

Monthly Market Report

December 2017



For December 2017 the combination of log prices in the domestic and export segments rank as amongst the highest ever recorded. The new levels are the result of small increases in prices for December which are a consequence of a US\$1 per cubic metre lift in China and a slightly more favourable currency exchange rate (US dollar v Kiwi dollar). Stumpage values, regarded as the net return to the forest owner, are also close to the highest ever recorded.

The nearest comparative time in log price terms, was between June and September 1993 when the Spotted Owl crisis in the US led to panic buying in the market. This led to a rapid rise in log prices but the realisation the world was not going to end happened very quickly resulting in rapid decline in the following months.

The key difference between 1993 and 2017 is stability. In 1993, high prices lasted about 8 weeks. The following 12 months was dominated by what has been called a crash and burn situation. In 2017 high log prices have been around for 2 years with little change monthly and all indicators are for more of the same.

The NZ domestic scene continues to be dominated by high volumes, low margins and a continuum of discussions between log suppliers and sawmill owners about log price. In the North Island I see an increasing trend toward an export v domestic indexing to set price. I continue to see this as a dangerous mechanism. There are fundamentally different drivers to log demand in NZ versus China.

In the South Island, price setting appears to be far more rational with sensible negotiations having regard to all key factors appearing to be the order of the day. Domestic demand continues to be driven by new house starts with sawmill owners reporting strong sales. Some of this is driven by pre Christmas stock buying with most spoken to recently, expecting January to be a non event.

Right across NZ log supply to the local sawmills has been a hot topic. For the most part there has been a reasonably steady wood flow with less reports of shortages. This is likely to be the consequence of increased summer harvest activity.

In China consumption levels have continued to exceed all expectations for this time of year. Softwood log usage across the eastern seaboard has continued 72,000 to 75,000 cubic metres per day. This is exceptional for this time of year. By month's end total inventory was sitting at 3.6 million cubic metres. This continues to remain stable.

November was a record month for the NZ Forest Industry with log exports reaching 1.9 million cubic metres requiring a total 50 log vessels. It is little wonder then port congestion and shortage of labour to load the logs has been a common thread.

This higher than normal volume may yet be a problem in our near future. Whilst China key market indicators are positive, any significant lift in inventory could upset the rickshaw and prices will fall if we are not careful.

In recent weeks Western Hemlock out of Canada and US has started to drop in price signalling the market is becoming sensitive to less preferred species. Despite the trees having smaller branches and being much older and larger than Radiata pine, Hemlock cannot be peeled for plywood and is of little use for mouldings and furniture. We might therefore see a situation emerge where traditional species in this market like 26 – 28 year old trees from NZ will have a higher value than a 200+ year old tree out of Canada/US.

And so it is we can round out 2017 as year of strong sales and log prices across all segments, all market planets have generally been in alignment and the industry is in great shape. I extend season's greetings and salutations to one and all and extend very best wishes for 2018.

Please please never forget, the only way forward for climate, country and the planet is to get out there and plant more trees!

Allan Laurie MNZIF
Laurie Forestry Ltd

South Canterbury Address
22 Shearman Street, Waimate
7924, New Zealand
Phone +64 3 689 8333

Christchurch Address
Unit 3, 337 Harewood Rd,
Christchurch 8053, New Zealand
Phone +64 3 359 5000

Email: admin@laurieforestry.co.nz



Laurie Forestry Ltd

www.laurieforestry.co.nz