Monthly Market Report

April 2013

Allan Laurie MNZIF Laurie Forestry

The fortunes of the forestry continue to improve with further small lifts in export prices this month. Wharf gate prices in NZ now reflect some good returns to forest owners and for the moment at least it looks like business as usual.

I have just returned from another week in the market in China. This trip has revealed a market in a reasonable state of flux with log prices holding but wholesale and retail prices for lumber exiting factories continuing to hold at previous levels. This ultimately means factory owners (called saw mill owners in NZ) are suffering, some badly and foreclosures continue to be spoken of with regularity.

This current situation is just starting to see pricing pressures coming in to lumber retail segments which means local traders are starting to gain some ground. However of some concern is to find consumption at low to moderate levels compared to the same time last year. The concerns are therefore any attempt to lift lumber retail prices is not supported by strong sales in the construction sector.

Over-riding this domestic situation in China, is the lack of supply of logs from other countries with volumes not arriving from the Pacific North West (PNW) as previously predicted. Whilst NZ and Australia have been pumping the volumes in, other supply countries have not. For the moment there is a degree of comfort in a 3million cubic metre inventory with background nervousness about medium long term supply.

Hence we are continuing to see CFR prices (US$ cost per cubic metre landed in China) firm and NZ suppliers particularly, forcing the hand of the market. My review of this situation suggests a level of caution. Indeed we face a potential crash and burn situation if NZ suppliers continue to force prices up.

As prices reach a critical level, others can be expected to enter the market with supply as PNW suppliers, for example, chase best price point options. This could lead to a significant lift in supply as PNW can divert large volumes very quickly. It is therefore time to be cautious in this large but still reasonable fragile market.

NZ is totally dependent on the construction industry in China with the vast majority of Radiata pine logs sold milled for lumber or plywood to hold up concrete. This reliance on one key market segment is a concern long term. NZ will need to invest heavily in this market if we desire a level of long term sustainability and strong pricing points. In this regard we simply have few options but, frankly speaking, we have been singularly inattentive to this key requirement in the past.

Meanwhile, NZ side, volumes and pricing hold steady. Many saw mill owners are nervous about supply and pricing going forward. Although I am yet to see any movement in price in Canterbury, there are some gains being experienced in domestic log grades other regions. For the balance of 2013 I see some continuing price point pressure in the domestic segment.

On the up side some of the larger suppliers in to Christchurch are starting to move lumber prices upward albeit no-where near levels that would cause excitement. For the moment it is a move in the right direction. Demand will need to increase significantly if continuing price lifts are to be promulgated.

Forestry is certainly enjoying a sustained level of improved prices with anticipated supply demand statistics globally, appear to support continuing strength. Outside of storms, tempests, conflagrations and generally waring over resources it looks like those of us who decided to invest in this wonderful industry 30+ years ago look well vindicated.

Thus it is time for many more to now follow suit and it 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 ......!

Laurie Forestry Ltd – **Offering ongoing, sensible and achievable solutions for Forest Growers**

South Canterbury Address - 22 Shearman Street, Waimate 7924, New Zealand – Phone +64 3 689 8333
Christchurch Address - Unit 3, 337 Harewood Rd, Christchurch 8053, New Zealand - Ph +64 3 359 5000

Email – admin@lauieforestry.co.nz