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December 2022 Market Update

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OPINION PIECE

Christmas tidings might be a bit skinny for us tree huggers this year with subdued export pricing and a general feeling of unease going into 2023, probably a feeling very similar that Willie Jackson will get going into the next Jack Tame interview. We might, however, be a bit tempted to tip a bit more bourbon into the Eggnog as news has broken that China is relaxing covid restrictions and throwing some cash at developers which may see a bit more action in manufacturing and construction sectors.

December A grade export prices of around $123/M3 are reasonably flat from the November offerings and, although shipping has eased into the low $US30/M3 range, the strengthening of the $NZ has taken any chance of an increase in forest owner returns for the short term, a bit like potential first home buyers celebrating as house prices plummet, but the OCR puts you back in the same position. There are expectations that mid to late Q1 2023 will see some potential increases in returns as conditions improve.

The South China Morning Post recently reported that several major Chinese banks have adopted a government-led 16-point rescue plan to extend billions to struggling private developers to assist liquidity in the residential construction sector. Covid lockdowns have failed to see this stimulus result in demand increases. However, stocks in major developers jumped following the announcement, and once lockdowns ease and people can return to work, it is expected that there will be a resulting demand increase. It is estimated that around 20% of the economy is under some form of lockdown and while you can operate a computer from your 30m2 apartment, it makes it pretty challenging to feed logs into a sawmill.

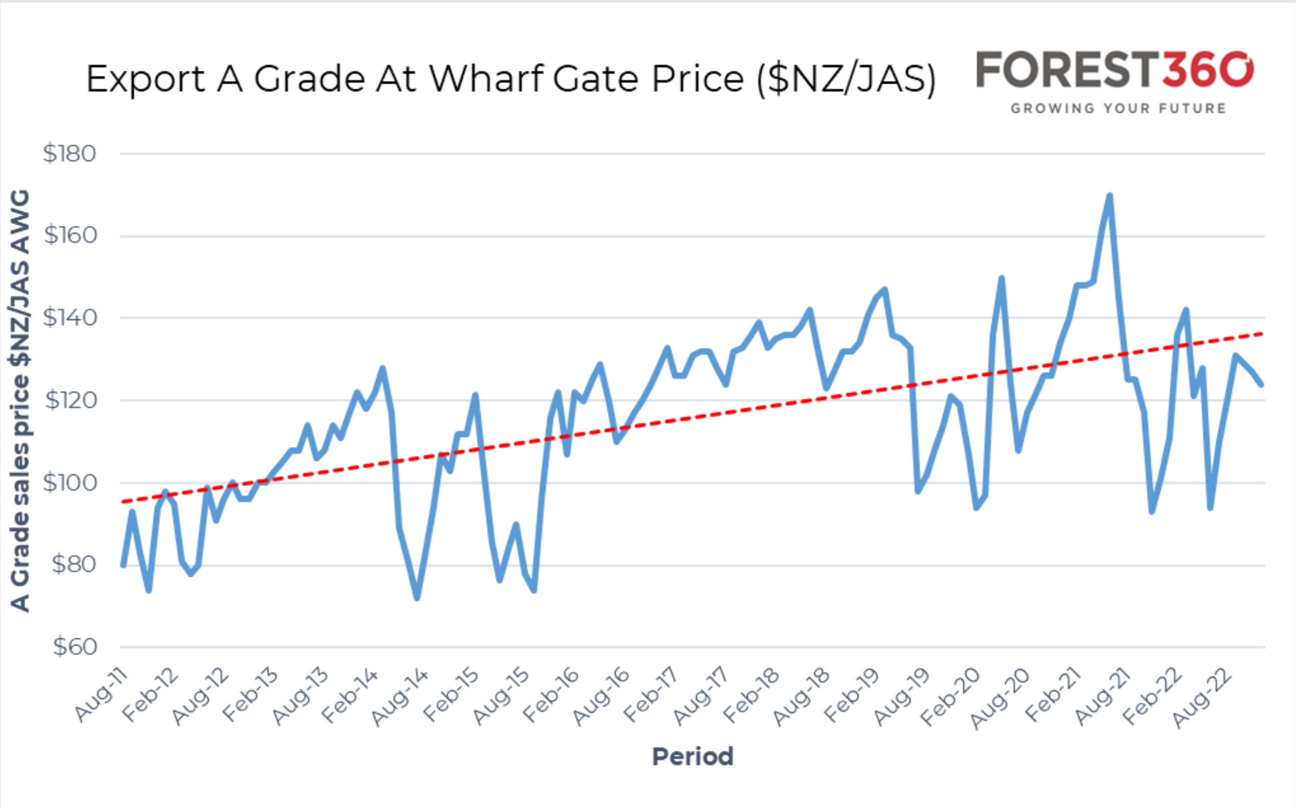
Chinese in-market log inventories have increased slightly over the past month and are currently sitting in the mid 3Mm3 range which isn't (although, not high) at the point that makes buyers pucker. It is expected that most of the large forests in the Central North Island will take a longer than usual Christmas break (around 3 weeks) which will see a decent reduction in NZ supply. Supply over the late December/early January period arrives in China in mid-February and therefore this drop in supply will coincide with the Chinese New Year holidays. Assuming that everything goes to plan with covid restrictions easing, stimulus injections working and subdued NZ supply, we would expect to see positive pressure on sales prices – but we all know how best laid plans work.

Stimulus packages and an easing of restrictions doesn't really change the underlying fundamentals of the Chinese economy and all they are really doing is kicking the can down the road. At some stage, they will run out of road, and the "can" will still be a problem. The desire for the Chinese Govt to continue constructing residential housing as a method of keeping GDP numbers up is about as flawed as the Three Waters legislation and it's becoming obvious to our sector that this isn't a long-term strategy for the current levels of NZ log supply. Even though NZ is likely past 'peak harvest' levels, we still produce a bucket load more wood fibre that we can consume domestically and therefore rely on an export solution for the lower grade logs. No matter how much we wipe on it or write on it, we will never consume the approximately 6.2 tonnes of log per man, woman and child required annually to match our available harvest level. This is where investment in domestic processing, biofuels and other export markets is becoming very important.

The Forestry Hub at the Mystery Creek Fieldays was the platform for the launch of the Forestry and Wood Processing Industry Transformation Plan (ITP) by Minister Nash last week. This is an ambitious plan devised by Te Uru Rakau and industry to see significant investment in domestic processing, enable more resilience in the industry, and assist toward achieving the countries climate change goals. The ITP has been very well received by industry as, up until now, we have been treated like the red-headed stepchild by successive governments compared to our Agriculture and Horticulture siblings. We now have a platform to move forward with and it's now up to us as an industry to pick up the ball and run with it. The Fieldays Forestry Hub was an industry first and the result of collaboration by Te Uru Rakau and Industry partners and was very well received by the public (unlike the gratitude shown to the PM by some punters). It was great to see so much innovation, technology and expertise showcased under one roof and I don't remember a time where the whole industry was as aligned as we are now.

Fuel is tracking in the right direction, which is helping the cost structure somewhat; but you can be sure as god made little kittens, Michael Wood will have his finger firmly hovering over the excise tax reinstatement button ready for January. In the next few weeks, we will be parking the trucks up and putting the saws away as we slide into a welcome Christmas break with a pessimistically optimistic market view to start 2023. We can all do our bit to help keep demand up over the summer by being generous with the purex, printing out all emails in triplicate and kicking off those outdoor projects.

Although it seems a bit early for Christmas cheer, I wish you all a big hohoho, and hope the jolly rotund man brings you something nice for Christmas – Santa that is, not the finance minister.



Export A Grade At Wharf Gate Price ($NZ/JAS)
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A Grade sales price $NZ/JAS AWG
$180
$160
$140
$120
$100
$80
$60
Aug-11
Feb-12
Aug-12
Feb-13
Aug-13
Feb-14
Aug-14
Feb-15
Aug-15
Feb-16
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Period