

## New Zealand Forestry Business Outlook – April 2019

By Robert I Radics and Karen Bayne



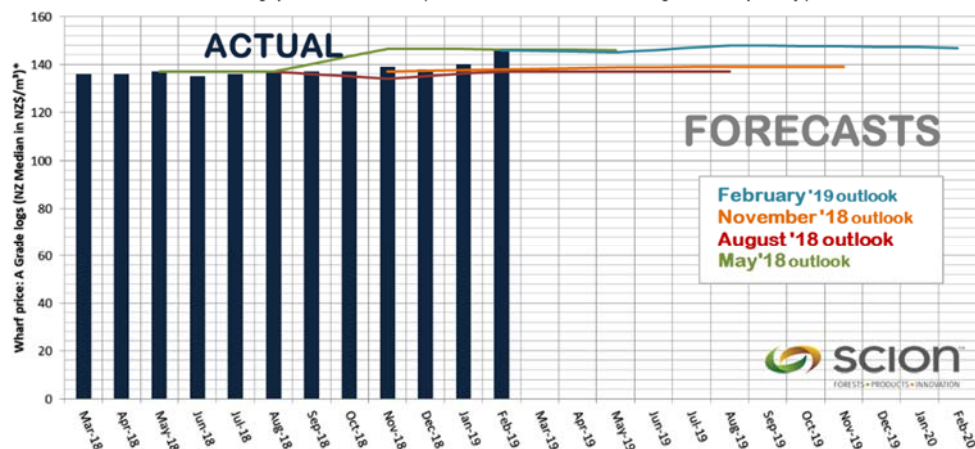
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**Summary:** Fifty-two people from various parts of New Zealand's domestic and international forestry products supply chains participated in this outlook. These participants represent a substantial component of the NZ forestry industry. Log price increased by \$8/m<sup>3</sup> from November 2018 to February 2019. This change exceeded more recent forecasts but aligns with the 12-month forecast from May 2018. Looking forward, volumes are now anticipated to be relatively consistent, with perhaps a 1% decrease in a year's time. That is a 4% decrease to the previous forecast of 3% increase.

As with the last outlook, most of the respondents (76.5%) do not expect any impact of the 1 Billion Trees Policy on their business over the year, though 17% indicated they anticipate a positive impact, and 6.5% a negative impact.

The word cloud above is very similar to previous outlooks - China and market demand are always in the focus of respondents, however, some concern over softening in the Chinese market and continued impacts from the USA-China trade war were apparent from comments, however many expected the trade dispute to resolve soon. Most businesses seem confident that they will not be significantly impacted by market fluctuations.

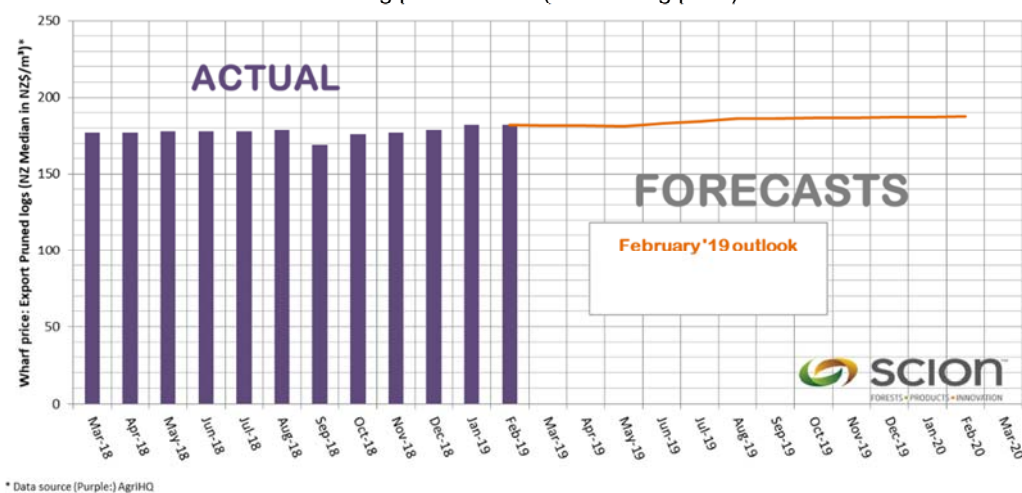
**Figure 1:** Forestry business expectations outlook for different segments and markets over Feb 2019 to Feb 2020 and wharf log price outlook (A Grade is used as a general proxy)



\* Data source (dark blue): AgriHQ

Although the forecast this month looks very flat, this does not necessarily indicate that respondents saw about 0.6% increase, but rather that those expecting an increase are balanced by those anticipating a decrease in log prices, with a weighted average equating to 0.6% (see Figure 3).

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



Respondents indicate about 3% log pruned log price increase in the next 12 months period.

## Business Confidence

This quarter, business confidence remains high, with 86% of respondents expecting the coming year to either remain stable or steady, or provide positive change. A similar proportion of respondents (63%) to last quarter expect a stable and steady year ahead, but a higher proportion of respondents (11.5% cf. 8%) anticipate a negative change to their business. A major theme in the comments was that the negative aspects were being balanced out by aspects that would be good for business.

*“High log prices and log shortages are negatives, business improvements through investment expected to offset this”*

*“Expected changes in market are not sufficient to significantly influence business.”*

*“Forestry has a good relationship with China so shouldn't be affected by current wobbles”*

*“China & US will resolve their trade dispute”*

*“market will be steady as the China market smooths itself out”*

*“Business is dependent on change with either strong up or down stimulating business. “*

Business confidence was slightly higher for those operating in Australia and Europe, but lower for those operating in the South Island. Those operating in the Middle East and North America were more likely to expect steady and stable market conditions.

Reasons given for expecting a positive change to business included:

- Continued business development and growth in both domestic and export markets
  - “We are gradually increasing log supply and operations generally in both NZ and Australia”*
  - “on currency US economy growth relative to NZ will strengthen, leading to improved overall AWG pricing for NZ growers.”*
  - “The strong domestic construction market will underpin domestic processing through 2019.”*
  - “We have started strong which surprised us, so we will be happy with steady for whole year.”*
- The 1 Billion trees programme
  - “One Billion Trees creating surplus afforestation areas.”*
  - “Increased traction Billion Tree prog*
- Increased harvests
  - “Good harvest conditions next 3 months”*

- “More investor forests reaching maturity”
- Shortage of supply internationally, potential price increase:  
*“Tropical hardwood log supply very tight and substitution happening. Less desired hardwood species and softwood species being used instead.”*

Reasons given for expecting steady and stable business included:

- Stable pricing and steady demand  
*“Export demand for clear timber was steady in 2018 and forward orders for 2019 have increased”*  
*“Steady local demand with a small increase in pruned price as amount declines”*  
*“China domestic market is largely driving current demand”*  
*“All indications are that the China domestic market is steady”*  
*“Long term customers and suppliers”*  
*“In market log pricing will be relative stable (+/- 5USD) over next year”*

Uncertainty around competitive softwood suppliers in China. Others saw wider geopolitical risk factors diminishing the current strong markets:

*“the logs are based on one trick being China, we should not fool ourselves that China only has options for NZ logs, it has consumed up to 2m/m3 a month of Russian lumber.”*  
*“NZ Pruned logs into China could face headwinds in future if furniture manufacturers in China do not see value or see that they are better to defect cheaper A grade logs for value proposition, particularly if situation does not improve with USA/China trade relations, which is a major furniture market trade.”*  
*“China's economy is slowing down, but tariff war with US will keep demand strong for NZ wood”*  
*“whether the Chinese government will be able to continue to sustain their economy with stimulus.”*  
*“Too many wildcards (US-China trade war; China log and lumber inventories; US politics; recessionary fears; even Brexit) are clouding the next 3-6 months and lots of negative things could happen, but not many positive ones. “*  
*“Lots of moving parts and geopolitical risks.”*

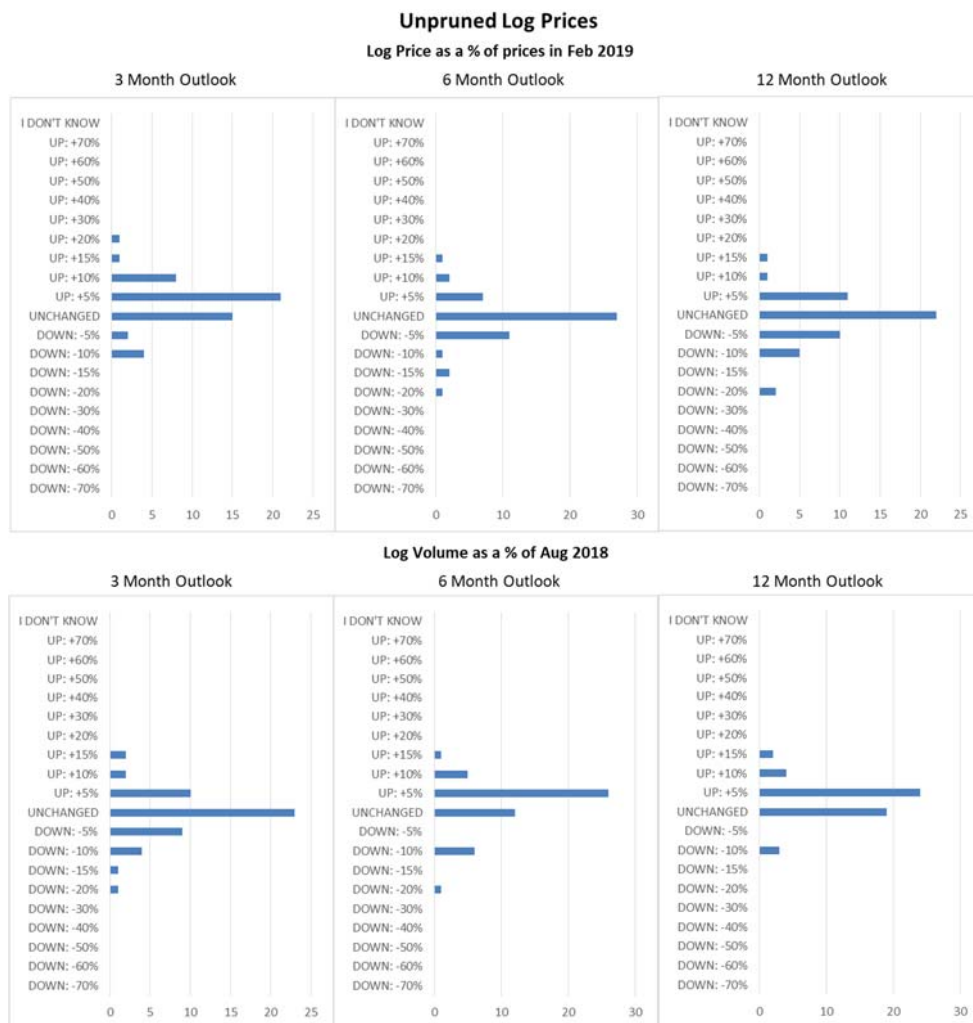
Those expecting a negative change in their business over the next year expected a slightly softened market in China along with business implications from domestic policy. This contrasts with others who expected domestic policy to be more stable.

*“Impact from the capital gains tax”*  
*“Oversupply of framing timber in domestic market”*  
*“I expect....we will see labour rates pushed up”*  
*“Minimum wage increase”*  
*“I feel the China market may soften this year.”*

## **The 1 Billion Trees Policy**

Slightly more respondents than last quarter saw some impact emerging from the 1 billion trees policy (6.5% negative; 17% positive), but the majority (76.5%) indicated no impact on their business in the coming year due to this policy.

**Figure 3: Forestry business expectations outlook for unpruned log prices**



**How good are we forecasting compared to actual prices?**

Scion’s log outlooks are speculative and are based on a wide range of opinions from various people. The premise behind asking a wide variety of industry players is that the collective viewpoint may provide a more accurate picture of where markets and prices may go, then relying on past figures or singular points of view.

An analysis of our collective forecasts for pruned log prices at wharf from the Feb 2018 survey (Figure 4) show the wide spread of individual predicted price fluctuations for 3, 6 and 12 month periods.

However, the average forecasts show a slight increase upwards in price over time, while the actual pricing fell slightly and then rebounded. Interestingly it appeared easier for respondents to forecast the likely conditions in 12 months rather than 3 or 6 months time, possibly due to the seasonality of the market and currently operating through that season.

Also of interest is the more accurate average predictions from both growers and processors than for all those responding from industry.

Overall, it appears that respondents are slightly more positive about future pricing than what eventuates, but our average collective forecasts have been out by less than 5%.

**Figure 4:** Forestry business expectations - Outlook for pruned log prices from the Feb 2018 forecast



## Acknowledgements

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To access previous outlook reports please visit this web site: <https://www.scionresearch.com/lpo>

For more information contact: [Robert.Radics@scionresearch.com](mailto:Robert.Radics@scionresearch.com)