

only way was up, with Feb prices for pruned logs reaching \$181/m³. Pruned log prices are not anticipated to maintain the rate of increase, with respondents seeing a slower price trend over the next quarter to \$189/m³, before slowly reducing back to \$183/m³ by Feb 2023 (Fig 2). In contrast, unpruned prices are anticipated to be flat, rising very gradually over the next 6 months to \$109/m³, before falling over the Spring and Summer periods back to \$106/m³ (Fig 1). This shows significantly increased confidence in the market than we saw from respondents in November, where prices were then anticipated to stay below \$100/m³ for 2022.

Figure 1: Forestry business expectation outlook for unpruned wharf log price over the period Feb 2021 to Feb 2023 (A Grade is used as a general proxy)

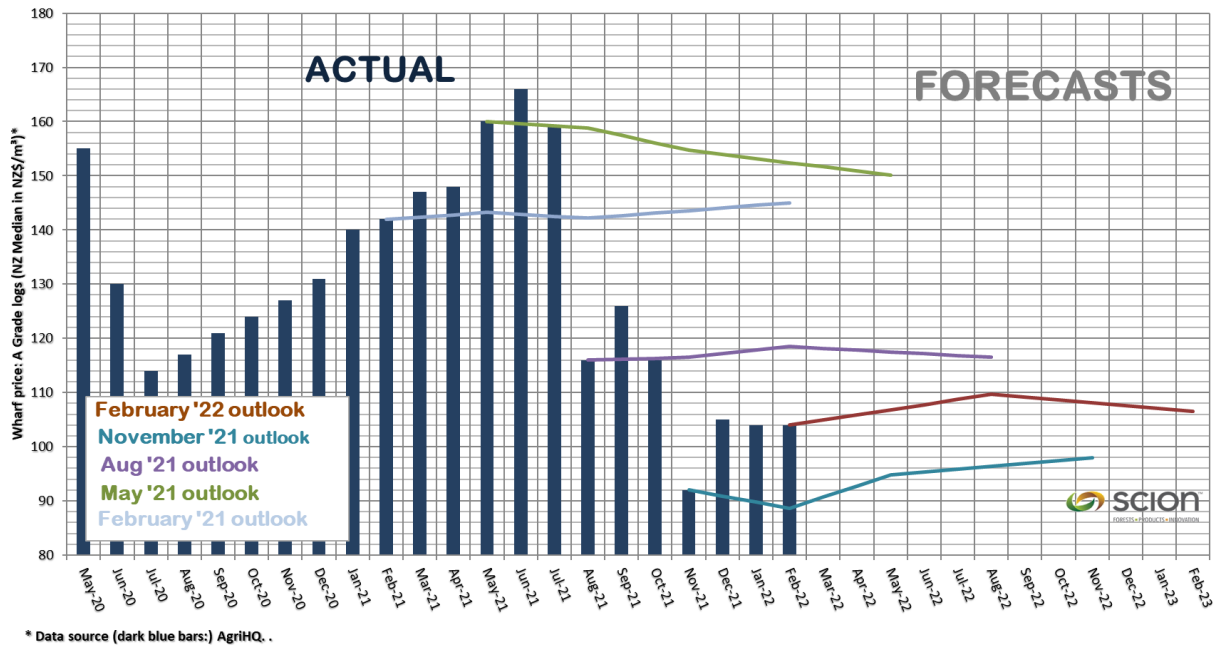
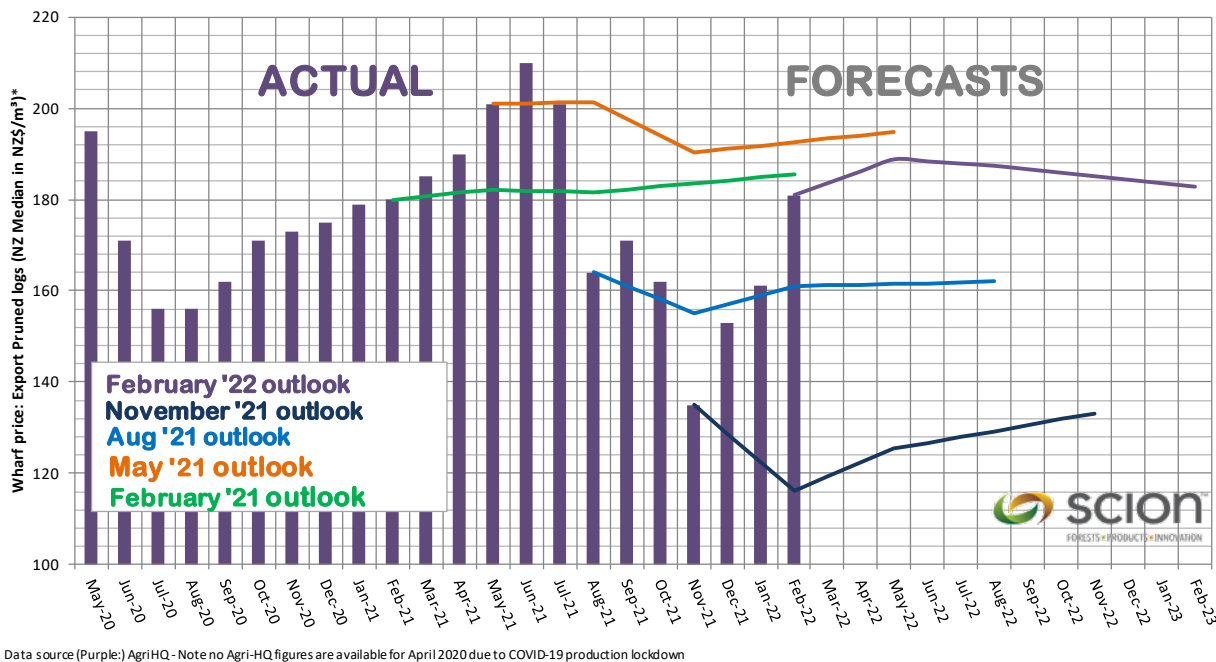


Figure 2: Forestry business expectation outlook for pruned wharf log price over the period Feb 2021 to Feb 2023 (Export pruned price)



This quarter's histograms (pg 5-6) provide a very wide range of viewpoints as to where prices will head over the coming year. While the vast majority of respondents expect steady pricing overall, there is an anticipation by a few outlier responses that unpruned log prices will rise in May, fall in August (perhaps as low as 10-20%), and then recover to higher levels by Feb. Export log volumes are anticipated to rise due to international demand. There is some definite mixed forecasts amongst respondents in terms of the export volumes anticipated in Spring, with volumes ranging from ↑20% and ↓20%. Overall, unpruned log prices are anticipated to rise 2% in 3 months, 4% in 6 months, and 6% in 12 months, while respondents anticipate export log volumes to rise 2% in 3 months, 3% in 6 months, and 6% in 12 months. Pruned log prices are fairly variable in outlook, where individual respondents predict between ↑30% and ↓20% fluctuation. On average, pruned log prices of around 3-4% on Feb prices are anticipated during 2022, while domestic log volumes are anticipated to only increase by 1-2%.

BUSINESS CONFIDENCE

Respondents are cautious about the coming year, with just 24% holding a positive outlook, while 36% hold a negative outlook, and 40% expect steady and stable conditions. However, this does show confidence has grown over the last quarter.

Respondents continue to expect much market uncertainty, both domestically through Covid and rising interest rates

- *"The cost of inventory will rise with interest rates and business cash reserves will be depleted. Depleting inventory will reduce new ordering, lowering demand and pricing."*
- *"Globally and nationally there are a lot of drivers for a bad couple of years for construction, tourism and the broader economy. "*
- *"I expect there to be a lot of variables including supply chain issues but I expect positives and negatives to balance out over time."*
- *"Adjustments have already taken place so it should be level going from now on"*

Reasons given for expecting a positive change to business were due to anticipation of increased demand across a range of markets – carbon forestry, export log demand, structural lumber and consultancy work. Respondents also noted that both the China market conditions and Covid impacts will stabilise, while some international markets may be hampered by very high freight costs, opening opportunities for NZ suppliers into Asia and those markets impacted by Eastern Europe's uncertain political environment.

Reasons given for expecting steady and stable business included better management of Covid, and that respondents had answered this way less in terms of stability and more around uncertainty currently present in the marketplace. Most anticipated that impacts will balance out overall.

- *"The markets have learnt to operate with COVID and the supply chain issues are being managed and addressed. There are potential wildcards but at present not expecting these to materialise"*
- *"Not so much of the stable, but don't expect a big positive or negative overall. Acquisition activity appears to be continuing, companies need to understand the situation better hence a need for our services to remain at similar to current levels."*

Those expecting a negative change in their business anticipate continued disruptions from Covid-19, economic pressure and price increases, as well as freight and labour disruption:

- *"Increasing potential for Covid disruption"*
- *"Omicron may detrimentally affect Forest harvesting and Sawmill production"*
- *"Covid will continue to be a disruption."*
- *"Globally and nationally there are a lot of drivers for a bad couple of years for construction, tourism and the broader economy. These include freight and manufacturing disruptions leading to shortages of some goods, general inflation in prices, high fuel costs etc"*
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IMPACTS ON FORESTRY BUSINESS FROM SUPPLY CHAIN DISRUPTION

This quarter, we asked respondents about disruptions due to upstream suppliers, and how these issues impacted their ability to provide customers service.

The largest impact related to **shipping availability and costs**. This led to uncertainties in container shipping departures, as well as the inability to ship logs to customers in a timely manner.

The second largest impact was borne somewhat out of shipping, but was also complicated by labour issues due to covid, and related to **supply and equipment shortage and delays**. Impacts mostly noted were the inability to replace supplies with other stock or sources, particularly for specialist materials, parts and critical lab supplies. Other issues mentioned on this theme were delays in equipment arriving. Several respondents noted they were impacted by non-availability of new machinery for contractors; they couldn't obtain electronics (even basic computer equipment) for new staff; or had experienced limited engineering supplies. One wood processing respondent noted difficulty obtaining basic production inputs such as glue.

Labour capacity and **constraints of wood supply** were also noticeable disruptions to business, in particular the lack of available contractors, specialist technicians, truck driver availability, and debarking capacity. Not being able to obtain some specialist equipment saw one firm outsourcing their labwork to international firms.

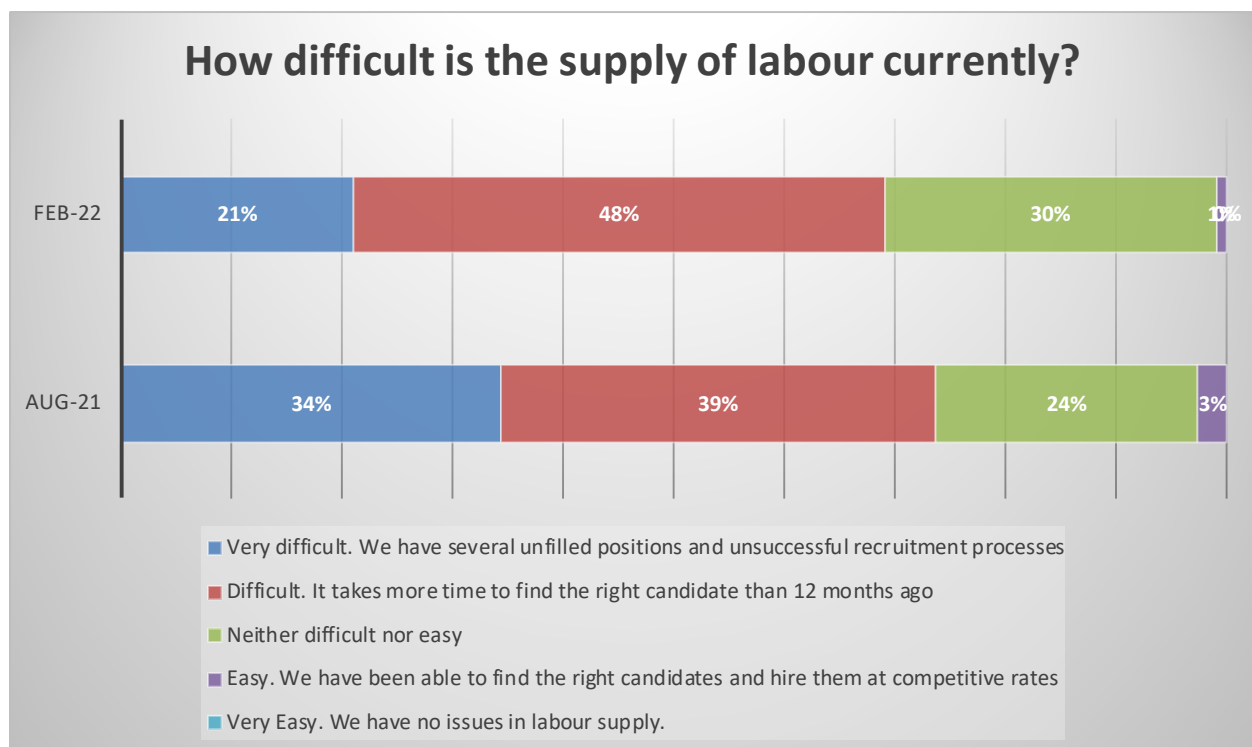
Price increases and general changes in market conditions have seen some firms having to withdraw from international markets, including India and the USA.

Despite shipping being the largest impact, only some in the sector are heavily impacted. We asked the question "On a scale of 1-10 (where 1 = very mild disruption; and 10 = very considerable disruption) how have shipping and transportation constraints impacted your business?"

The average score was 5.9 out of 10, however, 30% indicated very low impact (<3/10); 27% indicated medium impact (between 4 and 7 out of 10) and 43% indicated a large impact (>7/10).

LABOUR

Figure 3: Difficulty in filling staff positions

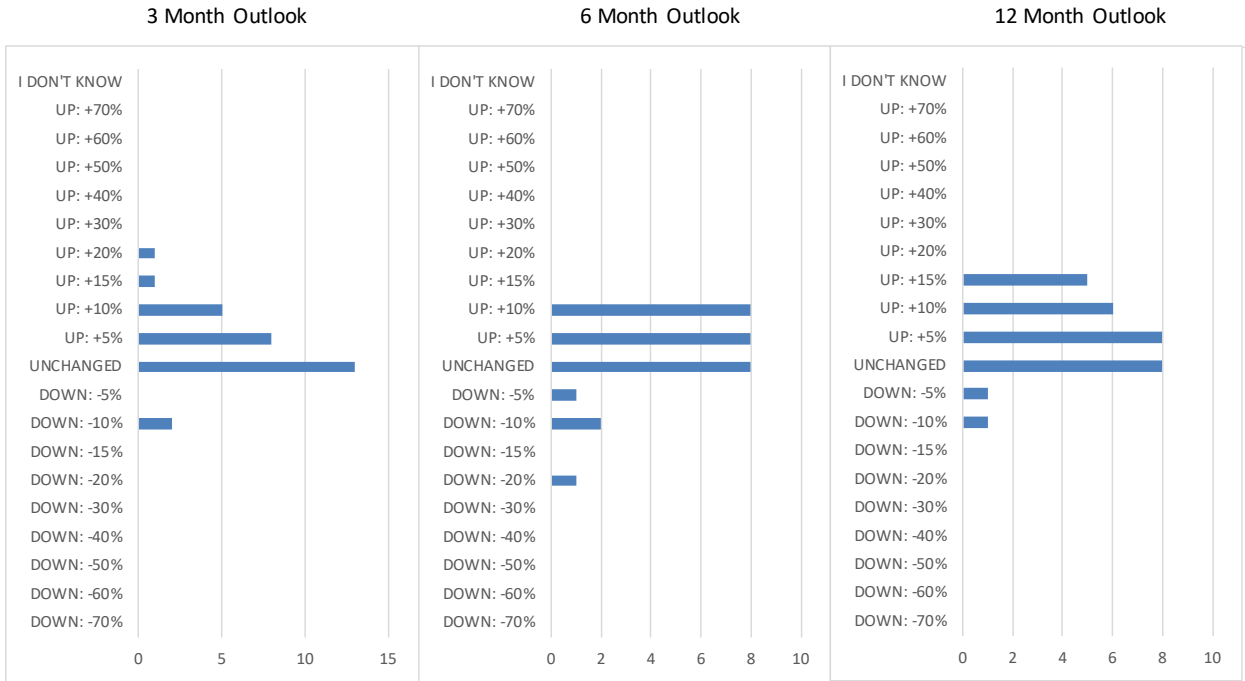


Labour conditions appear to have improved since last Spring, with 69% stating it was difficult or very difficult to recruit staff today compared to 73% six months ago. It seems that there has been a shift away from 'very difficult' conditions to 'difficult' – so it is taking a longer time to find the right candidate, but positions are still able to be filled. Constraints in labour appear to be mostly in transportation/ drivers and

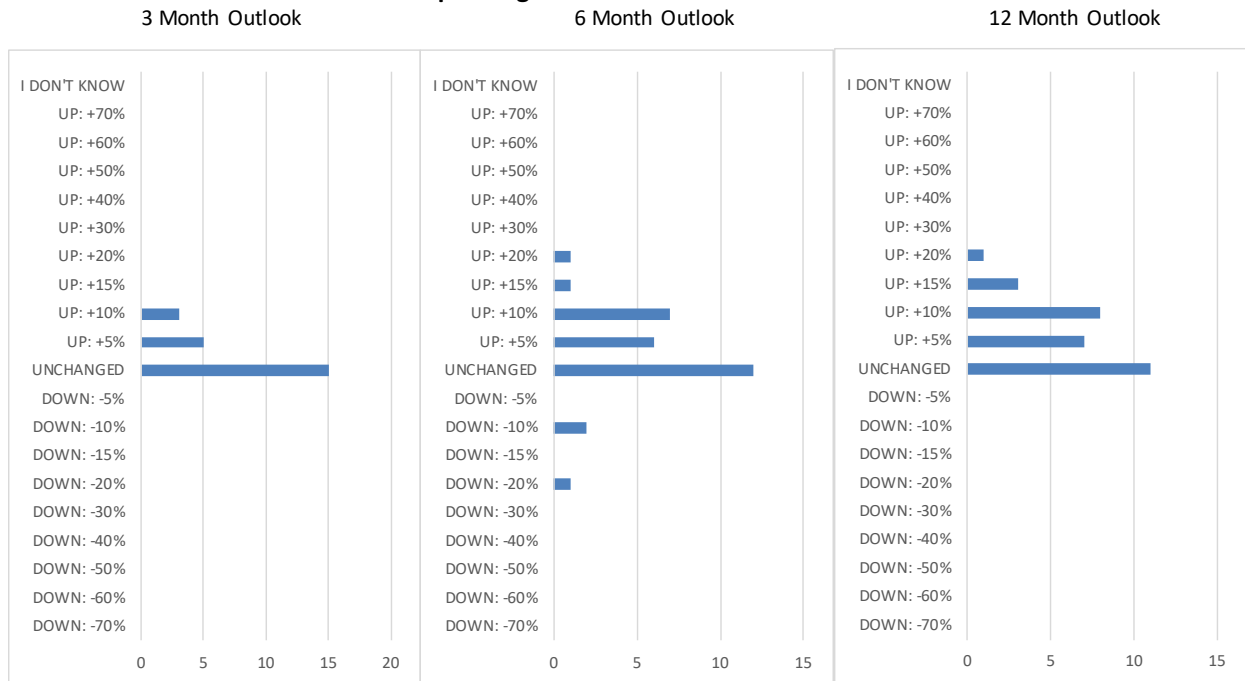
in critical skills and specialist services. Opening of the international borders and removal of MIQ requirements are hoped to ease labour pressure for critical forestry skillsets over the latter part of 2022.

Unpruned Log Prices

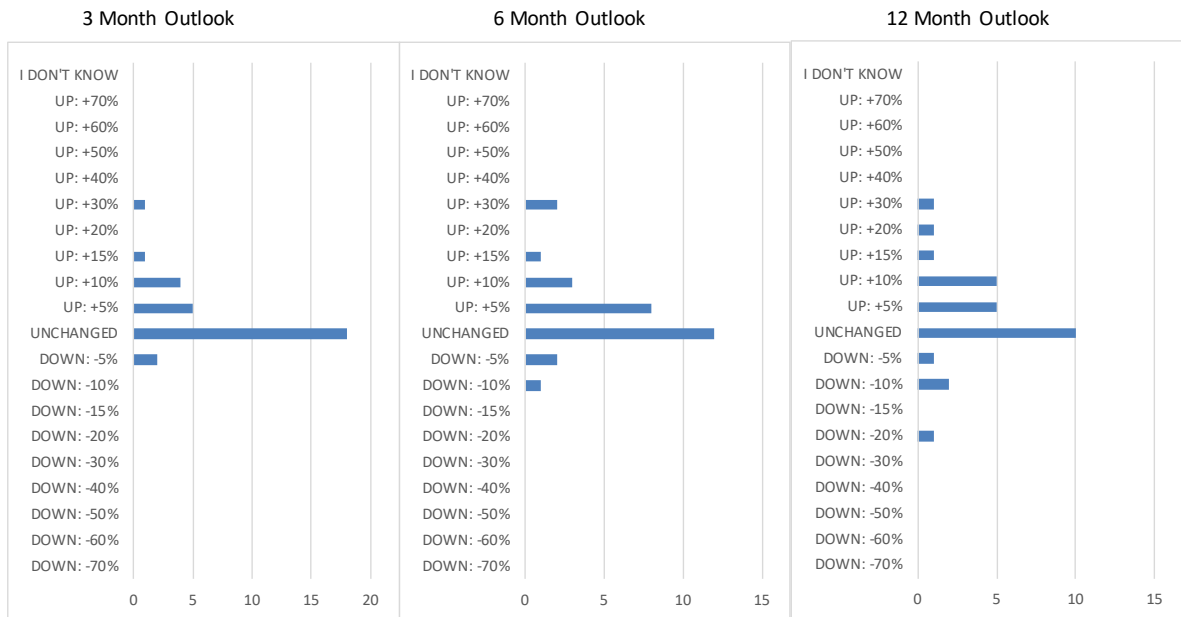
Log Price as a % of prices in Feb 2022



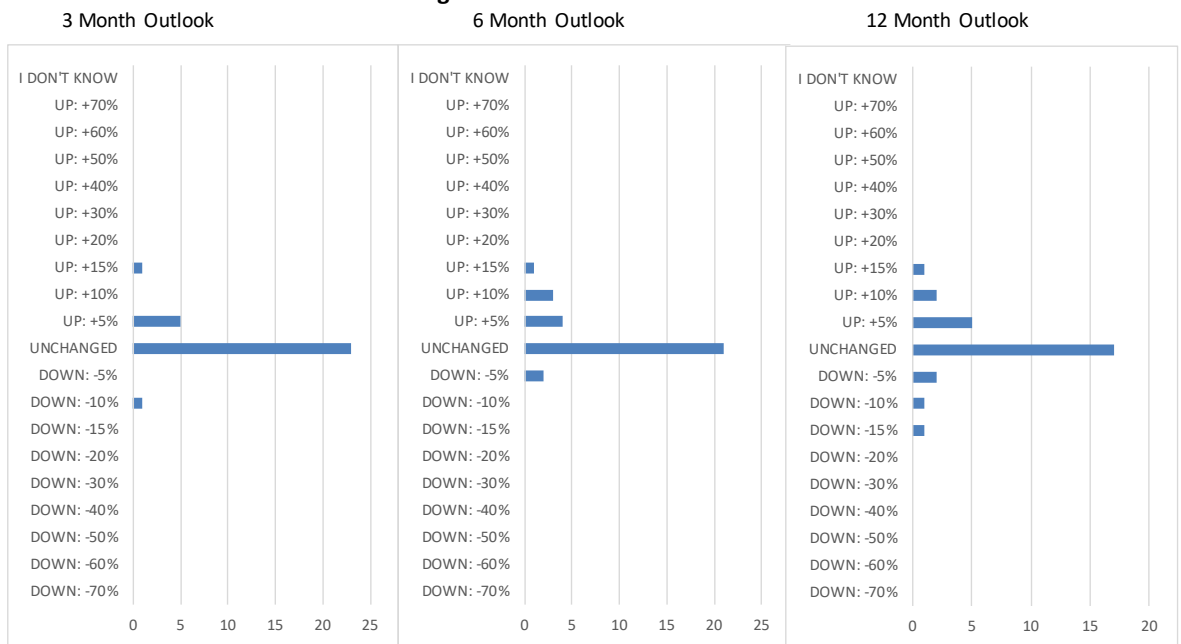
Export Log Volume as a % of Feb 2022



Pruned Log Prices
Log Price as a % of prices in Feb 2022



Domestic Log Volume as a % of Feb 2022



Acknowledgements

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To access previous outlook reports please visit this web site:

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