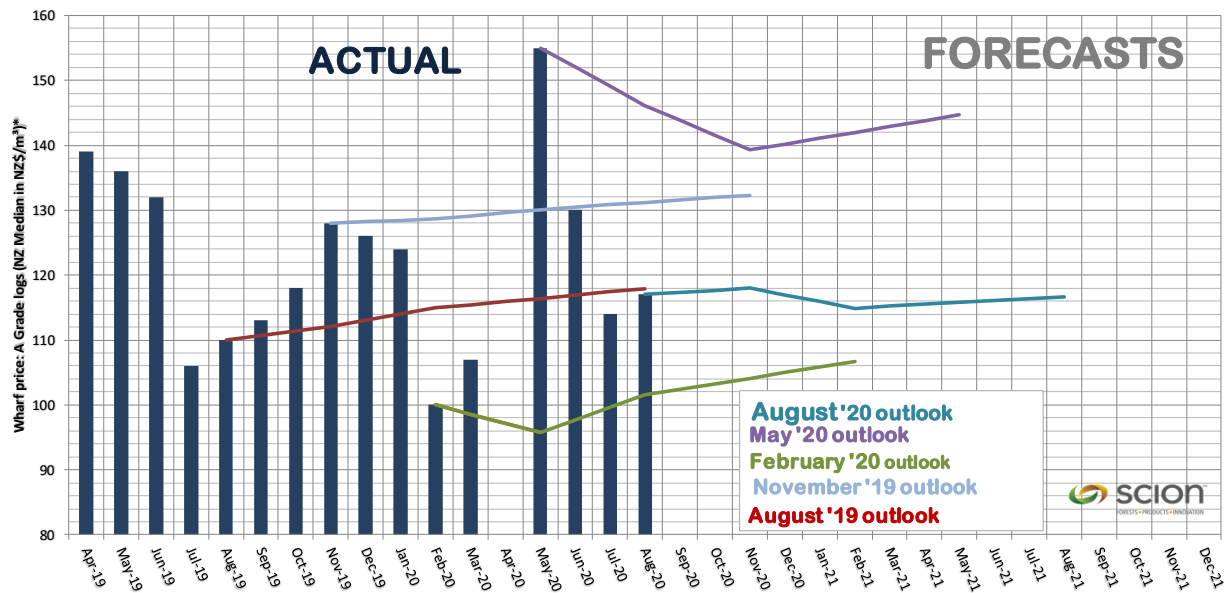




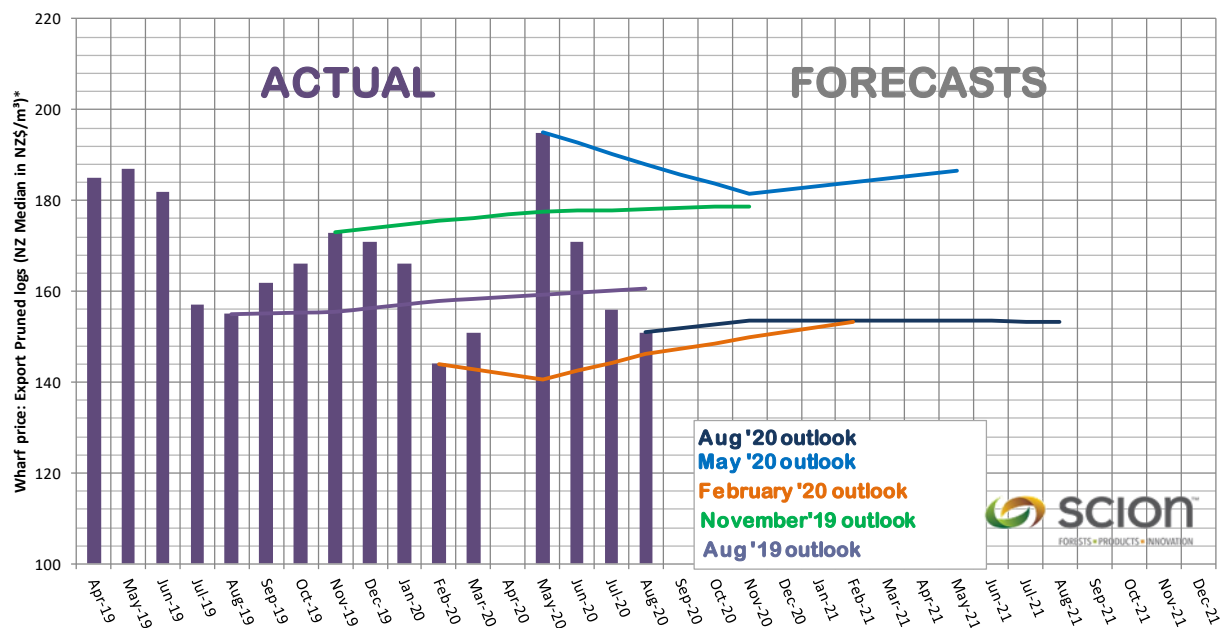
## LOG PRICE OUTLOOK

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



\* Data source (dark blue:): AgriHQ. Note no Agr-HQ figures are available for April 2020 due to COVID 19 production lockdown.

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



\* Data source (Purple): AgriHQ. Note no Agri-HQ figures are available for April 2020 due to COVID-19 production lockdown

Log price trends over the past quarter have fallen sharply off May's price spike. While unpruned log prices are beginning to show slight recovery, and therefore may have already hit the bottom of the price drop, it is still unclear if pruned prices will see recovery in the coming months. If so, the turning point might be ahead of the May 2020 outlook where respondents indicated declining log prices out till November. This might reflect the faster than anticipated economic recovery from our larger trading partners in terms of Covid-19 impacts. The exchange rate has also recovered back to around 0.65USD.

This quarter's histograms (pg 7-8) provide a narrower range of views around potential change in price and volume compared to the past quarterly outlook from May. Participants estimate changes of between  $\uparrow 20\%$  and  $\downarrow 30\%$ , though collectively there is very limited movement expected overall in either log volumes and prices, with very minor increases. An average volume movement equates to just  $\uparrow 2\%$  in 3 months,  $\uparrow 1\%$  in 6 months, and  $\uparrow 1\%$  in 12 months for export volumes; and  $\uparrow 1\%$  in 3 months,  $0\%$  in 6 months and  $0\%$  in 12 months for domestic volume change.

## BUSINESS CONFIDENCE

As the COVID-19 pandemic deepens globally, New Zealand's relative ability to remain productive and come out of lockdown throughout the past quarter (June through August) is reflected in a lowered number of respondents (35%, down from 52% last quarter) expecting negative conditions for the coming year. The majority (51%) expect a steady and stable year, with a similar number to last quarter (14%) seeing positive conditions ahead.

Respondents expect the market to remain cautious, due to remaining uncertainty in the extent and timeframe of the current pandemic and effects on global economic recovery rate. However, there are also indications of strong market demand:

- *"A lot of Govt funding allocated and log volumes remain higher than expected"*
- *"COVID-19 uncertainty will continue to impact industry and clients will remain cautious"*
- *"Head winds everywhere and world economy struggling"*

Reasons given for expecting a positive change to business surrounded stimulus packages, continued demand with markets opening up due to changes in supply:

- *"China Government's stimulus packages have started to kick in and positively impact demand"*
- *"US detached housing market is very strong and US lumber markets very strong.."*
- *"Pulp prices at GFC lows 3rd quarter 2019 and will continue to suppress harvest of forests that rely on pulp or lumber market arisings for overall forest profitability."*
- *"Large US forest companies directing logs to domestic."*
- *"European Spruce sanitary harvest is short term as spruce decays quickly."*
- *"We are pretty much at 'rock bottom' so life has got to get better, right? Forever the optimist!"*

Reasons given for expecting steady and stable business included forward orders, domestic conditions offsetting global downturn, and a feeling that business will not be looking to make too many changes in such uncertain times:

- *"Signals domestically & internationally mildly positive but a lot of uncertainty still with pandemic"*
- *"Business strong at present but may slow later"*
- *"As a result of worldwide uncertainty due to COVID I believe we won't see big changes"*
- *"Better demand will be offset by European supply to China"*
- *"Domestic Log use will rise irrespective of the Election Outcome."*
- *"Changes to the RMA will see more houses being built. Returning NZers and Immigrants will help the Industry housing demand"*
- *"Money is tight. Companies are focused on the basics."*
- *"Looking forward we can see strong current demand and our order file is full. We expect this to continue."*
- *"Forest companies have given us a steady forecast for the rest of 2020"*

Those expecting a negative change in their business expect an oversupply of logs, particularly from Europe, and economic impacts both in New Zealand and global economies as stimulus packages ease:

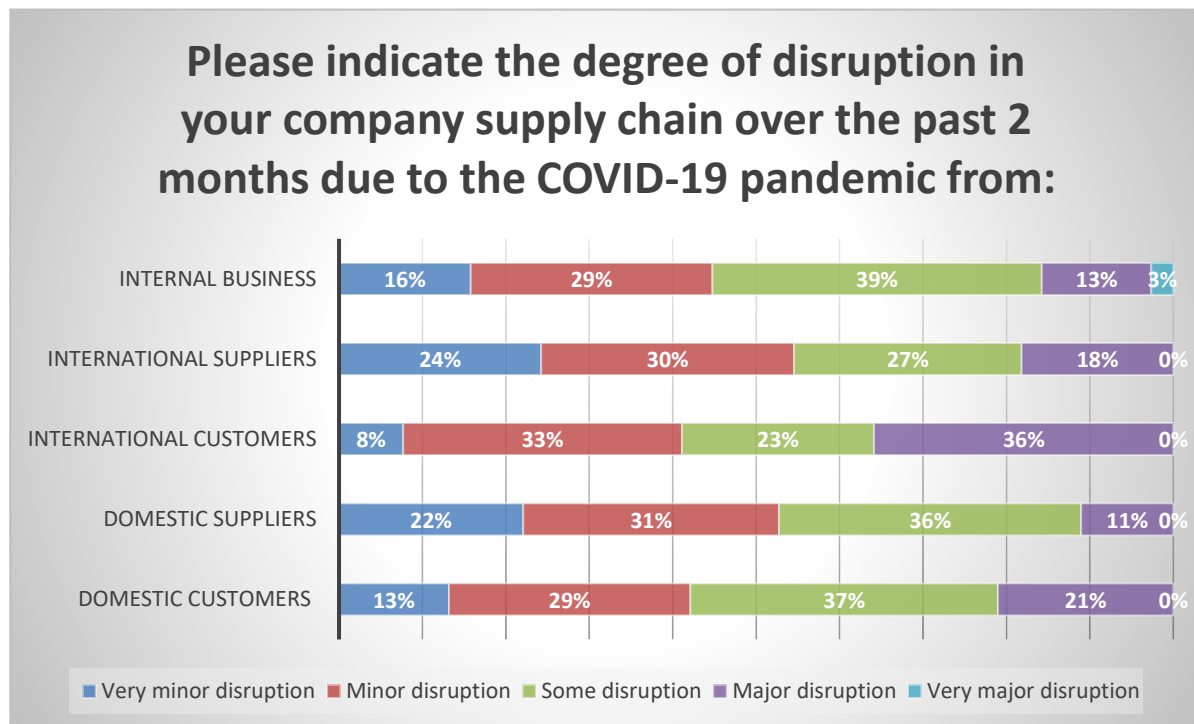
- *"High quality spruce logs in Europe will displace P.Rad in China."*
- *"Over supply of logs in China with Euro log exports increasing at low prices - every supplier needs China, but not as much as everyone wants to send. Look for a tough 6 months."*
- *"European log volumes, subdued COVID demand, the regional impact of log source"*
- *"There is currently a supply / demand imbalance with logs arriving in China faster than the current run rate. India / Korea, and Japan markets are also struggling."*
- *"The full impact of COVID-19 is yet to play out. Further contagions are likely."*
- *"Covid will start to impact more deeply across the economy over the next 6 to 12 months."*
- *"Global recession due to Covid-19"*
- *"Economic and export woes following CoVid-19"*
- *"This will flow on through the supply chain, with less spending on consulting / R&D."*

- “All of the job keeper stimulus injected in the economy, will have run out, unemployment will 7-9%, this will see both lower consumer and business confidence. While money is cheap, unless certainty of employment/business prospects, people reduce spending.”
- “business debt will constrain activity”
- “World demand for all products will soften.”
- “Big real estate construction projects .....will be slow to start”

## IMPACTS ON FORESTRY BUSINESS DUE TO COVID-19

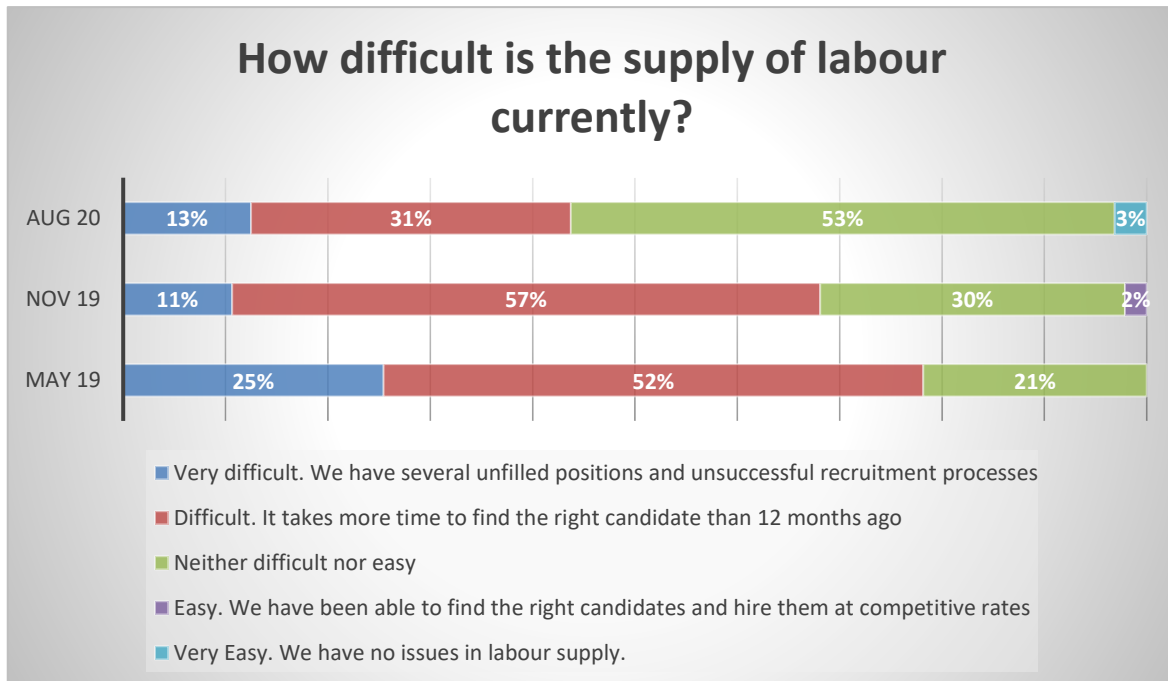
In contrast to last quarter, no respondents indicated very major disruption to business, except internally, because of Covid-19, reflecting the ability to continue operations following the initial lockdown period (Figure 3). There was a much larger proportion of respondents indicating they are still experiencing minor disruptions. International and domestic customers have been the source of high levels of disruption to New Zealand operations over the past two months, while the disruption from suppliers appears to have eased somewhat. Indicators of disruption include price volatility impacting on availability of grades, fluctuations in demand, and shipping and logistics difficulty, which impacts on scheduling and causes delay.

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



Labour availability has improved substantially from last year (Figure 4), with less than half of respondents (46%) expressing difficulties in labour supply currently compared to 68% in November 2019, and 77% in May 2019. This is in sharp contrast to the expectations of further labour shortages due to Covid-19 and loss of seasonal workforce, although shortages are still apparent in planting and silvicultural work, mainly from a lack of overseas workforce. There appears to be an adequate supply (one respondent even noticed a surplus) of workforce in transportation, harvesting and haulage. Some respondents noted that the desire to hire new labour has reduced post-Covid, and this may mean that fewer forest sector workers are being sought now as the usual openings and vacancies are not there.

Figure 4: Difficulty in labour supply



## DOMESTIC PROCESSOR LONG TERM SUPPLY AGREEMENTS

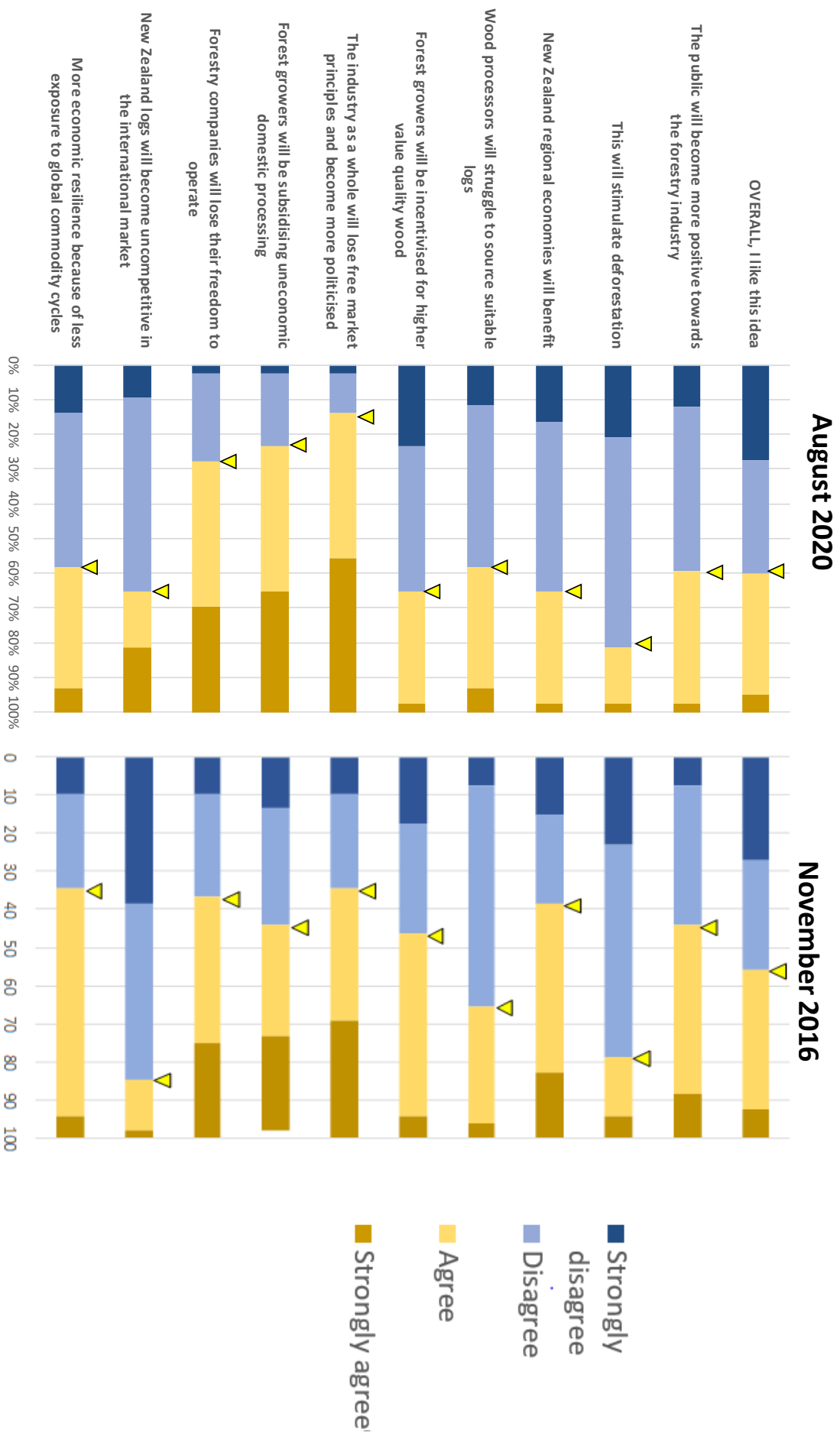
During the November 2016 Outlook, Scion asked respondents for their thoughts about locking into long term supply agreements with domestic processors. With the Forests (Regulation of Log Traders and Forestry Advisers) Amendment Bill recently being passed in parliament, it seemed timely to see if attitudes have changed in the sector since we first asked this question. Comparative graphs are overleaf.

A remarkably similar distribution of responses was seen in regards to the overall idea, though a slightly lower proportion of the sector like the idea overall (40% today cf. 55% in 2016). Although the results are fairly similar across all 11 statements between the two surveys, attitudes appear to have shifted regarding the following:

- A much higher proportion disagree that regional economies will benefit
- A much lower proportion strongly disagree that New Zealand logs will become uncompetitive in the international market
- Lower agreement that forest growers will be incentivised for higher value quality wood
- Much higher agreement in New Zealand industry losing free market principles and becoming more politicised
- Higher agreement that forestry will be subsidising uneconomic domestic processing.
- Much higher disagreement that economic resilience would result from less exposure to global commodity cycles.

One respondent also made the comment “The assumption is that a long term supply agreement will lock in prices and disconnect them from international prices. That does not have to be the case and nor is it in many instances where LTSAs exist. The agreement is to supply a certain volume long-term. The prices will be re-negotiated on a regular (6 or 12 monthly) basis from a pre-agreed set of metrics. There may not be a price disconnect at all.”

**What do you think will happen if NZ Forestry locks into long-term supply agreements with domestic processors and create a disconnect in pricing between domestic and international markets?**



# FORESTRY BUSINESS EXPECTATIONS OUTLOOK - HISTOGRAMS

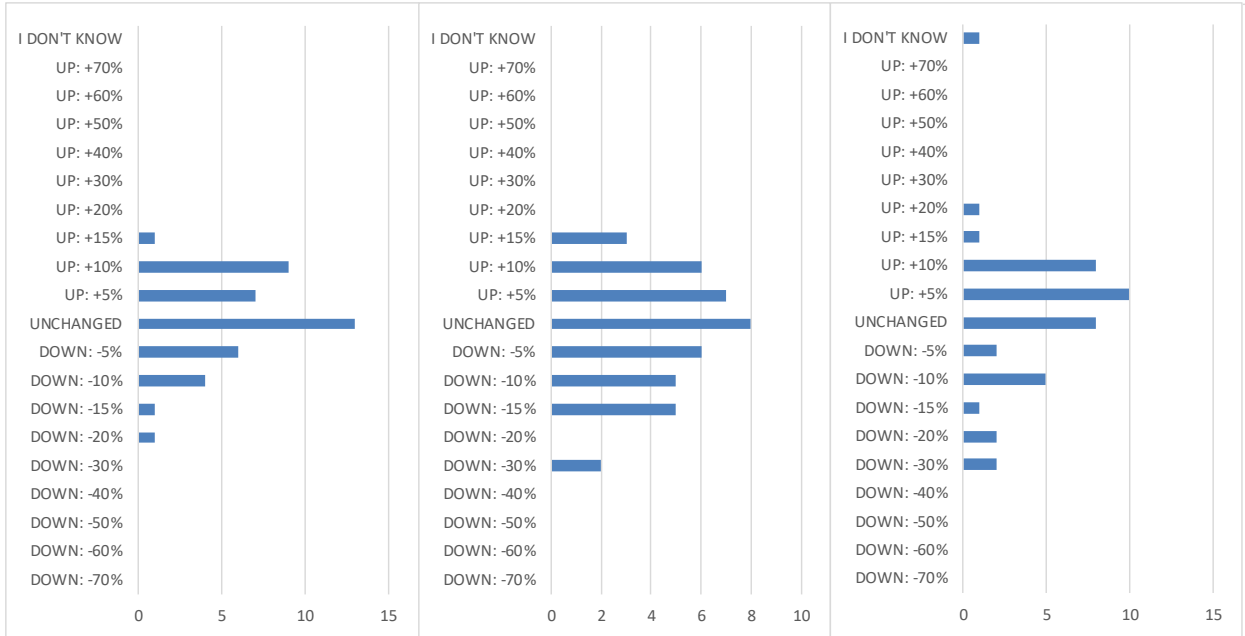
## Unpruned Log Prices

Log Price as a % of prices in Aug 2020

3 Month Outlook

6 Month Outlook

12 Month Outlook

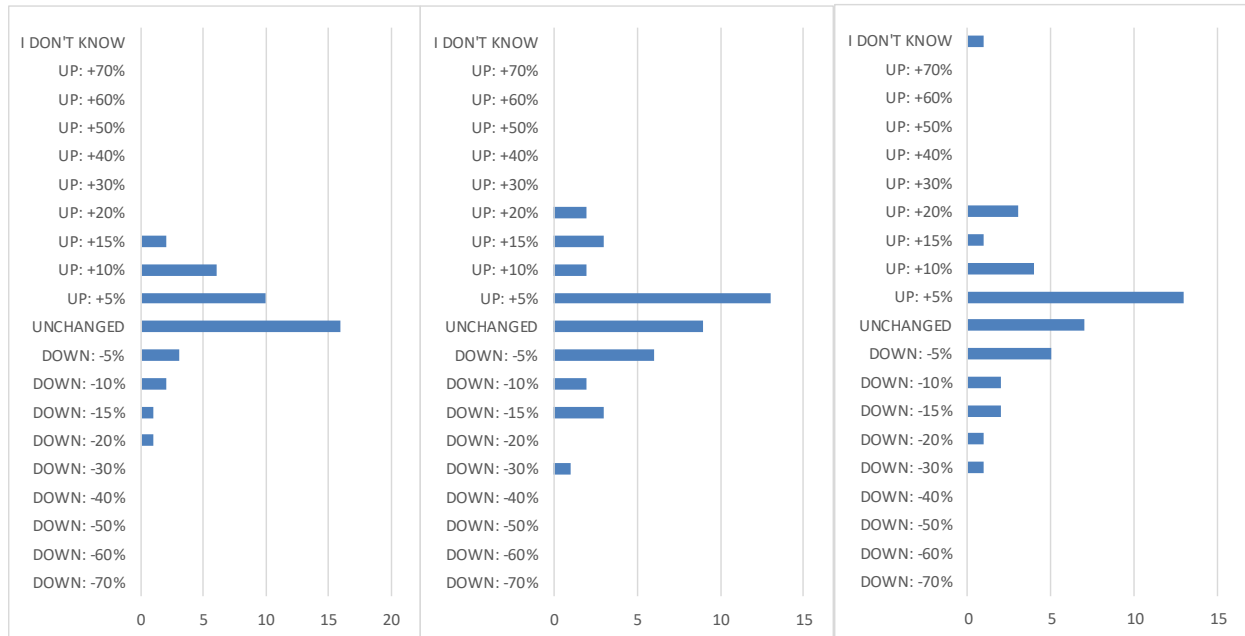


## Export Log Volume as a % of Aug 2020

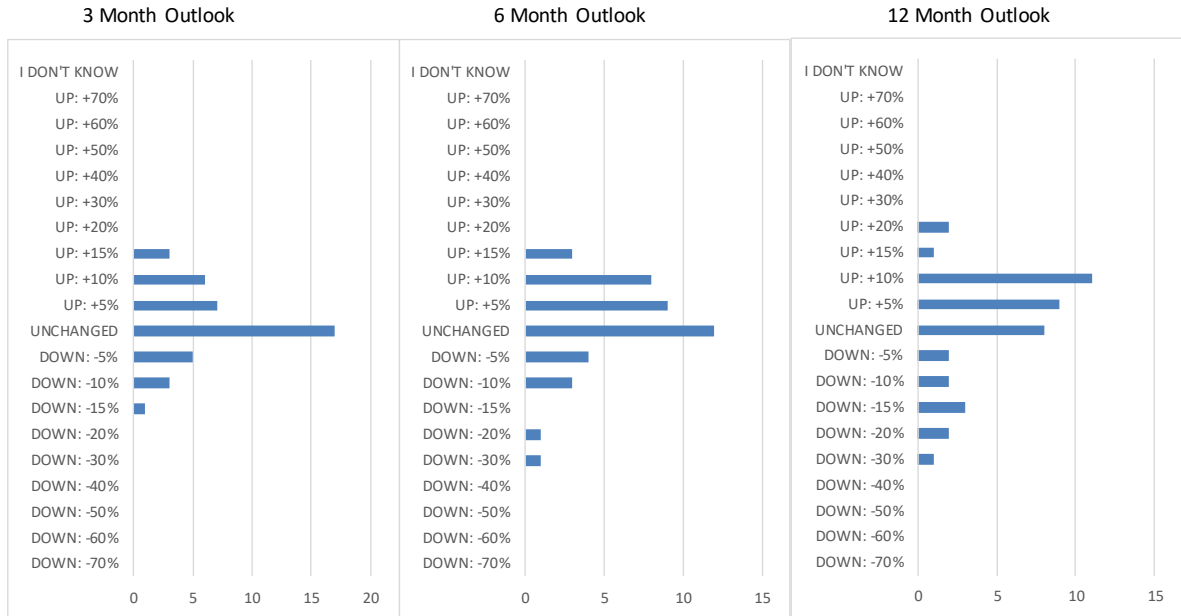
3 Month Outlook

6 Month Outlook

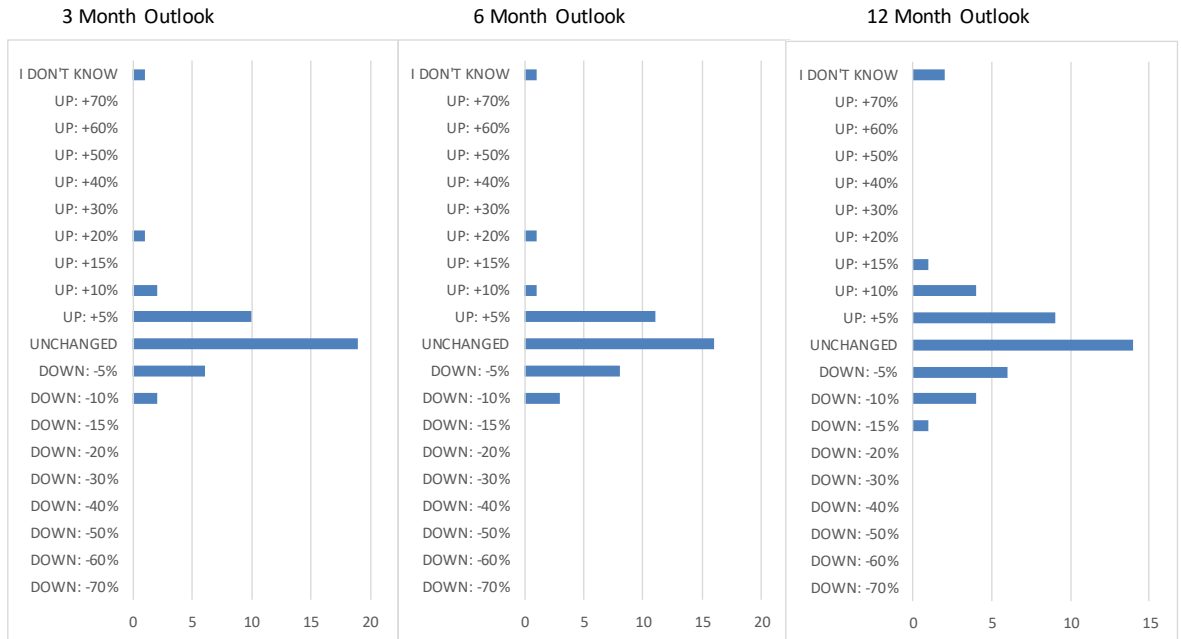
12 Month Outlook



**Pruned Log Prices**  
Log Price as a % of prices in Aug 2020



**Domestic Log Volume as a % of Aug 2020**



**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 November 2020.

To access previous outlook reports please visit this web site:

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

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