

New Zealand Forestry Business Outlook – May 2019

By Robert I Radics and Karen Bayne

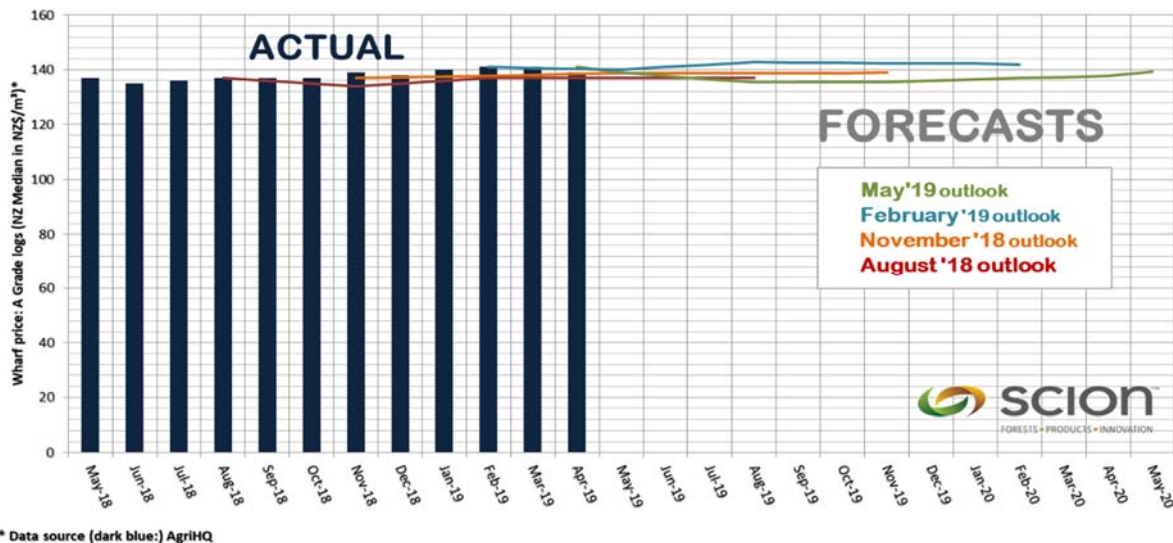


Until 20 July 2019 this document's distribution is restricted to participants of the Scion Log Price Outlook.

Summary: Fifty-nine 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. Log price decreased by \$2/m³ from February 2019 to April 2019. This change results in a lower price than the February forecast, but it is in line with the 12-month forecast from May 2018. Looking forward, volumes are now anticipated to increase in the next three months, then become steady and relatively consistent.

The word cloud above is very similar to previous outlooks - China and market demand are always in the focus of respondents, although 47.5% of respondents stated they had minimal to no consequences on business to date from the renewed US-China trade war. This quarter, business confidence has certainly weakened, with just 78% of respondents expecting the coming year to either remain stable or steady, or provide positive change, down from 92% in February. Indications are the market for skilled labour is very tight – 78% of respondents stated it was “difficult” or “very difficult” to find suitable staff.

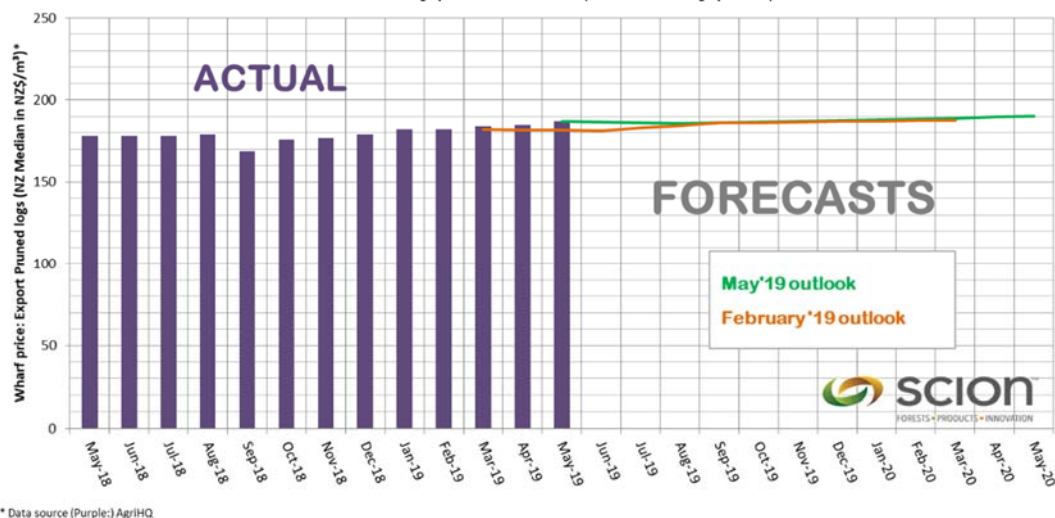
Figure 1: Forestry business expectations outlook for different segments and markets over May 2019 to May 2020 and wharf log price outlook (A Grade is used as a general proxy)



The forecast this month looks very flat. However, this does not necessarily indicate that respondents saw about 2 % decrease, but rather that those who anticipate a decrease in log prices outweighed those expecting an increase, with

a weighted average equating to 2.5% for the next 6 months (see Figure 3). Twelve months later, the weighted average resulted in 0.2% increase, showing a recovery in the market back to present conditions.

Figure 2: Forestry business expectations outlook for different segments and markets over May 2019 to May 2020 and wharf log price outlook (**Pruned** log price)



Respondents indicate 1.6% log pruned log price increase in the next 12 months period.

Business Confidence

This quarter, business confidence has certainly weakened, with just 78% of respondents expecting the coming year to either remain stable or steady, or provide positive change, down from 92% in February. Around half still expect a stable and steady year ahead (51%), with 22% of respondents anticipating a negative change to their business, which is well up from the 8% last quarter.

- “The last two years in our markets have been typified by consistency like no other period”
- “Export issues, shipping, fumigation concerns. Competition with European lumber”
- “Difficult markets will continue”
- “Difficult export conditions for logs and wood products along with other financial headwinds will slow the economy”

There were no differences in business confidence due to value chain position – confidence appears to have weakened throughout all operations along the forestry supply chain.

Reasons given for expecting a positive change to business included:

- Volume increases and continued demand in key markets, despite lower prices
 - “China needs logs”
 - “Volume increase and sustained supply pressure”
 - “Interest rates remain low”
- Increased planting activity and steady harvests for contractors
 - “Big increase in new planting.”
 - “One billion trees creating opportunities for planting”
 - “Steady harvest”

Reasons given for expecting steady and stable business included:

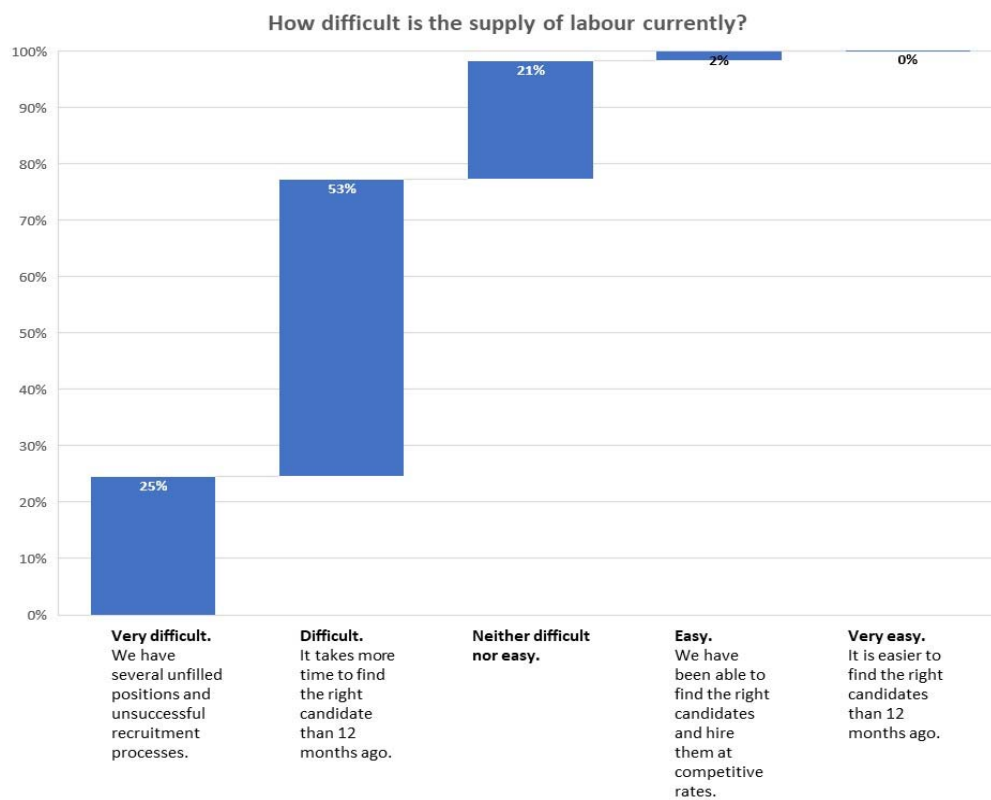
- Stable demand:
 - “World is in a stable mode”
 - “NZ domestic market is steady”
 - “Steady demand”
- A balance between downturns and upturns in the market
 - “Softer markets in Australia and Asia offset by some internal improvements”
 - “Prices have come back but are still above the three year average. “
 - “While there is too much supply in log markets, steady demand should create a balance with exports”

Those expecting a negative change in their business over the next year referenced the uncertainty in the global economy, more difficult market conditions, and less bullish investment as people start to tighten their belts. The construction market is slowing, and the effect of weaker lumber pricing is impacting profits for domestic mills:

- “Slow economy in the construction area “
- “Domestic and export lumber sales are a case of doing more volume for less profit”
- “Decreasing price in export markets particularly China which flows into other export lumber markets. Forest owners are completely removed from this reality of domestic processing”
- “We’re already seeing equipment sales fall”
- “Harvesting/exporting companies are over-committed”
- “Prices will probably be negatively affected by world economies slowing”

Labour conditions

This quarter we added a question around skills shortage and difficulty in filling vacant positions. Indications are the market for skilled labour is very tight – 78% of respondents stated it was “difficult” or “very difficult” to find suitable staff:



Skills shortages were noted in all supply chain areas apart from sales, especially harvesting and log making, transportation, and enabling skills (corporate and service staff):

SUPPLY CHAIN AREA	Proportion of responses indicating skills shortages in the area
Establishment	12%
Forest management and silviculture	12%
Harvesting and log making	24%
Transportation	18%
Processing	12%
Sales	0%
Enabling skills (Management, Corporate support, Research, Engineering etc.)	21%
TOTAL	100%

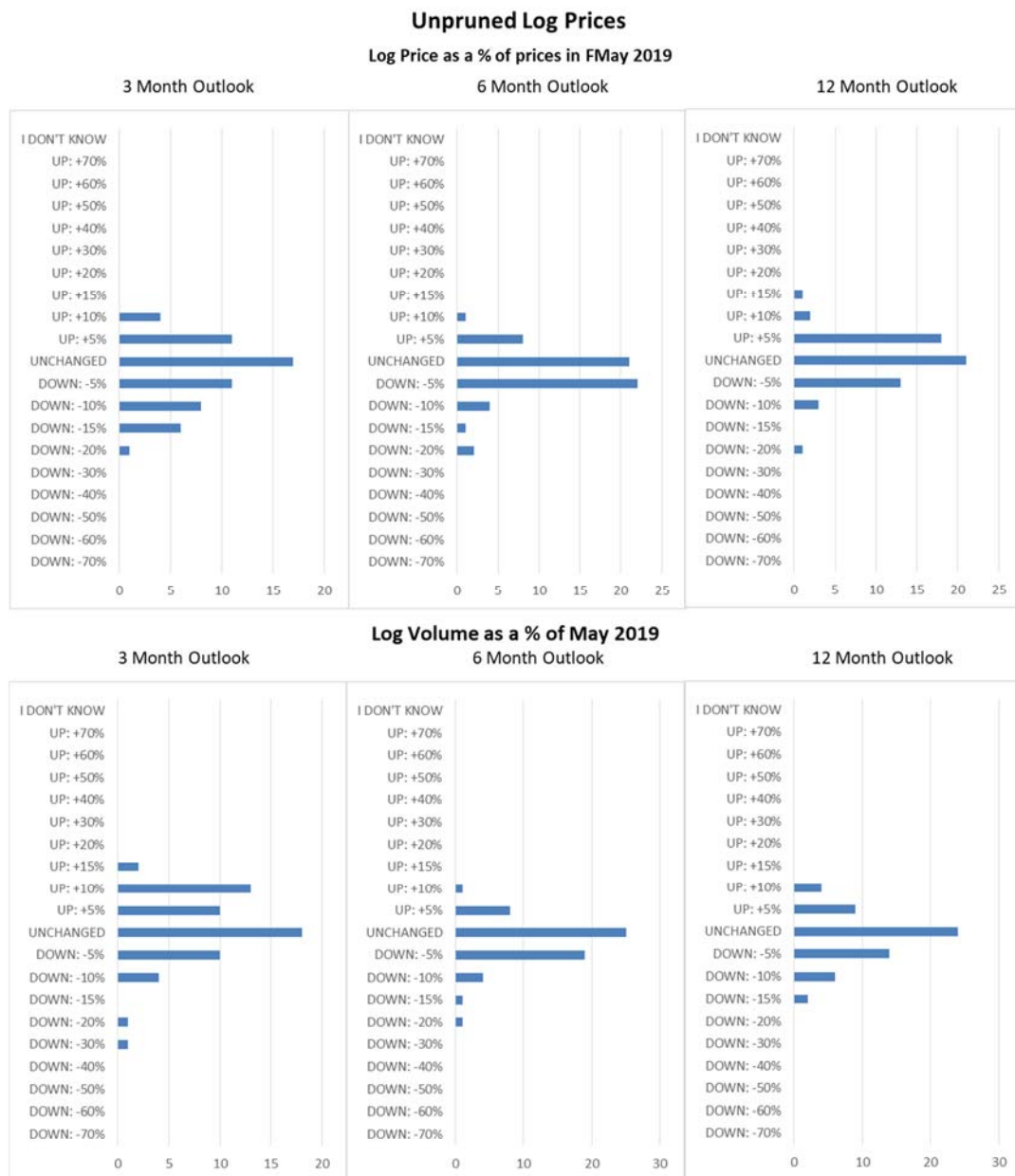
Positions currently more difficult to fill: Truck drivers; Electricians; Planting crews; Hauler crews; Tree fallers and Technical skills. Several respondents noted the difficulty was less in getting technically skilled workers, but in finding persons with requisite soft skills, such as a strong desire for *reliable* and *dedicated* workers.

USA - CHINA Trade War

Nearly half of respondents (47.5%) stated they had minimal to no consequences on business to date from the renewed US-China trade war. Many think it is early days and are keeping a watching brief on where things head, while reassuring an uncertain and hesitant customer base. Those who had seen some influence from the US-China trade situation stated aspects such as:

- Slower orders and lower prices
 - *“Slower orders from China, Korea and Japan”*
 - *“Lower pricing for export logs”*
 - *“Reduced Chinese demand for imported logs and lumber”*
 - *“A softening in appetite for raw logs”*
 - *“Decreasing price of lumber in China, due to inventory build. It is all about purchasing power in the supply chain”*
- Potential for artificially higher log prices in some markets as China turns to non-US suppliers; and potential for greater competition in the US lumber market, particularly from Korea and Japan
 - *“Lower lumber prices but artificially higher log prices”*
 - *“Stronger outlook for NZ and Australian interests”*
 - *“NZ might benefit as China buys less logs from the US”*
 - *“Opportunities for non-US exporters to China, but it will reduce the Chinese demand for imported logs and lumber”*
 - *“Increased focus on China links”*
 - *“Opportunity for Korean export to US”*
- Increased uncertainty and nervousness by the Chinese customers and subsequent price corrections
 - *“Potential price rises have been tempered with caution. Volume increased to offset possible downturn”*
 - *“Increased uncertainty, lower NZ dollar and risk is on”*
 - *“Significant. Lumber prices are down a lot”*
 - *“Prices are off by \$15/JAS much of this may be due to nervousness in the market”*
 - *“General uncertainty in the China market which has seen price corrections even though demand is extremely strong for logs”*
 - *“Uncertainty”*
 - *“Created uncertainty among Chinese buyers”*
 - *“Nervous”*
 - *“It has spooked the Chinese buyers to the point where LCs are becoming more difficult to open, so the immediate outlook is concerning”*

Figure 3: Forestry business expectations outlook for unpruned log prices



Acknowledgements

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To access previous outlook reports please visit this web site:

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

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