NZ Agri Insight: Forestry's long road ahead

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Cyclical and structural challenges

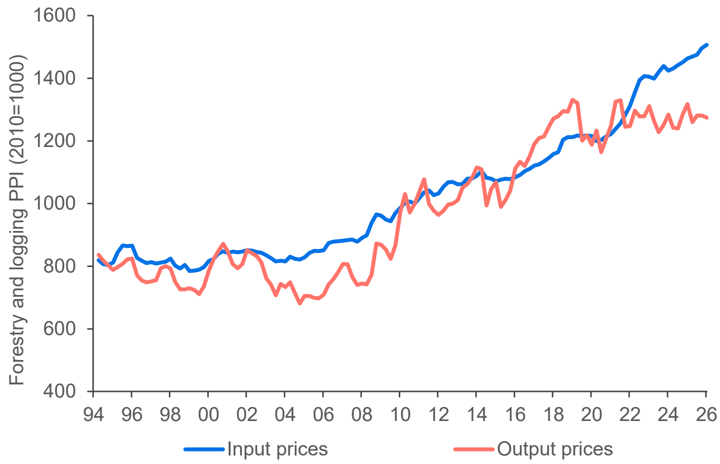
- Since 2021, New Zealand's forestry and logging input prices have risen 21% but log prices are down 1%.
- Almost two thirds (63.5%) of New Zealand's forestry output is exported as logs, of which 89% goes to China. China's property and construction markets collapsed abruptly in 2021 and five years on, there are still no signs of recovery. Unfortunately, demand from alternative sources, such as India and domestic wood processors, will also take time to emerge.
- On the supply side, the supply of wood available for harvest is forecast to decline, but this will happen gradually over several years.

Log prices flat, harvest costs up

For the forestry sector, current conditions are the most challenging in quite some time. Log prices are very near the 5-year average, which doesn't sound so bad, but the costs of harvesting those logs and delivering them to the wharf or sawmill have increased materially over those five years. To illustrate, Figure 1 shows the Producer Price Index (PPI) from Stats NZ, which shows the relationship between an industry's input prices and output prices.

If input prices are rising faster than output prices, profitability will be lower, other things being equal. One way to overcome this is by increasing productivity; by using more productive or fuel-efficient machinery, for example. But it's hard to have the confidence to invest when profitability is so squeezed. Producers would undoubtedly prefer to have higher log prices and/or lower harvest costs.

Figure 1. Output prices not keeping up with input prices



Source: Stats NZ, ANZ Research

Historically there is a lot of variability, but on average, rising log prices kept pace with rising input prices from 2010 to 2021. But between 2021 and Q1 2026, input prices have risen 21% while output prices have fallen 1%.

And because the data ends in Q1, this doesn't fully reflect the ongoing impacts of the Middle East conflict on fuel prices, which have compounded the economic issues for the forestry sector.

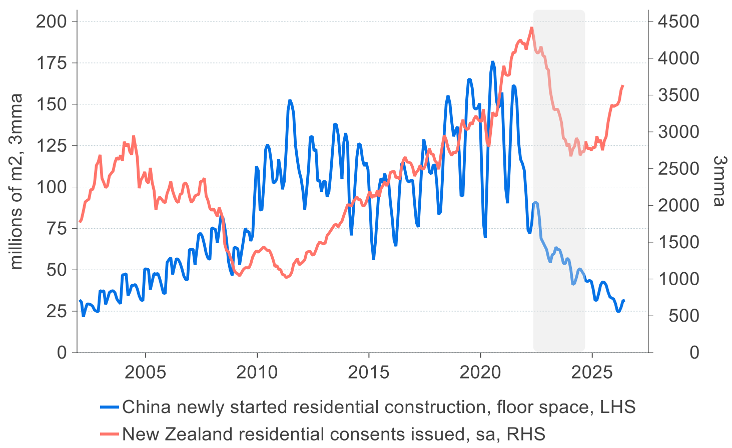
On the output (log) price side, the beginning of the flat lining in prices corresponds with the bursting of China's property bubble in late 2021, which heavily impacted construction activity and hence demand for New Zealand logs. COVID disruptions didn't help either.

Unfortunately, right as China's log demand began faltering in late 2021, broad-based inflation began taking off in New Zealand, impacting input (harvest) costs in the forestry industry and much else besides. The Russia-Ukraine war further accelerated inflation, especially for oil-based products.

Also in late 2021, the RBNZ began increasing interest rates to contain inflation and deflate New Zealand's own property price bubble. This caused domestic wood demand to fall abruptly by the end of 2022, meaning both the domestic and export markets were soft at the same time.

The New Zealand Emissions Trading Scheme is worth discussing as well, in light of its impact on overall forest profitability and incentives to plant, but we will save that topic for a future publication.

Figure 2. NZ and China construction fell in 2022-2023, but only NZ recovering



Source: NBS, Stats NZ, Macrobond, ANZ Research

Challenges in China

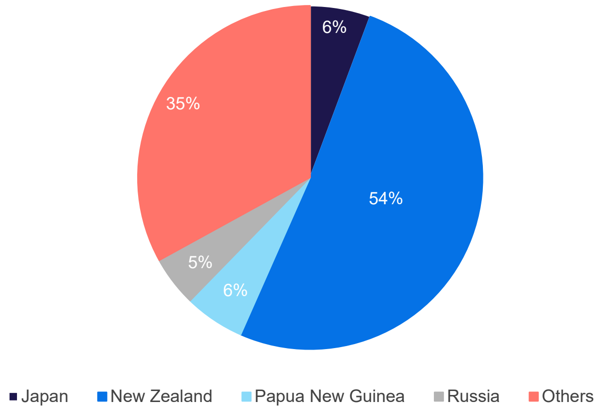
China produces around 140mn tonnes of wood annually, and its wood self-sufficiency has been long hovering around 50%. Environmental targets continue to constrain domestic supply expansion, with forest coverage expected to rise from 25.1% of the country in 2025 to 25.8% in 2030, as outlined in the 15th Five-Year Plan. As a result, domestic logging will be limited and China is likely to remain reliant on imports to fulfil domestic needs.

New Zealand accounted for 54% of China's total whole logs imported in 2025 (Figure 3). The largest use for these logs (about half) is in China's construction sector, mainly for concrete formwork. China's wood imports have declined since 2021, reflecting both cyclical and structural headwinds. However, the property downturn remains the dominant driver. Our estimates confirm a strong positive correlation between home sales and wood imports (Figure 5), while links to logistics activity (using parcel delivery as a proxy) are limited.

China's property outlook remains challenging. As of June, property investment contracted 18.0% year-to-date y/y and residential property sales declined 13.7%. In Q2 2026, construction GDP contracted by 4.1% y/y, worsening from -3.8% in Q1 and -0.6% in Q2 2025. Continued weakness in construction activity is weighing on wood demand.

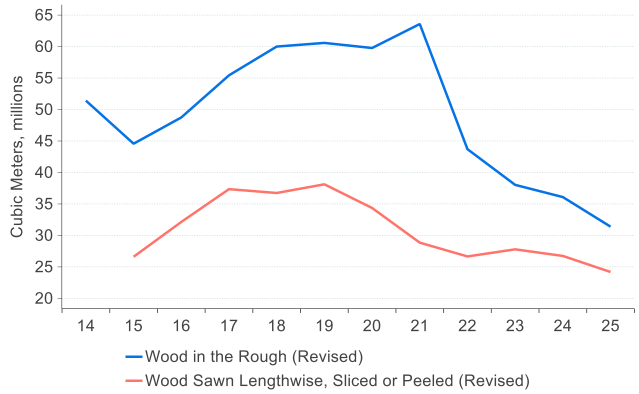
Furniture manufacturing, historically almost 10% of New Zealand wood demand in China, is undergoing structural relocation. As China shifts towards higher value-added production and supply chain resilience, labour-intensive furniture production is increasingly moving to Southeast Asia. From 2021 to 2025, China's furniture exports decreased by 13.9%, even as overall exports rose 12.3%. US tariff uncertainty may further push this relocation. By April 2026, value-added production in furniture manufacturing dropped to -10.5 y/y in China but increased 18.2% in Vietnam (Figure 6).

Figure 3. NZ accounted for 54% of China's log imports in 2025 (HS: 4403)



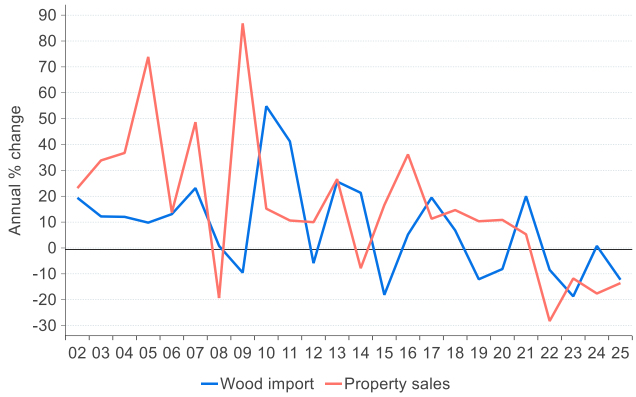
Source: Bloomberg, ANZ Research

Figure 4. Falling wood imports



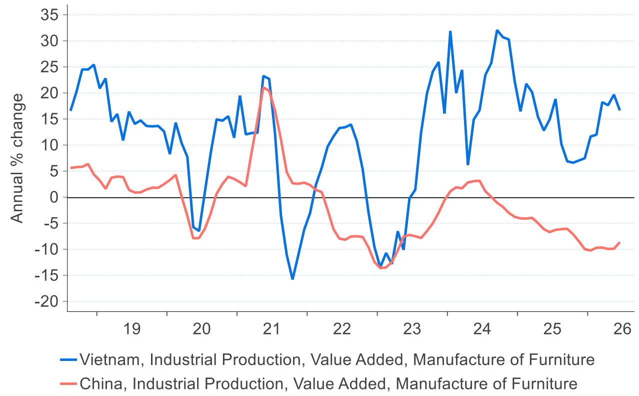
Source: GAC, NBS, Macrobond, ANZ Research

Figure 5. China's property sales impact wood demand the following year



Source: GAC, NBS, Macrobond, ANZ Research

Figure 6. Furniture production relocating south



Source: GAC, NBS, Vietnamese National Statistics Office, Macrobond, ANZ Research

Parallels to the 2000s

Looking back on Figure 1, the current situation's historical precedent is the period 2003 to 2009. That was a similarly difficult time for the New Zealand forestry industry with low log prices. Like the current situation, this also followed a boom in the prior decade: log prices were very high in the 1990s, leading to a surge in forestry planting. In the 2000s that investment dried up.

What got the forestry sector out of those difficult times in the 2000s was the New Zealand-China Free Trade Agreement (FTA) and China's construction boom. The FTA took effect in October 2008, and log exports to China grew rapidly in the ensuing years as China's economy expanded rapidly. This was especially fortunate as all those plantings in the 1990s were starting to reach harvest age, creating a surge in New Zealand supply.

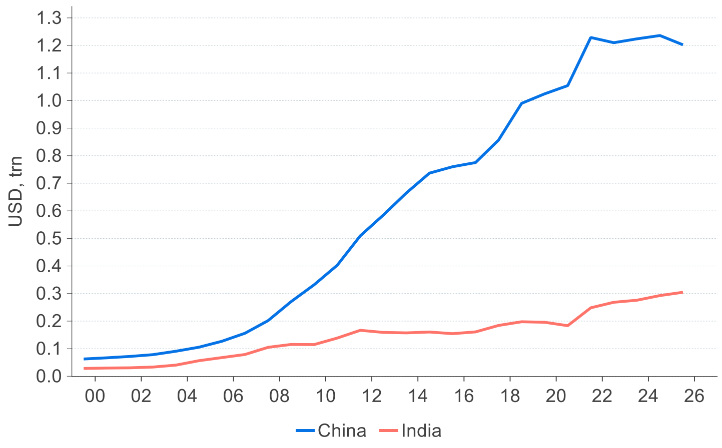
A recovery will require patience

Can the turnaround in the 2010s provide a template for a recovery today? Looking at the demand side, it seems unlikely a surge in Chinese demand will drive prices higher. Their construction sector is still dealing with the effects of the burst property bubble. If more demand is to be found offshore, it must be elsewhere.

India is one possible answer. New Zealand has just signed an FTA with India, expected to take effect within the next year. The FTA with China arguably exceeded all expectations, so perhaps the FTA with India will follow suit.

India already accounts for 3% of New Zealand's log exports, and now tariffs on logs and most other wood products will be eliminated (currently 5.5-11%). However, India's construction sector is currently just a quarter of the size of China's (Figure 7). India has promising growth prospects, but a repeat of China's economic growth miracle might be an unrealistic expectation – and of course some of China's property sector growth was itself unrealistic, in the long run. There is a lot of potential in India, but it will take time for benefits to be realised.

Figure 7. Construction sector's contribution to GDP in China and India



Source: NBS, MoS&PI, Macrobond, ANZ Research

What about Vietnam, if they are taking the furniture manufacturing out of China? Unfortunately for New Zealand, Vietnam has plentiful supplies of domestic soft wood, so without a good deal more growth, there is little scope for a meaningful boost to our exports here.

Domestic demand can recover, but how much capacity was lost?

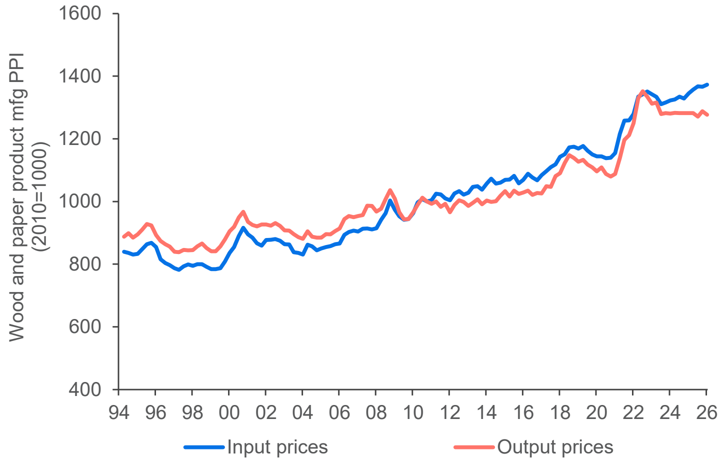
In 2025, 63.5% of New Zealand's harvest was exported as logs, so a strong log export market must be part of the industry solution. But given it takes over a third of harvest volume, the domestic processing sector does have an opportunity make a positive impact on log prices.

Domestic construction activity has the potential to recover over the next year if current residential building consent trends do indeed translate into new projects. As Figure 2 showed above, consent approvals are trending up.

Logs harvested for domestic processing have decreased 23% since 2021. If demand ramps up, the question then becomes, is sufficient processing capacity still available? Since 2024, eight processing plants have closed, or have announced plans to do so. These plants would have been smaller than average, but they would still have accounted for a decent chunk of capacity.

Looking at the processing sector from a PPI perspective, wood products are becoming more expensive to produce, despite the price of the key input, logs, holding steady. It's the other input prices that have proved problematic, especially energy. At the same time, weak domestic demand has prevented output prices from rising.

Figure 8. Output prices not keeping up with input prices



Source: Stats NZ, ANZ Research

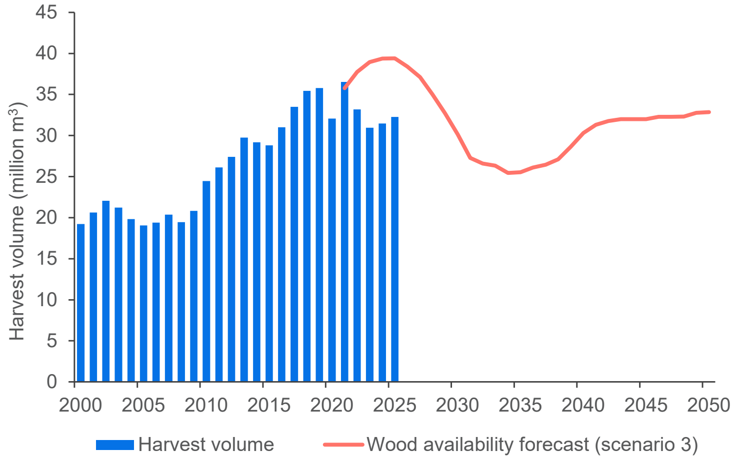
Tightening supply could help over the medium term

The supply side of the equation should be more supportive for log prices, at least over the medium term. Harvest volumes appear to have peaked in 2021 at 36.5 million m^3. Harvest volumes have dropped off since. Weak economic conditions have played a role, with some harvesting activity put on hold until prices improve. But the main driver is the age structure of the forest estate.

With forestry, supply is effectively locked in based on plantings 20 to 30 years ago. The price slump in the 2000s led to a dropoff in plantings, and those unplanted trees would have been approaching harvest age over the next decade.

As a result, there is a gap in trees available for harvest from 2030 to 2040, according to the latest wood availability forecast based on 2021 data.

Figure 9. Harvest volumes and future wood availability



Source: Ministry for Primary Industries, Forest Growers Levy Trust, ANZ Research

With that in mind, declining supply towards the end of the 2020s should support prices, but this is not an overnight fix. Again, patience will be required. And of course, a decline in your own supply is a much less appealing solution to a demand-supply imbalance than a robust demand outlook would be. The risk is that the New Zealand industry could lose market share and capacity during that period. History is also at risk of repeating itself 20-30 years from now, if the current market slump leads to a decrease in planting over the next few years. Every commodity has supply cycles that follow demand cycles; it's just that in the case of forestry the timing resembles demographics, given the time frames.

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