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November 2024 Market Update

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Opinion Piece

Interesting times. Trump's in, and resoundingly with the senate, electoral college and populist votes. It looks like Elon is going to take the knife to as many government jobs as he can, tariffs will skyrocket, and democrats are top of the list in googling 'how to move to New Zealand'. Those that understand the US economy and politics and, don't pay much attention to media, will understand that there needed to be some major structural economic and social change if the US is to remain as a viable superpower, and this may be what is needed – only time will tell.

What does this mean for our forest industry? China is our largest purchaser of logs and it has been pretty well documented that the main sector our logs have previously been used in – construction – is about as popular as Rieko Ioane at the Sexton dinner table. Exports of logs to China in 2023 totaled 18 million cubic metres and 2024 is looking to be slightly under that. Luckily, China has a massive wood-based furniture industry accounting for around 39% of total global furniture production, making it the largest in the world. In addition, exports of wood furniture from China have risen 24% in the first 7 months of 2024 – great news, then along came the Don.

The US accounts for around 27% of the furniture exports out of China which totaled $20 billion in 2023. The current tariff for Chinese furniture into the US is 5.4%. A report commissioned by the US National Retail Federation explored the impacts of proposed tariff increases on demand in the US. Trump hasn't set any definitive tariff as yet, but the expected range for furniture is between 32.8% and 54.3% which the report predicted to result in a reduction in demand for Chinese manufactured product of between 73% and 87% respectively. If we assume the mid-point of 80% is likely, this will result in a total demand reduction of around 350 million pieces of furniture, a $16 billion drop in revenue and an overall 20% drop in total Chinese furniture exports, which is all a bit untidy.

NZ radiata is a favoured product for the Chinese furniture industry due to its versatility and availability and as such, a reasonable volume of our log exports is utilised in this sector, therefore any reduction in demand for Chinese furniture products is going to directly impact us. What does the quantum of this impact look like? We won't know until the tariffs have been set, but it's very likely we will feel the impact in the medium term in the way of reduced supply volumes from NZ.

Irrespective of the above bit of naval gazing, the current market conditions are the best we have seen since March with A grade shorts priced at $126/m3 in the mid third of the country. Northern ports are a few dollars up on this and southern ports between $10 and $20/m3 less depending on which port you supply. This increase has been a result of slightly higher CFR prices in China and a 3-cent reduction in the US:NZ exchange rate. Unfortunately, shipping didn't play the game in late October with a sharp cost increase which negated some of the gains, however, this has recently softened somewhat. Inventory has dropped to around 2.7 million m3 and off-take remains around 65,000 m3 per day. These are all good numbers and, provided we continue to see declining inventory, the next few months look reasonably solid.

It would be however, dangerous to read this as a strengthening market as sentiment is still relatively subdued in China. The recent Chinese government stimulus package didn't really hit the mark, and this was followed by a further $US1.4 trillion debt package last week targeted at easing local government financial strains by rebalancing their balance sheets. Local government debt has been rising steadily and now total government related debt sits at around 117% of GDP, which has been making for some uncomfortable discussions around the CCP board table. Since 2008, local

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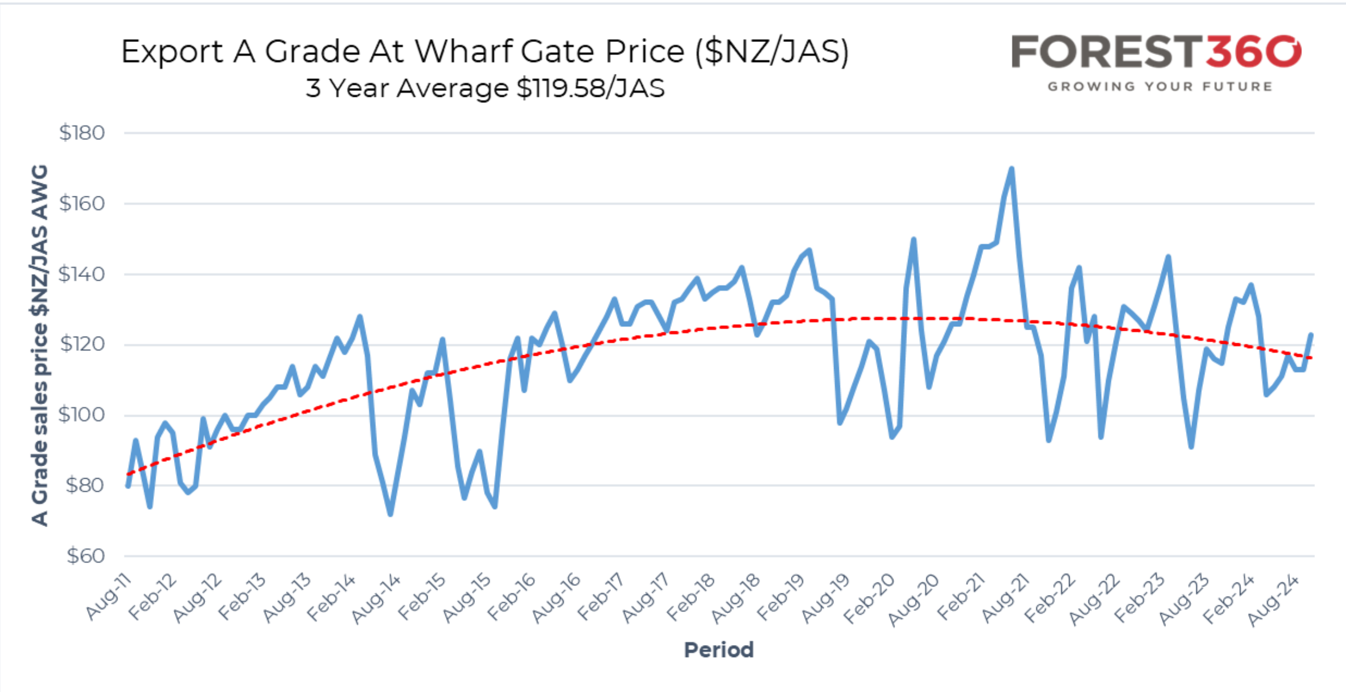
governments have enjoyed the significant revenue from construction projects, but recently this has dried up faster than Golriz's court appeal and left local governments in a pickle. It will take a significant shift in the sentiment of the Chinese populus to reignite the construction sector in the near term, but we have seen stranger things.

Back home, things are looking better domestically with September building consents up 2.6%. So long as Adrian Orr plays ball and keeps dropping the OCR in a sensible manner, we will likely see some further buoyancy in 2025. The domestic market is the backbone of our industry, so we need to see strong numbers returning to keep forest owner returns at an acceptable level.

All eyes will be on the NZU auction on the 4th of December, and we will need to see an NZU price of over $64 to see at least a partial clearance. There has been some discussion around the Climate Change Commissions' view of the size of the NZU stockpile in ETS accounts. What needs to be remembered is that a reasonable number of those NZU's will likely not be available for sale due to harvest surrender requirements and NZU pricing not meeting owners price points.

In summary, what happens to log demand and therefore pricing in the next 12 months will have some influence from Trump et al., and it probably doesn't look too positive for NZ exports as a whole. With some luck, shipping rates will ease, the $USD will strengthen under the republican rule and if we can keep a lid on inventory, log prices should look reasonable until late January when the Chinese New Year shutdown rears its head again.

Fingers crossed the Europeans get a hankering for Chinese made furniture, and lots of it.



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