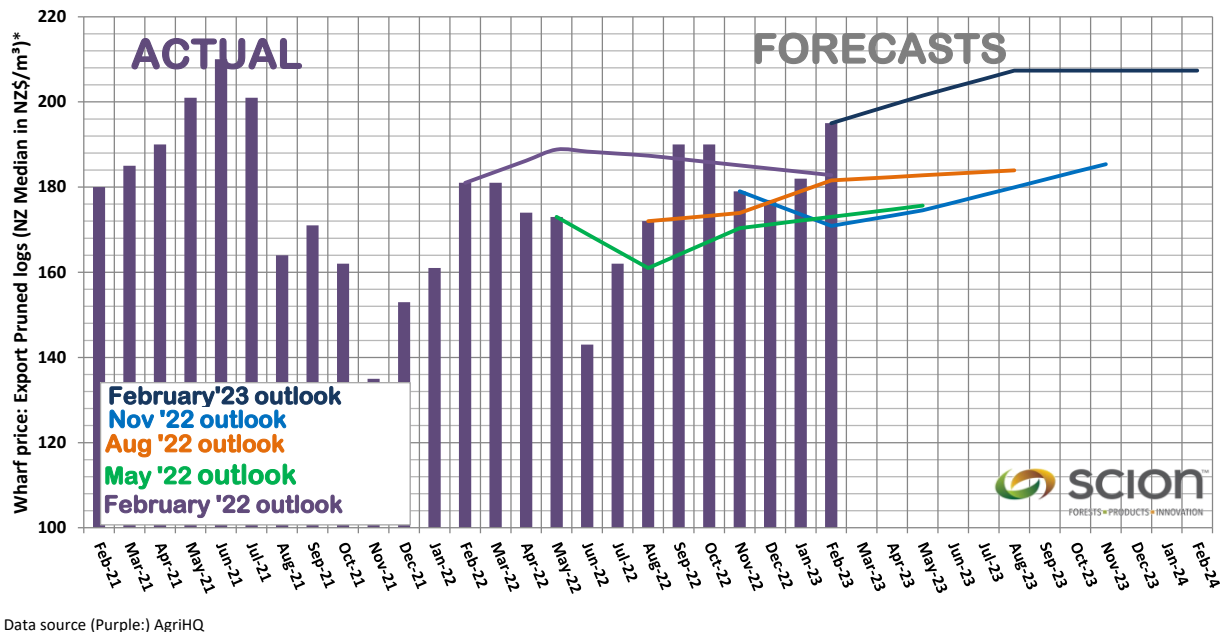
Log prices in the unpruned grade rose in a similar trend (+2% per month) to the previous quarter for December and January, before a significant price increase in February, reaching \$136/m<sup>3</sup> (+11% on January) (Fig 1). A similar price spike was seen in pruned grades, reaching \$195/m<sup>3</sup> in February (Fig 2).

Respondents anticipate forecast price trends to rise further in both grades, with unpruned grade peaking in May at \$144/m<sup>3</sup> and holding steady for much of the year, with a slight decrease over Q1 of 2024 to \$143/m<sup>3</sup>. In the pruned grade, prices are expected to rise more slowly, peaking in August at \$207/m<sup>3</sup> and holding steady until February 2024.

**Figure 1:** Forestry business expectation outlook for unpruned wharf log price over the period Feb 2021 to Feb 2024 (A Grade is used as a general proxy)



**Figure 2:** Forestry business expectation outlook for pruned wharf log price over the period Feb 2021 to Feb 2024 (Export pruned price)



Quarterly histograms for the coming year (pg 5-7) show log price and volume forecasts for the short (3 month), medium (6 month) and long term (12 month). Price indications from respondents for pruned grades range between  $\uparrow$ 20% to  $\downarrow$ 15% (Table 1). Unpruned log pricing varies  $\uparrow$ 20% to  $\downarrow$ 15% over the 12 month period. Export volumes are expected to fall over the next quarter, but be 5% higher than today by February 2024. Domestic volumes are anticipated to fall slightly over the next six months, though

many respondents do not expect a change in volume. In Q1 of 2024, expectation surrounding domestic volume is mixed among respondents, with some anticipating a rise of up to 5% year on year, while one respondent gives a -20% estimation.

			MIN	MAX	Percentage $\Delta$ from Feb 2023
PRICE	Unpruned	3 mth	↓10%	↑20%	5%
		6 mth	↓10%	↑20%	6%
		12 mth	↓10%	↑20%	5%
	Pruned	3 mth	↓15%	↑10%	3%
		6 mth	↓10%	↑15%	6%
		12 mth	↓10%	↑20%	6%
	Break bulk	3 mth	↓15%	↑10%	-1%
		6 mth	↓20%	↑10%	-1%
	Container shipping	3 mth	↓20%	↑10%	-4%
		6 mth	↓30%	↑10%	-6%
VOLUMES	Export Volume	3 mth	↓10%	↑20%	-2%
		6 mth	↓10%	↑20%	1%
		12 mth	↓20%	↑15%	5%
	Domestic Volume	3 mth	↓10%	↑5%	-3%
		6 mth	↓5%	↑15%	-2%
		12 mth	↓20%	↑5%	-2%

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

In response to requests to look at shipping costs, this quarter we asked for price outlook on break bulk rates to China, and on containerised shipping. Respondents indicate they expect a minor fall of 1% on current break bulk rates, but individual responses range between ↑10% to ↓20%. Containerised shipping rates are anticipated to fall much further by August 2023, down ↓6% on current rates.

## BUSINESS CONFIDENCE

Business confidence is improving, with 40% of respondents expecting a steady and stable year ahead, 27% holding a positive outlook, and 33% seeing a negative outlook on the year. Much of the confidence is from major markets reopening.

A steady and stable year ahead was attributed to domestic factors, including mill production levels and downstream effects from cyclone recovery

- “South Island forestry companies will be boosted for now by NI cyclone impacts. But in 6-12 months time North Island rebuild from Gabrielle will aid forestry in the North.”
- “Domestic production currently reaching capacity”
- “Rising Chinese economy”

Reasons given for expecting positive change to business include easing inflation, reopening of Chinese and Indian markets and greater domestic need for timber:

- “Easing inflation”
- “Reopening of NZ log shipments to India”
- “Reopening of China to the world”
- “Chinese domestic stimulus increasing demand”
- “Increasing prices for goods due to high domestic demands, helped along by cyclone rebuild”

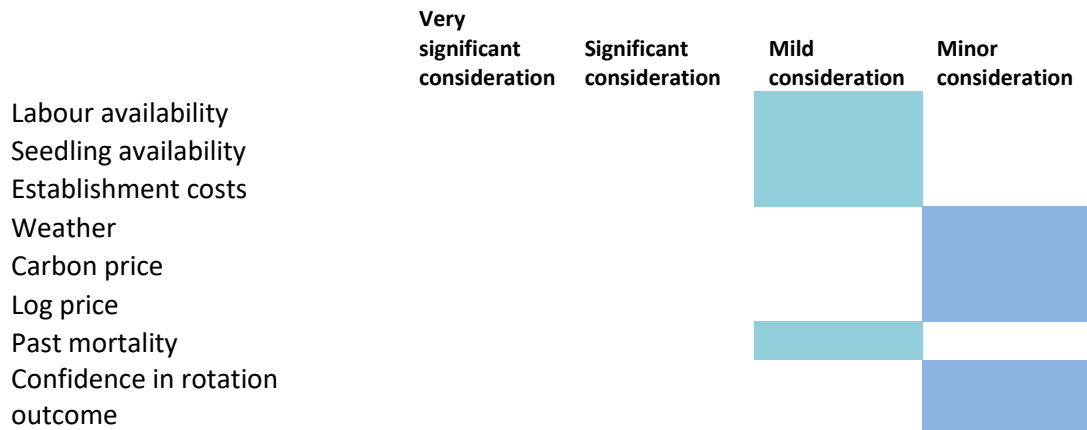
Those expecting a negative change in their business anticipate interest rates rise to curb inflation, oversupply due to windthrow salvage, and competition in pruned grades:

- “Clear wood volumes out of S A, particularly Uruguay have reduced demand and prices internationally”
- “Raised interest rates and inflation hindering building markets.”
- “Significant windthrow salvage due to Gabrielle “
- “High interest rates.”
- “Subdued US demand.”

## PRODUCTION RATES

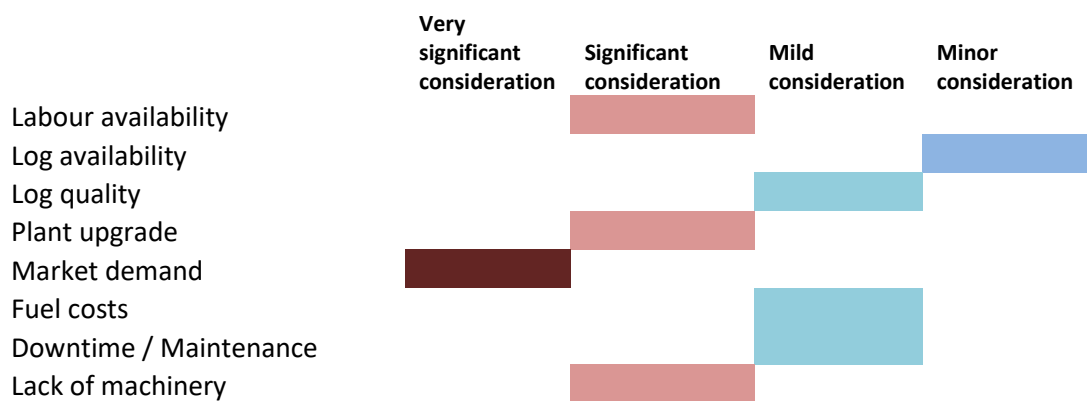
Of the 40% of respondents involved in planting activities, for the 2022 year 80% indicated they had planted about what was planned, while 20% indicated planting more than what had been planned.

The following considerations impacted on the amount planted:



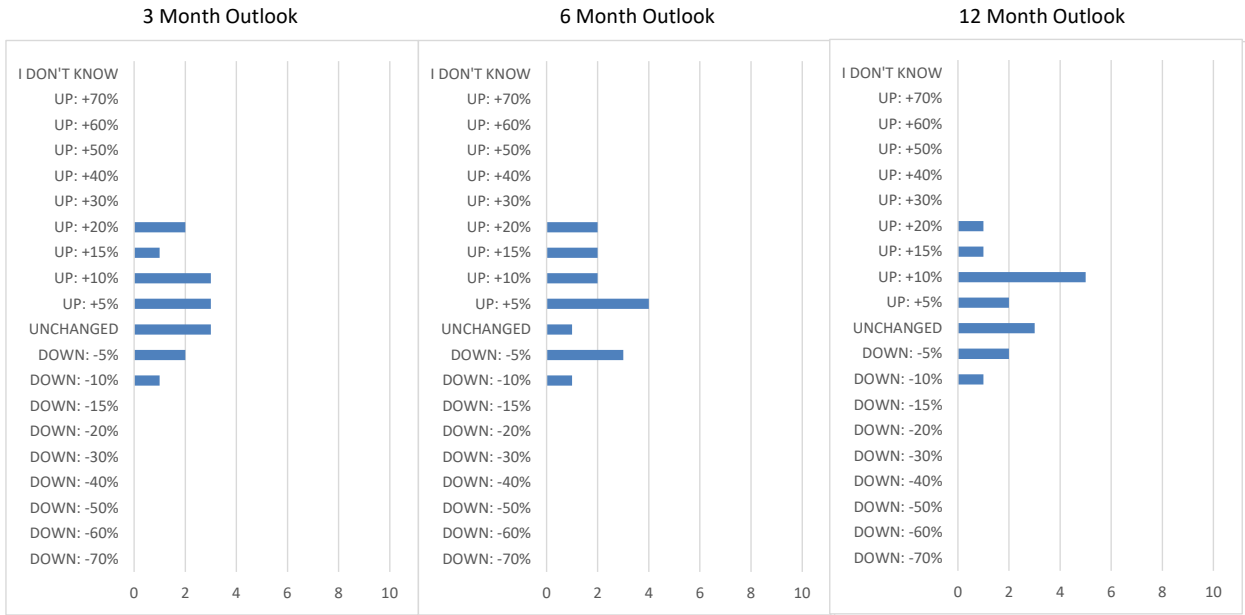
Of the 14% of respondents involved in wood processing activities, for the 2022 year 50% indicated production throughput was about what was planned, while 50% indicated throughput was less than what had been planned.

The following considerations impacted on the production throughput:

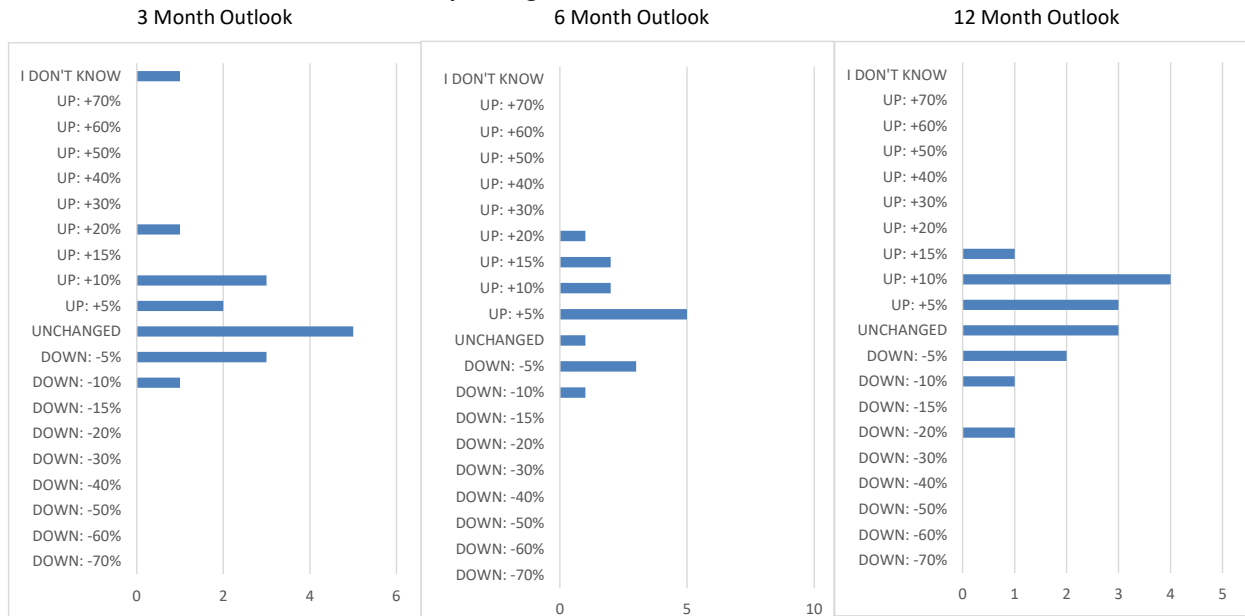


## Unpruned Log Prices

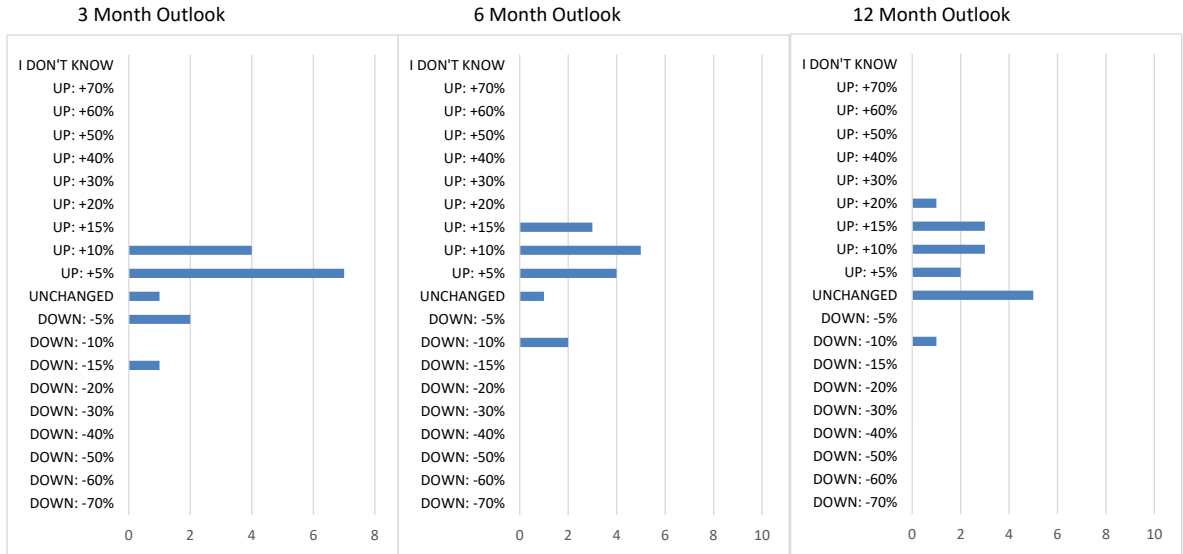
Log Price as a % of prices in Feb 2023



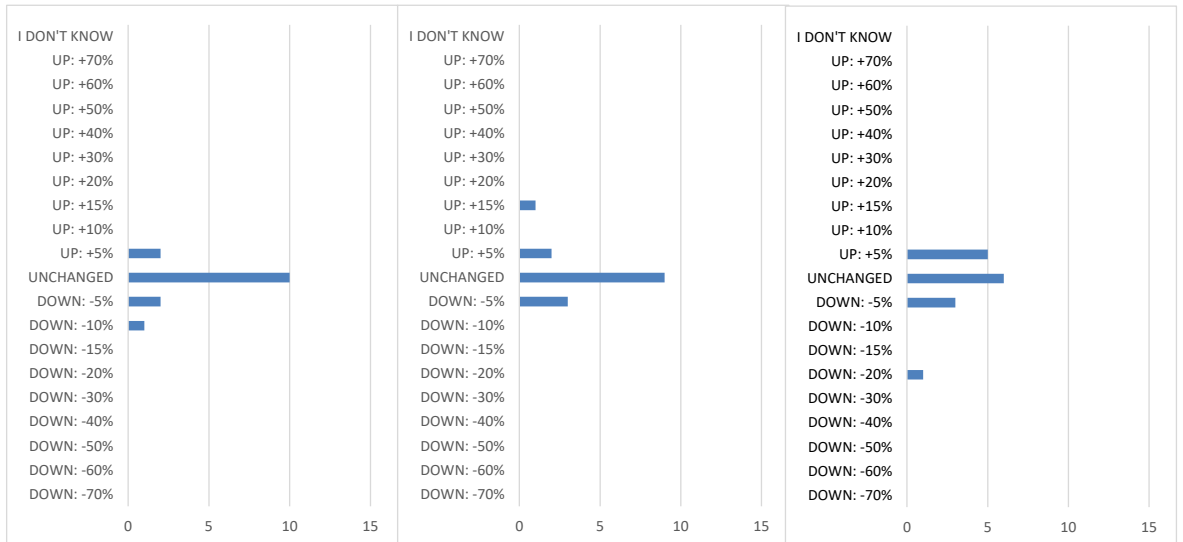
## Export Log Volume as a % of Feb 2023



**Pruned Log Prices**  
Log Price as a % of prices in Feb 2023

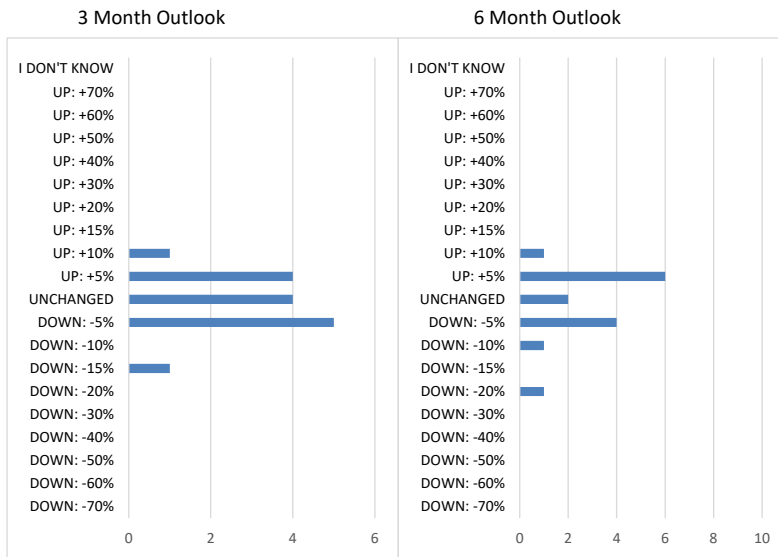


**Domestic Log Volume as a % of Feb 2023**

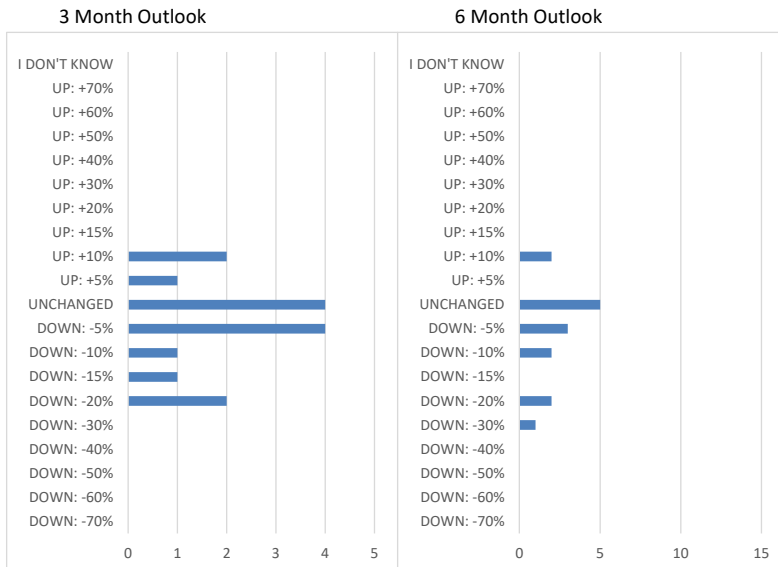


## Breakbulk to China Prices

Price as a % of prices in Feb 2023



## Container shipping prices as a % of Feb 2023



## 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 May 2023.

To access previous outlook reports please visit this web site:

[www.scionresearch.com/lpo](http://www.scionresearch.com/lpo)

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