

Monthly Market Report

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The year continues to perform as expected in terms of log markets. Prices across both export and domestic segments have remained stable and demand generally equal to supply. Indeed it has been encouraging to see wood fibre hold value when other commodities have come under downward price pressure.

For our key market for both log and lumber, China demand has continued although in recent weeks sentiment has generally deteriorated. I have just come back from another week in the market in China. This trip has given some pretty clear direction as to what we can anticipate over the next few months given current trends.

A little reported situation relates to credit lines. Whilst the Chinese Government has recently injected another ¥\$1 trillion in to a stimulus package, they have also been clear to avoid any policies that might restimulate the housing sector. As a consequence construction is expected to remain subdued.

Part of policy making has seen a retraction of credit lines in an attempt to rein in inflation. This sees developers struggling to keep going on projects and start new ones. Credit terms are being extended, sometimes beyond the usual 90 days. At the sawmilling end of the business, factories are struggling to establish sufficient credit for forward purchases and Letters of Credit have become harder to open.

Mind you my trip included travelling through 5 major cities and it is pretty hard to pick where the slow-down is. New housing developments are going on everywhere and cranes litter the skyline. New bridges and roads are being built and airports redeveloped...again.

It was very encouraging to see manufacturers starting to use Radiata pine in higher value end uses. New baby cots and solid wood furniture have ensured a burgeoning market for our clearwood logs and lumber. Prices in this segment have generally increased, demand is good and a visit around wholesalers suggests stock is moving, mostly domestically.

Some of this has filtered down to a general lift in kiln dried pith free furniture grade lumber with the general commentary suggesting a US\$10 per cubic metre lift in recent weeks. This is encouraging news but badly needed for NZ sawmillers trying to compete with FOREX and freight cost increases working against them.

It was encouraging also to see a continuing lift in wage rates with a reported 13% increase in the last twelve months. There is no doubt in my mind that continuing increases will see a Labour to machinery technology shift and we will also see a transition to where the likes of a Kiwi manufacturer can more readily compete in this market.

I have started to push our industry to consider much higher level investment in this market for both log suppliers and our sawmills. The opportunity for growth in this market is huge but it will not happen unless we as an industry start to invest. We also need to get a lot smarter about working together rather than competing with each other.

It is sobering to remember that whether we send China logs or lumber, by far the majority is used to hold up concrete and to a much lesser extent packaging. The same applies to all softwood supplies. It doesn't matter whether it is Douglas fir, Hemlock or Spruce from the US or pine from Russia or Australia it just about all goes to construction projects as solid wood or plywood.

Indeed Radiata generally sits at the bottom of the preferred species stakes where it is generally regarded as a lower quality to its competitors. However NZ does enjoy a solid reputation as being good people to deal with. China is also aware there is plenty more to come, whereas they do have concerns about continuity of supplies from other sources.

Shipping has been an ongoing challenge. Although the market indicator Baltic Dry Index has reached a seven year low, Handy Class vessels are now earning more in daily rates than the much larger Capesize and Supramax classes. This is a reflection of a Steel and Coal demand decline. Also NZ lacks port berth size and loading and discharge systems that would otherwise allow the larger vessels in. The Handy's have onboard cranes which are required for loading.

For the moment at least, whilst good fixtures have been challenging to secure, Shipping costs have remained reasonably stable which is likely a plus but at a time when they should be really going down. Slow steaming and shorting the market allows the complex game play to stay in the shippers favour.

The Christchurch market remains subdued with local sawmills able to sell all they can produce locally or to Australia. However it is clear few will have to be concerned about a big tax bill this year. Any attempt to try and prize a few extra dollars per tonne for a framing grade log has been met with stern resistance. Indeed it would be easier to extract a tooth from a chook than get a price increase right at the moment.

Outdoor lumber continues to sell well but as in framing, margins are tight and likely to remain that way until demand lifts significantly. Lumber also continues to flow into the region from just about everywhere else increasing competition and decreasing any chance of making some sensible margin for all stakeholders.

Overall we are still saying it will be a year of pretty flat but stable market pricing with longer term indicators remaining positive. Thus it is has never been more timely to remember the only way forward for climate, country and the planet is to get out there and plant more trees please.....!