Monthly Market Report

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The Forest Industry in Canterbury has taken on a very different tone following the catastrophic winds of 10th September. In something like 2 hours of the most intense wind, in excess of 1 million tonnes of wood went from vertical to horizontal or at least varying forms of horizontal. This now places major challenges on infrastructure, resources and capability.

On August 1st 1975, a wind event said to exceed all previous records in terms of velocity, felled 2.5million tonnes of trees and was said to have impacted wood supply in Canterbury for 20 years. However talking to some of the "older" sawmillers in Canterbury, none can remember running out of wood.

In 1975 there was major devastation at Eyrewell and Balmoral Forests which were continuing to be managed on normal forest rotations. In the last 5 years, both forests have been progressively harvested in favour of "alternative land use options". As a consequence there was less forest area in vulnerable locations at the time of this latest event. It is therefore likely the net impacts of this latest event will be similar to 1975.

In terms of immediacy, all efforts are now toward recovery of wood fibre. Additional logging and trucking capacity is being sought and Port Companies are being advised on increasing volumes for the next 12 months at least. Issues around Health and Safety are upper most in the mind and actions to thus ensure those working the Forests, Woodlots and Shelterbelts are safe from harm.

For the moment we would not expect prices in the market in China or domestically to be impacted dramatically. We are currently shipping 800,000 to 1mil tonnes of wood to China per month nationally. Logging capacity will not change dramatically in NZ rather the volume will shift around the Ports as logging crews move between regions.

Demand in China remains strong. Indeed we have seen a small lift in CIF settlements for October. The increase has been offset by increases in Sea Freight and FOREX largely leaving wharf gate NZ prices unchanged. There are some very mixed messages coming out of the China market at present although none would appear to impact the likely settlements until Christmas.

Local sawmills are looking forward to better supply of framing grade log at least in the short term. Some have been struggling to get their required quota with some very expensive short days being part of the production mix. As logging capacity builds, there is going to be a glut of volume, but this is likely to trail off quite quickly as broken and dead wood starts to deteriorate.

For the moment domestic log prices are holding steady and most are suggesting they do not see any change in the immediate future. The earthquake re-build is adding momentum to the market with more lumber volume moving and across a wider segment.

A recent quick visit to some Christchurch retailers confirms some local sawmills are getting a good slice of the action. However North Island and Nelson mills are also pouring volume in to the market meaning lumber pricing generally remains flat to slightly firm following earlier good lifts.

Of the supply situation going forward, there would have to be some concern. The wind damaged volume represents about 18 months of wood for the Canterbury supply region. Longer term I can see issues ahead as there is a great deal of 15 – 25 year old wood on the ground.

Some have suggested these wind damage events will impact many growers in terms of their desire to replant. Forestry like all crops carries risks. For the most part those risks can be mitigated or reduced by crop management and insurance as 2 examples. It has been 40 years since the last big wind event and in the meantime forest growers have continued to enjoy a return on their investment approaching 7% annualised. This far exceeds most other land use options in Canterbury. Note, Forest Growers do not include small woodlots and commercial shelterbelt growers. These typically yield a lesser return in the same way a small lifestyle block running sheep will show less return per hectare compared to a well-managed larger pastoral farm. It is a function of scale and cost.

Thus, 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**

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