Monthly Market Report May 2015



The rate of the rapid decline in export log prices in April and May has been unprecedented. My records show wharf gate prices expressed in NZ dollars per Japanese Agricultural Standard (JAS) cubic metre are now at their lowest point since September 2008.

The big drop in NZ wharf gate prices, equivalent to about 32% in 2 months, is a reflection of reducing price settlements in China, slight increases in shipping costs and a slightly firming exchange rate. This almost perfect storm sees stumpage prices, reflected as a price per tonne or cubic metre to the NZ forest grower having fallen close to 85% over the same period.

As would be expected, it is something close to carnage out there. Logging crews and trucks are being parked, production is dropping daily and many people are looking for work. This is bad news for an industry desperately needing to hang on to skilled labour, which includes continuing training and the emphasis on safe work practices.

A further casualty rests with the consistently performing domestic sawmilling industry. Whilst log supply is variously ok right at present, as harvest production slows, then supply is going to be a problem unless there can be a rapid change in log diet.

One bright light amidst the carnage of an industry experiencing an unprecedented commodity price and demand swing, is pruned log prices. These are continuing to sell well in China and prices at the wharf gate, whilst under a little downward pressure, are holding up well. Indeed the price margin between pruned logs and the nearest value export log has crept out to over NZ$50 per tonne. This reflects the margins we last saw in the 1990's.

As reported last month, all marketing ears and eyes are focussed on China and what will happen next. At time of writing, daily consumption across the eastern seaboard is running at a not too shabby 70,000 cubic metres per day, the equivalent of about 2 million cubic metres per month. However a staggering 50+ vessels delivered cargo from NZ and Australia in April. With the addition of eight shipments from the US and Russian volume running at about 400,000 cubic metres per month, port inventories have climbed quickly to 4.5 million cubic metres.

The more positive news is that most were expecting this and therefore prices seem to have rounded out somewhere in the bottom of the pit. Deliveries to NZ ports are slowing with about a 5% drop in April and 20 - 25% expected in May. A 25% drop represents a production loss of about 300,000 cubic metres. I suspect a further 5 - 10% drop will be seen in June which would mean 30 - 40 logging crews and 60 to 80 trucks parked nationally. In total this reflects 600 - 800 people temporarily joining the dole queue or getting under mothers feet at home.

The forest industry has likely more to look forward to than many other commodities. Coal and Dairy look destined for a sustained period of down cycle and the number of Kiwi's flooding to Australia to work in the mining industry now a thing of the past. For forestry and wood fibre, we see the current cycle being a 6 - 8 week issue although the climb back out the other side, could be a bit more long winded than usual. Most commentators are suggesting recent China government policy changes including re- emphasis on infrastructural development projects should see overall revitalisation of key economic and market dynamic factors

Fortunately in our industry, the short shelf life of our product means we cannot secrete it away in large stores or leave it in great piles waiting market, so our inventory must remain relatively low. Major swings such as we see at present are unhealthy for both sides, but they can also change either way, quite rapidly.

It continues to be thoroughly important to remember the trees keep growing regardless and peoples of the world continue to need wood for wide ranging reasons. 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!

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