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## Concerns over the evolution of China's log demand in the medium term

*There are some concerns about the China log market in the medium term. China's finance minister Liu Kun said in early May that China will increase fiscal spending in 2020 to help offset the damage to economy caused by the Covid-19 outbreak, but we have yet to see any stimulus package from the China government have a material effect on log demand.*

At the National People's Congress in Beijing (May 22, 2020), Premier Li Keqiang did not announce a growth target for the Chinese economy due to factors that are difficult to predict. Because the Chinese government plays a significant role in the economy, the GDP growth target it sets and strives to achieve is not just a predictor of growth output but can also signal government intent for credit and spending policies. It may also be a signal that the government is prepared to accept a lower level of growth in 2020.

Li announced a fiscal stimulus package of almost RMB 3.6 trillion (US\$506 billion) to lead China's economy recovery following the COVID-19 disruption. As part of this package, the government will issue RMB 1 trillion (US\$140 billion) worth of special treasury bonds and increase the local government special bond quota to RMB 3.75 trillion (US\$527 billion).

These bonds, in particular, are a key source for infrastructure funding, which is a method the Chinese government often employs to stimulate growth, such as it did after the 2008 global financial crisis. However, this infrastructure spend is targeted at "new infrastructure," such as 5G networks and new energy vehicles (NEV) charging stations. Many of these projects will not create the same log demand as the stimulus spend the Chinese government implemented after the global financial crisis that targeted traditional infrastructure.

One good sign is that China's Construction and Machinery Association showed total excavator sales jumped +60% in April for year on year data comparison. Excavator sales have previously proved to be a good leading indicator of construction activity, so many Chinese predict construction activity to increase.

It is estimated that approximately 70-75% of the logs China imports is used for domestic consumption. The remaining 25-30% of log imports is manufactured into export products.

Global demand for timber products is likely to take longer to recover than China's domestic demand. If there is no substantial increase in Chinese domestic demand then inventory levels will rise quickly, as global log supply increases.

There is increased log supply from New Zealand due to the high prices and the usual rush to harvest forests before the winter weather. Log supply has also recommenced from South America. One exporting company has just celebrated loading three logs vessels in South America simultaneously for the first time.

Log exporters in Uruguay are currently loading weekly about 65,000 JASm3 from Fray Bentos and Montevideo ports bound for China, at an average sale price of US\$118-120 per JASm3. Log exporters that had supplied logs and sawn timber to India have switched supply to China, with many Chinese log and sawn timber wholesalers saying they have been contacted by new suppliers or suppliers they have not heard from for several years.

As countries around the world emerge from their respective lockdowns and economies restart, we will keenly observe the increase in global log supply relative to the demand for timber products. At the moment global log supply seems to be increasing faster than demand, but this can quickly change.

