

# Monthly Market Report

August 2017



**F**or August log sales in the export segment, prices have softened NZ\$2 to \$3 per cubic metre at wharf gate reflecting the continuing firming in the exchange rate. Prices have remained stable in the China market which continues to lead on price and volume.

While NZ was basking in some of the heaviest rain and coldest conditions for many years in mid July, I was trying to stay close to the air conditioners in China. Indeed whilst in Shanghai I experienced the hottest temperature in 145 years and even the Chinese were complaining. A top of 46 degrees is just warm enough with an average 40.5 degrees for Friday 21<sup>st</sup> meaning the air con in the hotel rooms was also struggling to keep up.

These temperatures have continued throughout the eastern seaboard meaning construction projects have slowed and we have started to see inventory build at about 100,000 cubic metres per week. The rough weather in NZ is hampering production nation-wide which, whilst frustrating, is helping to keep supply constrained and that is likely a good outcome in terms of longer term supply demand.

My visit in to the market in July was once again very informative and a good opportunity to visit sawmills and ports first hand. The relatively new facility at Dong Jai Kou port I reported on in March last year is now nearly at capacity. This facility had about 20 sawmills operating in March last year and is now nearly at capacity at 200.

A sawmill in China is two bandsaws operated as a breaking down saw and breast bench working in tandem with typically 7 people working to feed logs in and stack timber out, often on contract. These people work very hard in a very labour intensive industry where sawdust extraction, as an example, is a combination of short augers and shovels.

The 200 sawmills in the Dong Jai Kou port operation are on a 58 hectare site which is fully concreted. The mills are housed in long lines under an equally long low iron roof as the only weather protection. But quite incredibly these 1,400 odd people mill their way though up to 10,000 cubic metres of logs per day. This means there is a log vessel or vessels, discharging continuously to keep this one operation going.

The majority of the lumber is milled to order and heading to large apartment construction sites where

is used to hold up concrete until it dries. It is very easy to be highly impressed by these hard working people and the organisation of these sawmills to keep productivity going 6 days per week and 9 - 10 hours worked per day. And in monetary terms, on a 26 day work month, the average worker takes home about the same as what their Kiwi counterparts take home in 4 days.

I trust then the critics who say we should be adding value to logs in NZ will now appreciate why this is just not practically possible in the construction segment in the China market at least. This very important market for NZ, means that forest growers here can live in the comfort of knowing 600,000 to 700,000 cubic metres of logs head to China every month at very very good prices to make lumber and plywood to hold up concrete until it dries!

Some other important factors to emerge from this visit are the very apparent changes to environmental standards. Many plywood factories have been closed down right across China as failing to meet environmental standards. As you travel in country areas, you see hundreds of wind turbines and hundreds of hectares of solar panels. I also saw previously heavily polluted waterways now clean and tidy and people are seen everywhere picking up rubbish. This nation to me seems to be talking the talk and walking the walk.

In our domestic segment NZ side, the trend we saw start in March/April has continued with an apparent slow-down in orders coming in the sawmills. Up until now, catching up with back orders has ensured continuing strong demand for logs with some mills still running hand to mouth. Most spoken to are expressing the hope timber usage is just drawing breath and they expect things to ramp again in the new summer.

As has been the case for over two years, prices are stable and at very good levels and we do not see anything coming along that would upset the apple cart out-side of the unpredictable and unstable sanity levels of some world leaders

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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