

# Monthly Market Report

April 2017



It is encouraging to see positive reports from our ministry in recent media coverage. The following is a direct quote:

*"Recent news release from Govt New Zealand's Associate Primary Industries Minister Louise Upston has welcomed new forecasts showing forestry export revenue set to rise further over the next two financial years.*

*The Ministry for Primary Industries' first quarterly update of its Situation Outlook for Primary Industries shows forestry export revenue is forecast to rise 5.8 per cent to NZ\$5.4 billion for the year ending June 2017, and a further 8.8 per cent to NZ\$5.9 billion in the year to June 2018.*

*"Rising log exports are behind this positive forecast, with a strong demand from China due to its expanding housing market. This, combined with low shipping costs, has driven harvesting to record levels," Ms Upston says. "Increased building activity in Auckland and Christchurch are also driving domestic consumption of sawn timber, up 7 per cent in the year to September 2016, which is great news for the forestry sector."*

*The annual harvest reached a new record in 2016, pushed up by higher log prices, with the supply of harvestable wood set to increase over the next five years.*

*"Forestry is our third highest export-earner and an important industry for our regions. This Government is encouraging more planting through the Afforestation Grants Scheme which has \$19.5 million to establish 15,000ha of new forests between 2015 and 2020".*

The only issue I have with this statement is the reference to harvestable wood set to increase over the next 5 years. This leaves the reader with the impression of something much greater and grander in the future. Indeed current statistics indicates only very moderate increases or more of about the same in the national wood harvest over the next 5 years.

Allied to this and of some concern are reports of companies, and some seemingly quite reputable ones at that, touting future big increases in wood supply and potential lack of people to do the work as reasons for forest owners to consider harvesting early.

Based on all reliable data both nationally and internationally, this recommendation is fundamentally flawed. Indeed the only basis for this is some highly biased crystal ball gazing. As far as I am aware qualifications to become a Registered Forestry Practitioner do not include crystal ball gazing.

It can only be presumed therefore that advice which attempts to justify harvesting early has its foundations in procurement and client generation rather than anything to do with a good bottom line for the forest owner.

In April we have continued to see strength in prices and demand in both export and domestic segments. The recent spell of wet weather in NZ has seen logging crews parked up for between 1 and 2 weeks which will only add to the woes of sawmills already screaming for more log supply.

Shipping rates have continued to increase as companies attempt to claw their way back to profitability. Most recent settlements in China are flat to up US\$2 per cubic metre. This has been mirrored in shipping rates which, helped by a slightly weaker NZ\$ against the US\$, has resulted in flat to very slightly firm pricing in the export segment at the NZ wharf gate in April.

I recently attended the annual Farm Forestry conference, this year held in Fielding. During the conference, I had no less than 6 attendees regale me with stories of their recent harvest projects. Those that attend the annual conference are the ardent enthusiasts and therefore would generally do things pretty much right but this is not always the case even by their own admission.

Even so, the lowest net return quoted was \$26,000 per hectare and the highest \$48,000. On further analysis, based on the age of the forests and or woodlots harvested, the average net return was \$928 to \$1,500 per hectare per annum. Remember this is net return after all costs.

These reflect our own experience of the last 2 years with forest and woodlot harvest typically yielding a net return range of \$25,000 to \$30,000 per hectare. These relate to good quality trees 28+ years old that have been well to reasonably well managed and within 100km of good domestic and export markets. Of course as always there are exceptions above and below these averages with terrain, requirements for roads, scale and tree quality all adding to the pot of results.

This ongoing and consistent performance confirms commercial forestry is a highly profitable if not close the most consistently profitable land use in NZ. This proves once again, the only way forward for climate, country and the planet is to get out there and plant more trees.....!

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