

By Karen Bayne and Melissa Welsh



Looking forward, respondents see gradual price decreases for both pruned and unpruned logs over the next 6 months, before recovery to around \$145/m3 for unpruned, and \$187/m3 for pruned logs respectively, by May 2021. Long term outlooks in pruned prices over the past year (with the exception of the Feb Outlook) see participants converging to pricing in latter 2020 of around \$180/m3. Prices for unpruned logs are forecast to remain above historic averages for the remainder of the year, which given the current uncertainty and volatility in the marketplace may be optimistic!

LOG PRICE OUTLOOK

Figure 1: Forestry business expectation outlook for unpruned wharf log price over the period May 2019 to May 2021
(A Grade is used as a general proxy)

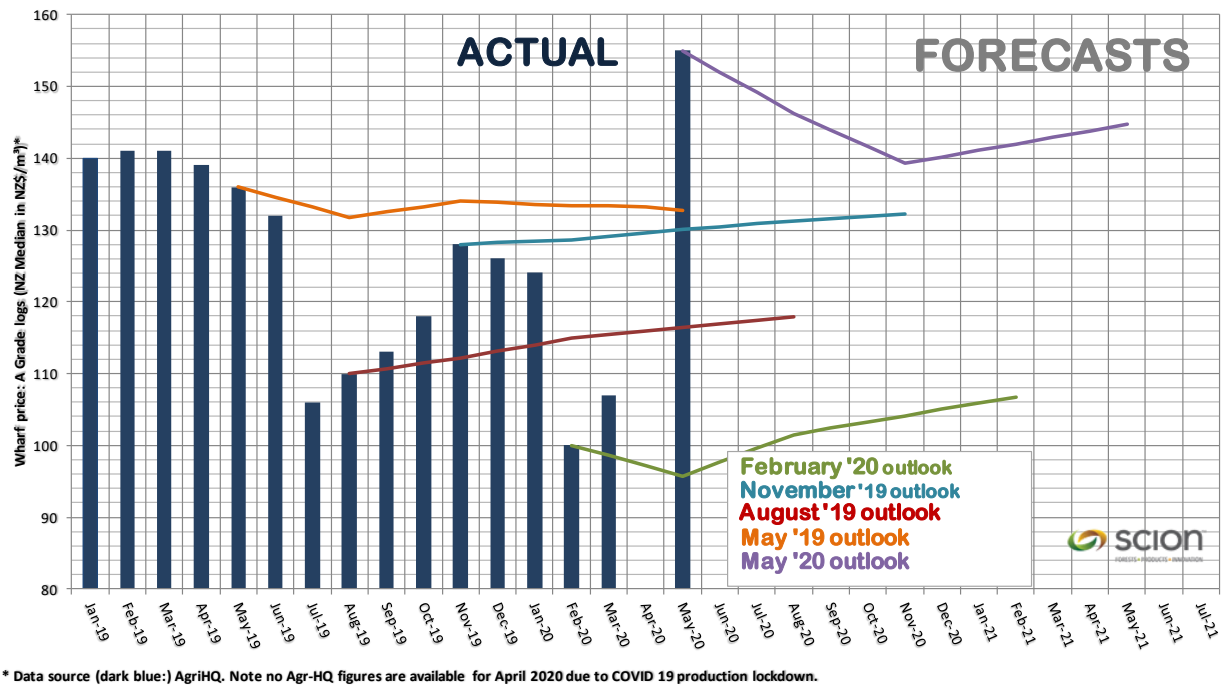
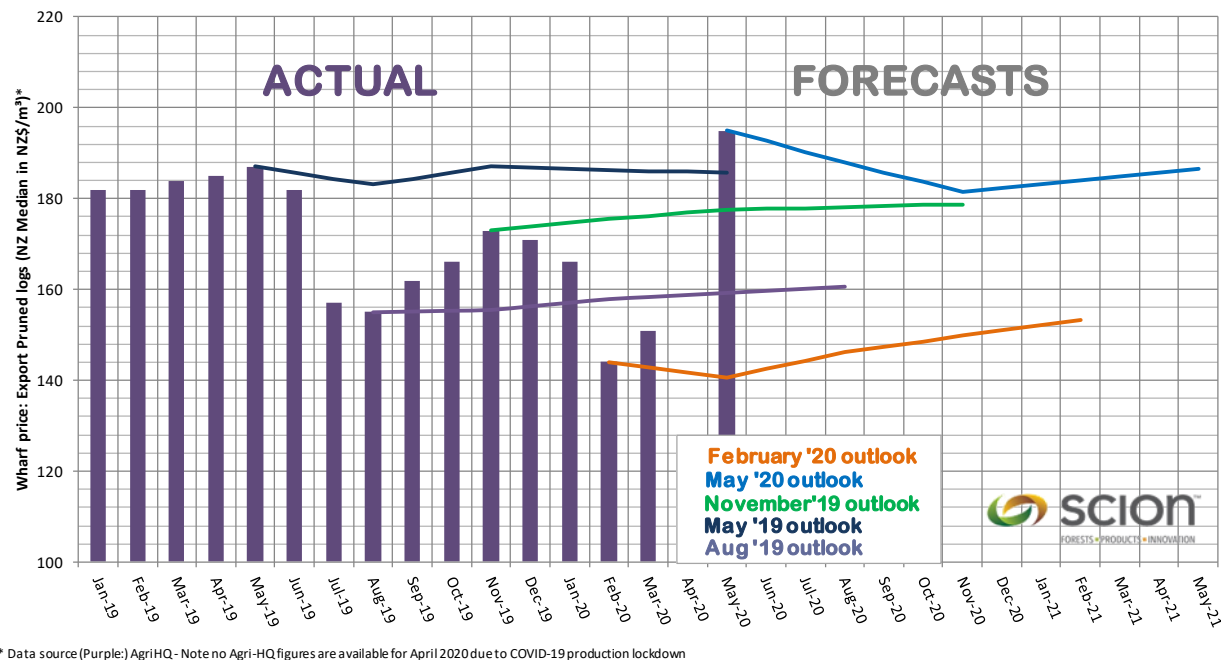


Figure 2: Forestry business expectation outlook for pruned wharf log price over the period May 2019 to May 2021
(Export pruned price)



A downward trend in prices over summer then fell sharply in February as an oversupplied Chinese log market coincided with coronavirus shutdowns. In contrast to our February Outlook forecast of even further price reductions by May 2020, the ongoing pandemic deepened globally, and has led instead to price spikes over the last two months, as countries went into lockdown and supply channels in New Zealand

froze during Level 1 restrictions. Reductions in fuel prices and a weakened NZ dollar have also contributed to higher pricing in the market. Currently the unpruned log price of is at the highest level we have seen since the Log Outlook began in Jan 2014. It is worth noting some of the price increase is due to buffering from the change in exchange rate, though the main price increase is driven by Chinese log buyers who are restocking their inventories, an about-turn from the February situation where inventory was high and prices fell sharply.

Although this price spike is unlikely to be sustained for long, participants still expect log prices to remain high for the remainder of 2020, with a floor price going forward of \$139/m3 for unpruned, and \$182/m3 for pruned. These prices would indicate a return to the similar price structure during the stable period of 12 to 18 months ago. Given the high volatility we have seen over the past year, and ongoing global uncertainty, this could be wishful thinking! It certainly seems however that the industry is making hay while skies are sunny – helped by a backlog of volume needing to be shipped due to the corona shutdown.

This quarter's histograms (pg 6- 7) provide a very wide range of views around potential changes in log volumes. One participant anticipated a change in volumes for both markets of ↑70% for each time period. In both domestic and export the responses represented a 50-70% range, however the average volume movement equates to just ↑5% in 3 months, 0% in 6 months, and ↑1% in 12 months for export volumes; and ↓1% in 3 months, ↑1% in 6 months and ↑1% in 12 months for domestic volume change. A lot will depend on the impacts of global recession, particularly construction demand during the next 12 months in key markets, and any tariffs imposed.

BUSINESS CONFIDENCE

Despite the COVID-19 pandemic, business confidence remains similar to the previous quarter, with 14% of respondents expecting a positive change for the year, 34% expecting steady and stable conditions, and the majority (52%) expecting negative changes in business activities over the coming year. However, the market situation is now very uncertain, particularly around supply and demand conditions as countries emerge out of lockdown.

In contrast to the falling log prices experienced in early 2020, as China began to reopen mills, log prices at wharf gate spiked in April and May driven by concerns about global log (and timber) supply and a weakened NZ dollar. This rapid price fluctuation within weeks indicates insufficient industry buffer to shocks within the international marketplace, and increased vulnerability to pricing going forward as international markets recover. The price spike has however eased down in the last week, with some indications that Chinese mills have a backlog of logs to process and will have lower than average production output over the coming quarter. Respondents expect continued uncertainty throughout 2020 and are anxiously watching market signals from stimulus packages both in NZ and offshore. Housing markets and 'shovel-ready' projects, as well as political indicators in upcoming elections, consumer attitudes to spending (particularly of Chinese versus home-grown goods) and unemployment fallout post-COVID are of particular concern.

- *"Export market very uncertain as to what daily usage rates in China will level out at."*
- *"The Chinese market will weaken in the next quarter and domestic activity will be reduced over the next 6 months due to Co-Vid-19 fall out."*
- *"It is difficult to predict the next 12 months - uncertainty affects all parts of business."*
- *"Comments made by Shane Jones Minister of Forests seem to be anti forestry"*
- *"The impact of COVID-19 on international trade and travel will have a negative impact during the balance of 2020 and into 2021."*
- *"as countries start boycotting China made goods... lesser demand for logs."*

Reasons given for expecting a positive change to business surrounded the potential for NZ and China bouncing back more quickly from coronavirus compared to the USA, South America and Europe; and anticipation of housing market growth:

- *"We are optimistic that we can run our forestry operation without imposing restrictions on logging crews."*
- *"There is going to be a surge in construction in NZ and a large catch up in export markets."*
- *"The current market is bouncing back hugely after Covid-19"*
- *"Coronavirus will continue to disrupt economic activity in Europe, US, Brazil and probably China"*

Reasons given for expecting steady and stable business included consulting and service sector growth, continued impacts from European Spruce supply, and increased domestic timber use from housing sector growth

- *"We will see more timber being used in projects and there will be a lot more resources poured into housing"*
- *"domestic demand will be relatively strong with many govt led projects."*
- *"European spruce log exports will have the greatest impact on radiata prices and volumes, given that the peak outbreak is still ahead and there will be a glut of European logs for years."*

Those expecting a negative change in their business expect a severe recession globally, contraction of spending and increased pricing volatility

- *"The global economy is very weak currently"*
- *"Global Recession. Look to what happened in 2008/9 for guidance"*
- *"World markets for lumber /logs are in or heading for recession"*
- *"World economy going into shock"*
- *"World demand for all products will soften."*
- *"I see some retrenchment in outsourcing activity"*
- *"Investors may reduce activity or may increase investment in real assets in recessionary times."*
- *"Growers will be harvesting less and processors will be putting through less volume".*
- *"This will flow on through the supply chain, with less spending on consulting / R&D."*
- *"*
- *"business debt will constrain activity"*
- *"World demand for all products will soften."*
- *"Big real estate construction projectswill be slow to start"*
- *"Expect more volatility around log exports and AWG pricing"*
- *"Extreme market volatility"*
- *"Only govt stimulus can help reduce impact"*
- *"Housing and construction will be significantly slowed (NZ and China, USA + Aus) for some months."*
- *"High unemployment rates will flow through into house building and the general economy."*
- *"The only thing that may help our industry will be massive stimulus packages from pacific rim countries to drive demand for industrial grade logs."*

IMPACTS ON FORESTRY BUSINESS DUE TO COVID-19

Participants noted major or very major disruption to their supply chains due to the COVID-19 pandemic. In both domestic and international supply chains, over 50% of respondents noted the disruptions as being major or very major, with 63% also noting major or very major disruption within internal business.

In the domestic supply chain, disruptions were mostly due to the New Zealand lockdown itself forcing operations to cease for four weeks, and the flow on effects from both domestic suppliers, and domestic customers along with transportation and contractor employment impacts. Domestic customers have found it difficult to obtain logs due initially to a reduced harvest due to Chinese oversupply, however the cessation of harvesting from COVID lockdown has stopped log supply through to domestic mills, and they were unable to operate during lockdown anyway. There has been report of a backlog of logs needing to be processed quickly, reducing harvests in some areas and availability of some grades. Mills also felt disadvantaged against international competition, as they were forced to shut down whereas international wood processing and construction operations were still able to continue in key wood supply and customer regions. Some markets such as India did cease wood processing around the same time period as New Zealand, however.

Participants noted that international customers were struggling to get raw logs, and some speculators began bidding up softwood log prices in response to the New Zealand log supply shutdown. Order cancellations and suppliers cancelling shipments also created major disruptions for many participants. The one positive outcome noted was the lack of New Zealand supply internationally during lockdown helped to ease the oversupplied Chinese market as they came out of lockdown and led to an increase in orders during May.

Internal business disruptions hit port and mill operators hardest, however firms in transportation, shipping as well as harvesting contractors were also largely disrupted. Those companies with office workers appeared

to report more minor disruption as staff worked from home. Some companies noted the increase in planning workload, particularly regarding long-term business strategy

Figure 3: Disruption to forestry business supply chains due to Covid-19

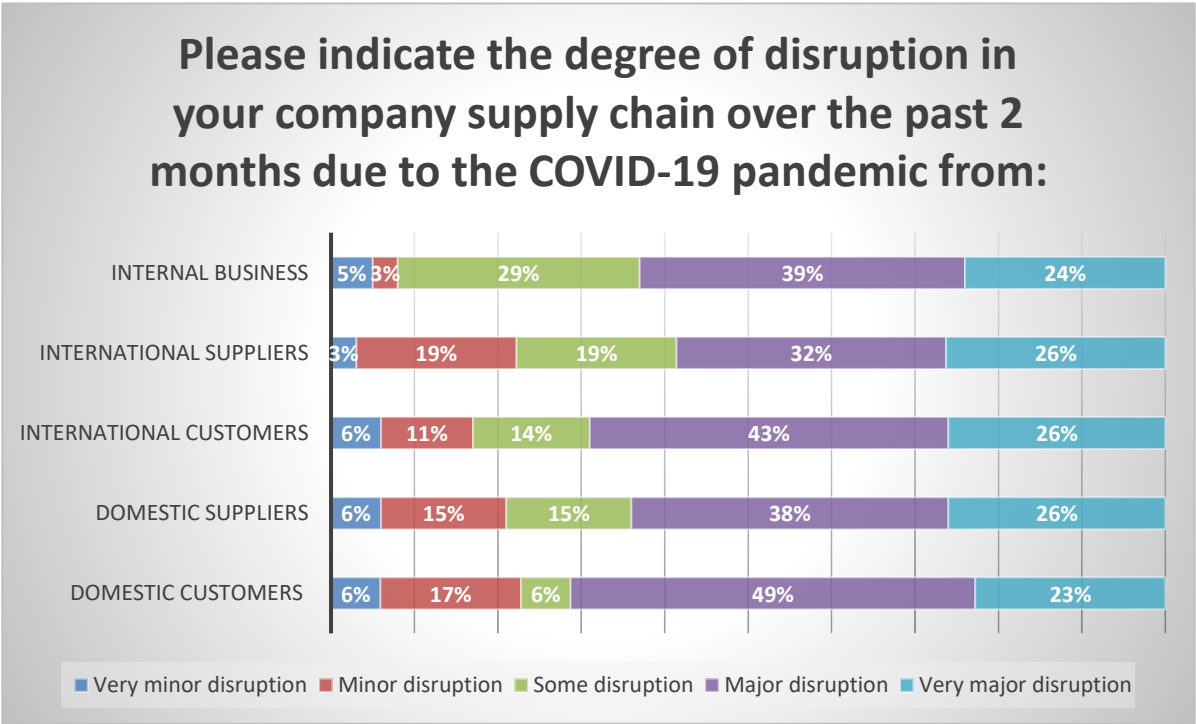
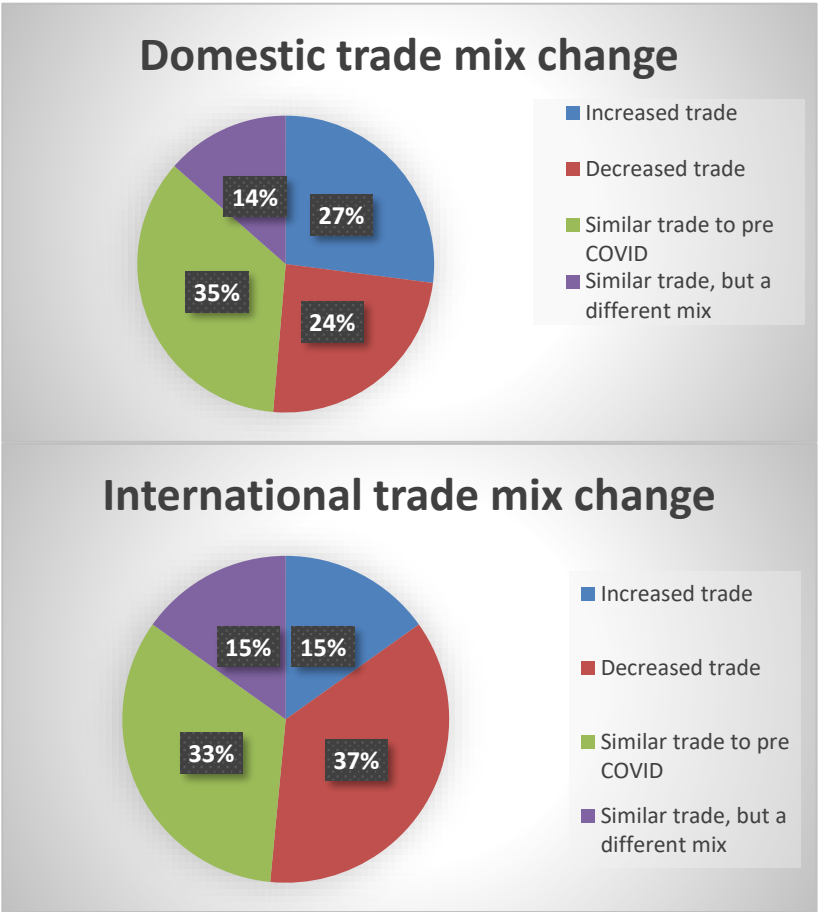


Figure 4: Anticipated change in the mix of trading partners the next 12 months as a result of COVID-19

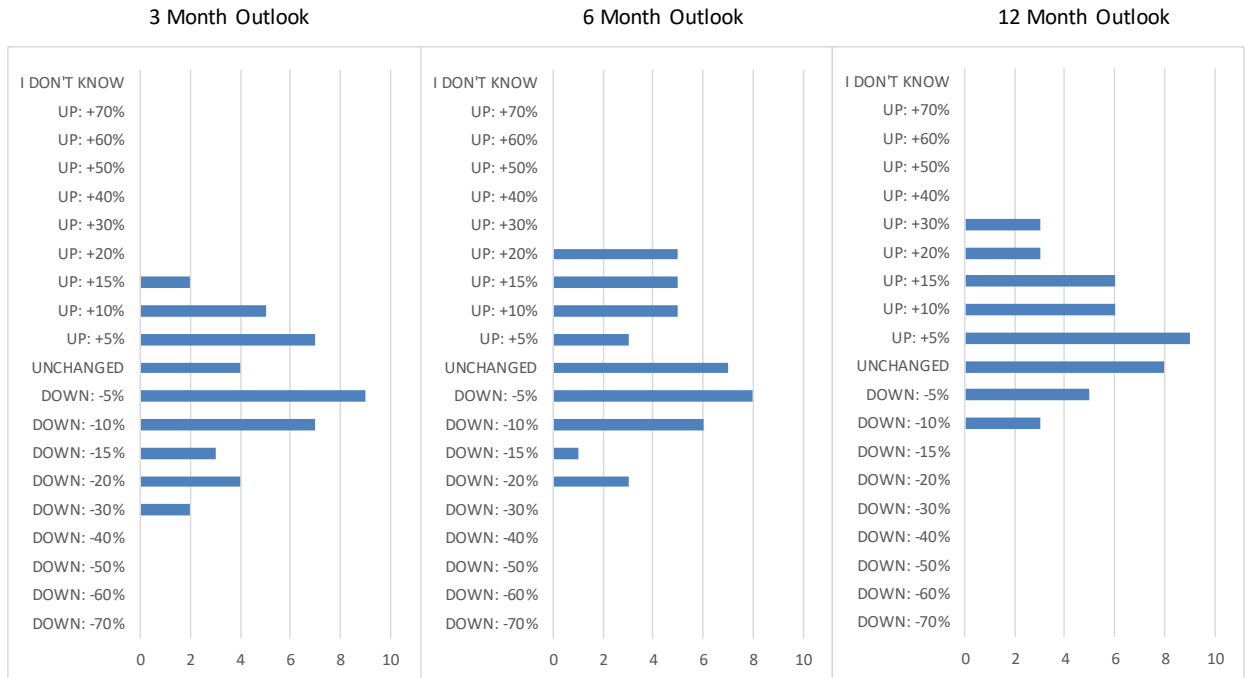


Just over half of participants estimated changes in trading partners would result from the COVID-19 pandemic (Fig 4). An increase in trade with domestic partners is predicted by 27%, compared with 24% seeing decreased trade with domestic partners, which seems to indicate a slight (3%) increase in domestic trading partnerships overall. A greater number of participants estimate an increase in domestic trading partnerships (27%) compared to international partnerships (15%). Decreased trade with international partners is estimated by 37%, signalling a 22% decrease in international trading partnerships overall. Just over a third of participants anticipate stable trading partnerships to continue under COVID-19, in both the domestic and international supply chains, with 33% and 35% of participants anticipating similar trade in international and domestic partnerships, respectively. Similarly, a different mix of international partners is anticipated by 15% of participants; and 14% of participants anticipate similar domestic trade but a different mix of partners.

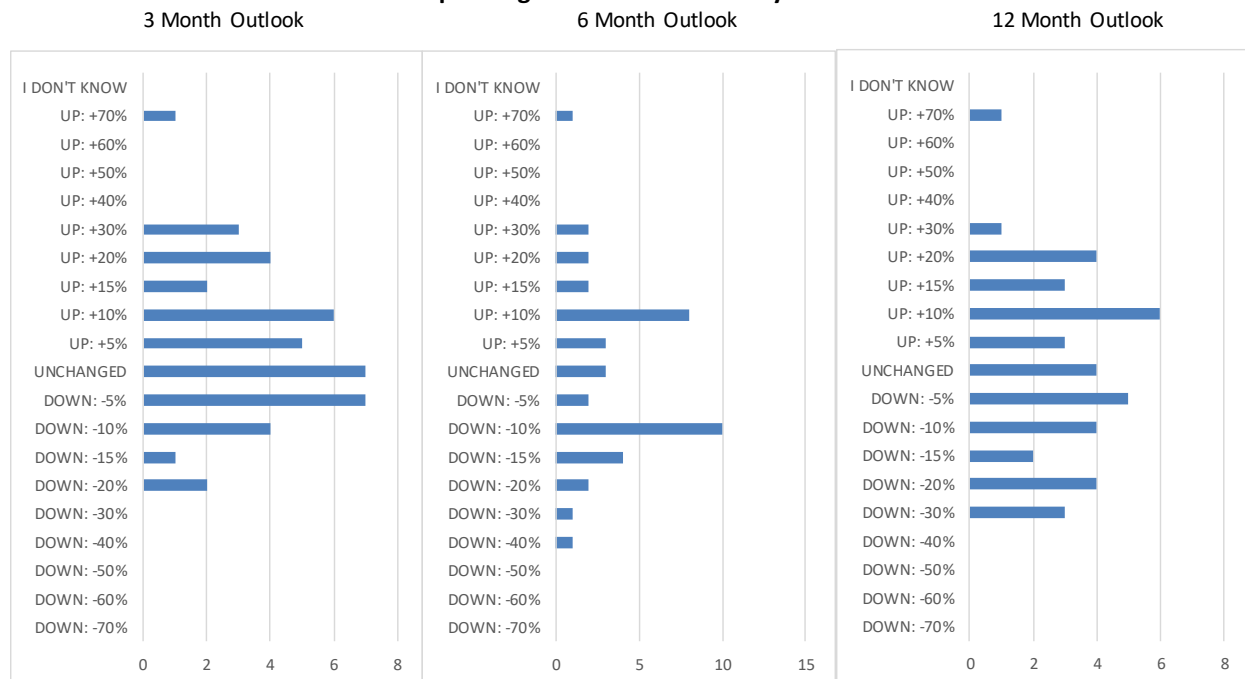
FORESTRY BUSINESS EXPECTATIONS OUTLOOK - HISTOGRAMS

Unpruned Log Prices

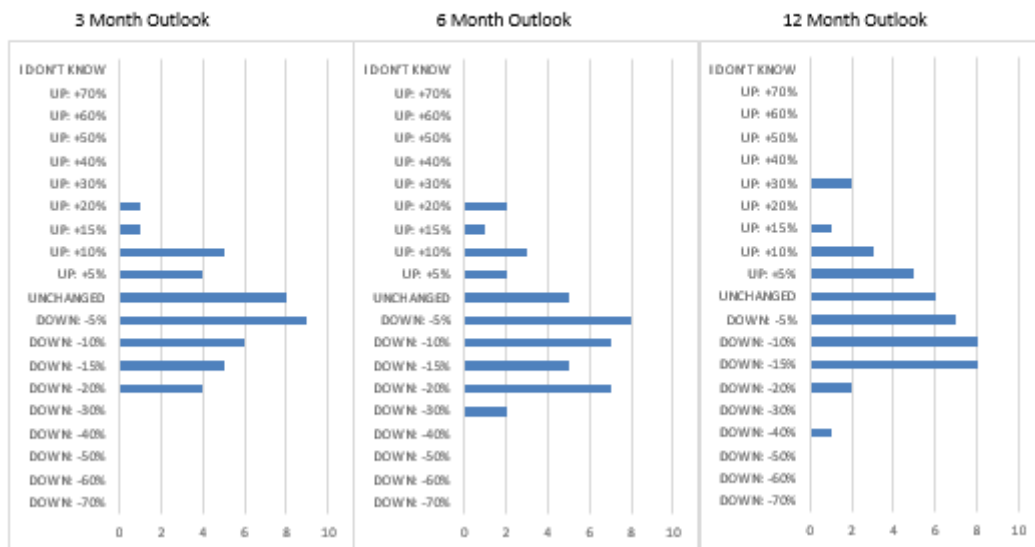
Log Price as a % of prices in May 2020



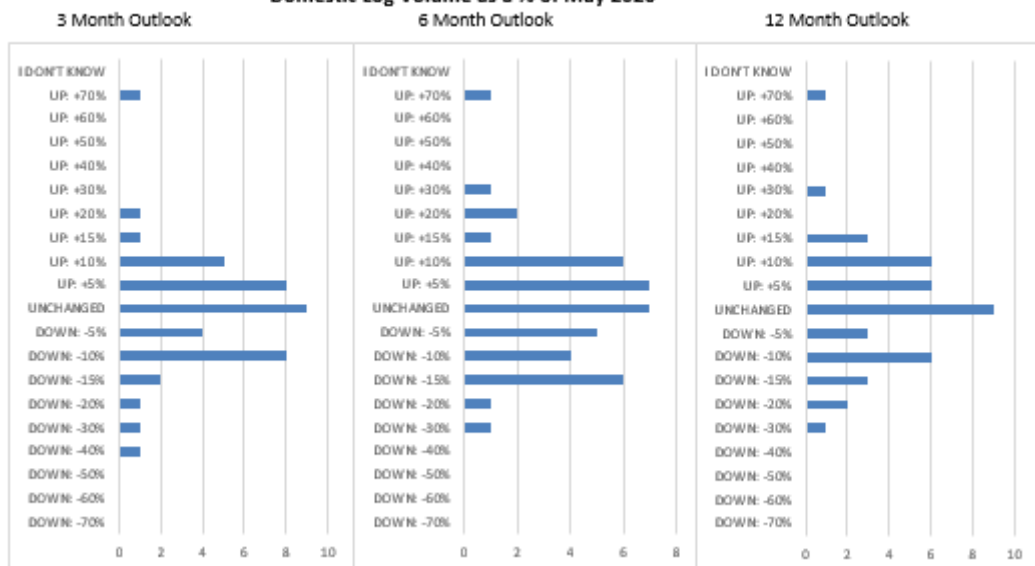
Export Log Volume as a % of May 2020



Pruned Log Prices Log Price as a % of prices in May 2020



Domestic Log Volume as a % of May 2020



Acknowledgements

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To access previous outlook reports please visit this web site:

<https://www.scionresearch.com/science/growing-the-value-of-forests/creating-value-and-competitive-advantage/log-price-outlook>

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