

Monthly Market Report

October 2016



Market conditions have remained stable to slightly firm across most segments over the last month. Domestic supply constraints appear to have improved but sawmills are bending some of the quality rules to get the volume of logs they need.

Export prices have firmed slightly on the back of a US\$3 to 4 per cubic metre lift in CNF prices. A stable FOREX and shipping cost platform has ensured the lifts have been realised at the wharf gate. The more recent lower value of the NZ\$ against the green back should see the continuing firming trend continue.

Having recently spent a week in the China market, readers might be interested in some information gleaned from around the negotiating table. I am always keen to understand how more recent trends in domestic economy growth is impacting the wood fibre manufacturing sector.

Five years ago, I recall the average sawing cost in China was about the equivalent of NZ\$6 per cubic metre sawn. At that time the sawing cost in a NZ sawmill was in a NZ\$50 to \$60 range.

The average cost in China is now NZ\$18 to \$20 per cubic metre whilst NZ costs have remained about the same despite compliance, running cost and maintenance costs ramping significantly. The kiwi sawmill owner has the advantage of technology enhancement to improve productivity thus reducing cost. The China factory is more constrained by the daily productivity of a factory person.

Five years ago an average wage of a sawmill factory worker in China was the equivalent of NZ\$600 to \$1,200 per month. The average is now \$1,800 to \$2,500 per month. There is certainly no Kiwi sawmill employee who can boast a 100% wage rise in 5 years! Again the above are averages with Province by Province and city to city variations.

A sawmill in China is very much a factory operating on contract rate rarely including further processing. Sawmill owners do not always own the logs but some sawmill owners are also traders. A typical factory is multiple sets of 2 band saws. In a single set the first band saw is as in a normal head rig, cutting the log down to flitches or slabs. The second is a standard breast bench milling to final lumber dimensions. There are 7 to 8 people operating the sawmill set.

Those 7 people will have a typical target of 50 cubic metres of logs per day.

The sawdust extraction system is normally a shovel and every bit of off cut is used in some way in further processing or taken to the chip or pulp mill. The set up is very basic with a single roof overhead housing several sawmills sets and few creature comforts. A typical sawmill set costs about the equivalent of NZ\$100,000 to set up including infrastructure. So for about NZ\$1 mil you can have 10 sets up and running and milling 500 tonnes of logs per day. A typical modern sawmill in NZ of similar capacity would cost \$20 to \$30 million to set up

The reason for going in to this in some detail is to explain to some of the "why don't we mill the logs in NZ," fraternity why this cannot happen right at the moment. However, we should very much continue to watch that space and seize upon opportunities that arise as inevitable they will, given the growth stats above.

Whilst in China I was asked to give a presentation to a Supply Chain Logistics conference in Qingdao. This is a small city by China standards boasting about 9 million people in the city and immediate environs. Qingdao is in the Shangdong province, 600 km north of Shanghai and boasts the longest bridge in the world at about 27 km.

My presentation included a table explaining it takes 60 - 70 days from the felling of the tree in NZ to it being sawn in to Lumber in China. This leads to quality issues, principally sap stain. At the higher quality end of our business, being pruned logs, I believe the only solution is to mill these in NZ and this received a good deal of support.

This trip once again confirmed for me 3 things. Firstly the world is full of opportunities. Secondly I wish I was 20 years younger! Thirdly wood fibre commodities are bucking many trends and enjoying good demand and good pricing. 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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