

Monthly Market Report

November 2015



What a difference a month makes! In the last 4 weeks we have seen log export prices move rapidly off a 10 year low to a 10 year high!

This staggering and very unexpected turnaround is the consequence of marked increases in settlements in China together with slight reductions in shipping rates and the US/Kiwi\$ exchange rate.

These factors have combined to result in a staggering NZ\$35+ per cubic metre increase for logs at the wharf gate (NZ). However the situation looks to remain very fragile for some time. We would anticipate some volatility over the next 3 months as the market comes to grip with wildly fluctuating circumstances, not the least being uncertainty over the macro economics of the new China.

There is no doubt the rapid increase in prices in US\$ landed in the market terms (CNF) is the direct consequence of a knee jerk reaction in China. When prices dropped, it took some time for the inventory the eastern seaboard ports to drop as NZ slowly cranked down supply. Some of this relates to the failure of some of the larger forest owners to react to clear market signals. Some of it relates to pure wood flow and the time it takes for the wood to move out of the system once key factors change.

In the final analysis, inventory levels did eventually drop, in the case of 2 key ports, to almost nothing. China buyers started to panic when they saw the potential for running out of wood. Some commentators have argued prices did not need to fall as far as they did for there to be a slow-down in supply. Others have argued it took the low level to wake the big boys up (gender free of course) and make them realise the loggers had to slow down or else low prices were on the horizon for the foreseeable.

The net consequence of all this is a reversion to an increase in supply, the extent of which is currently difficult to quantify. There is no question the slump saw a great deal of capacity come out of forest harvest. Some logging crews and logging truck owners have exited and allowed their financiers to pick up the pieces. Others have exited and put everything on the market. And out of the carnage of this very imperfect storm called supply and demand, there are the inevitable casualties, but also opportunities.

On the domestic front, centred on Christchurch, the drop in demand we saw 3 to 4 months ago does not appear to have recovered. This relates to the house frame (pre-nail) segment where there appears to have been a saturation level reached. Most sawmills are quoting a slow-down, also commenting the key players

in this segment are chasing each other down the price spiral staircase.

The traditional F7 (Framing) market in Australia has been a good volume market for Canterbury Sawmills. This market is also under some price pressure, again a supply and demand space in time. The rising exchange rate is also taking most of the margin out of this business.

On the positive side, sawmills are commenting the DIY market, typically home handyman and small builder company Box Store sales, are strong. Some believe this is a pre Christmas rush to get the wife's list shortened, others are quoting a shift from house build to getting the boundary fence, pergola and deck ready for the BBQ season.

In terms of how commentators view Christchurch, there appears to be a consensus the re-construction faze is moving from domestic housing to commercial buildings. And of course this sector still persists with those nasty high pollution components called steel and concrete. As I drive around the city it is good to see some projects have the token wood included. At least we can say there will be some carbon stored and locked within the City's rebuild.

The utilisation segment of the NZ forest industry in tandem with some very clever engineers are developing wood construction elements than can include multi story wood commercial buildings using practically only wood. As a consequence there are many such buildings that have been and are being constructed throughout NZ. Those technologies are developing at a rate that will continue to improve cost effectiveness and ease of construction. We can all look forward to the day when common sense and sustainability actually prevail and wood becomes the product of choice and requirement.

To emphasise the impact of climate change and how forests and wood might feature in the go forward plan, we should contemplate the words of Barack Obama. *"All across the world, in every kind of environment and region known to man, increasingly dangerous weather patterns and devastating storms are abruptly putting an end to the long-running debate over whether or not climate change is real, not only is it real, it's here, and its effects are giving rise to a frighteningly new global phenomenon: the man-made natural disaster."*

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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