Monthly Market Report

October 2020

The China construction season is helping to maintain consumption levels which as at mid-October were running at 87,000 cubic metres per day. This has added to a generally positive sentiment, with domestic prices China side firming across most key wood use Provinces.

On the NZ domestic front, some regions are reporting sawmills running low on logs. Canterbury in particular appears to be facing shortages as logging crews have had to be moved to recent storm damaged forests and woodlots where wood quality is lower, therefore lower volumes of domestic component logs.

NZ domestic consumption continues to run at gang buster rates with new house starts continuing to be a key driver. Despite this demand, bog standard sawmill lines like 100 x 50 framing is being fed through processing at low margins.

Interestingly as a regular listener of talk back Radio when I am on the road, many respondents complain about the cost of building a Kiwi home. Building materials are often cited as a primary reason. It would seem there is some margin being made that does not trickle down. Over the last 3 – 4 years log prices have increased only slightly and the costs of framing lumber ex the sawmill has hardly changed. Meanwhile some builders spoken to complain about prices increases.

It looks to me like those accursed box stores are making the biggest clip in the ticket. Not surprisingly, an increasing number of NZ sawmill owners are grabbing some supply chain booty and investing in box store and retail outlets. A logical step in an attempt to recapture some long-lost margin.

During mid-October, China is on a 7-day autumn holiday. Whilst this does not see consumption dry up completely, the 4.4 million m^3 inventory in September dopped by 150,000 m3 in October. A total of the normal 6 working days on holiday could see the inventory get back over 4.5mill m^3. This is by no means an elevated level and is helping to maintain a pervading air of optimism.

A little bit of intel this month on the European (Norwegian) Spruce supply that has been dominating the dinner table discussion in forestry families in NZ. As this situation unfolds, we are seeing more information of substantive fact starting to emerge.

The now, what is termed bark beetle harvest, is targeting forests and areas where beetles are starting to attack standing trees. Populations have exploded over the last two years. This is from a combination of storm damaged stressed trees becoming susceptible as well as mild winters allowing the beetles to do what beetles so when it is warm, several times even!.

European Spruce is not a native of much of Europe but was planted across vast areas to replace Hardwood forests as far back as 200 years ago. Post WW2 planting saw a rapid increase in forest areas with Germany comprising a large proportion.

Germany is now the worst affected country which beforehand was essentially harvesting at a rate that saw domestic demand fulfilled as well as some exports to near neighbours. Current harvest has elevated to 45 mil m^3 annually which compares with NZ at about 33 mil.

Germany has started exporting to China currently comprising 45% of Spruce supply and it is estimated there is an estimated 450 mil m3 to harvest. But the beetle certainly hasn't slowed down, so this number will change. There are significant Government subsidies available to German forest owners which vary across regions. Harvest and transport costs are subsidised as are stumpage payments and clearing for replanting.

The Czech Republic, France and Belgium are the other primary affected countries chipping in about another 26 mil m^3 annually to the supply pot. In all cases, Government subsidies both direct and indirect are available to forest owners to enable harvest at a reduced cost and yield a return.

The question marks now remain over how long this supply source will continue. Current commentary is 2 – 4 years but some are saying we are at a peak at present. The uncertainties rest with how long it will be before the forests start to deteriorate beyond commercial realisation together with the severity of the next 2 or 3 European winters.

Whatever the outcome, NZ Forest Owners are poised to seize the day when that supply source dwindles and it will be 100+ years before it comes back.

As always People, please remember the thoroughly important message, "It remains, as always, fundamentally important, the only way forward for climate, country and the planet, is to get out there and plant more trees"!

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