



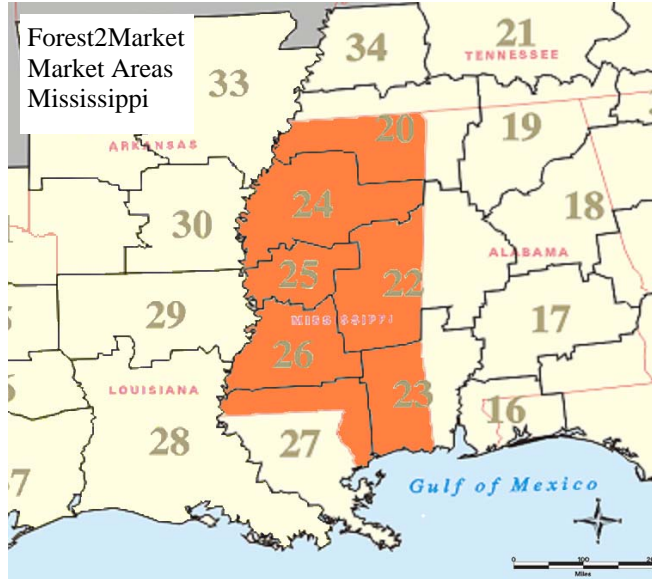
Forest2Market®  
Solutions for the Forest and Wood Products Industries

# Mississippi Timber Report

A PUBLICATION OF FOREST2MARKET®

**2nd Quarter  
2006**

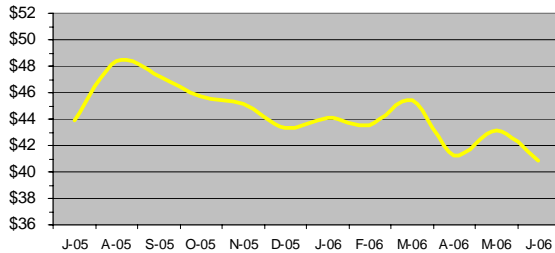
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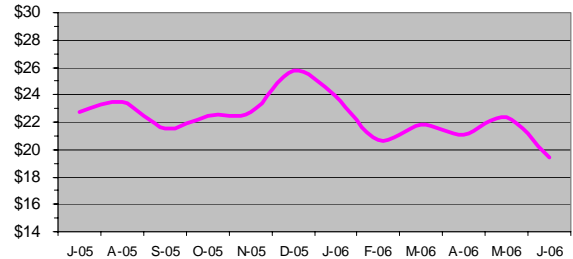
Since many variables, such as raw material demand, mill inventories, buyer competition and weather, play key roles in determining local prices, we encourage you to subscribe to our continuously updated online price service at [www.forest2market.com](http://www.forest2market.com) for prices that are specific to your local area.

## MISSISSIPPI STUMPAGE PRICE TRENDS

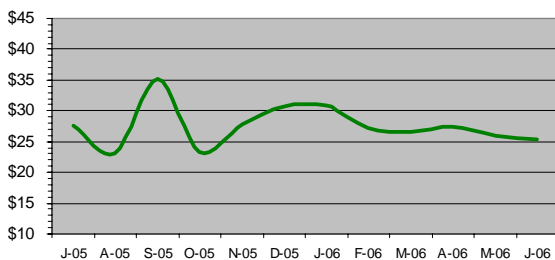
**Pine Sawtimber Stumpage Price Trend (\$/ton)**  
Mississippi Statewide Average



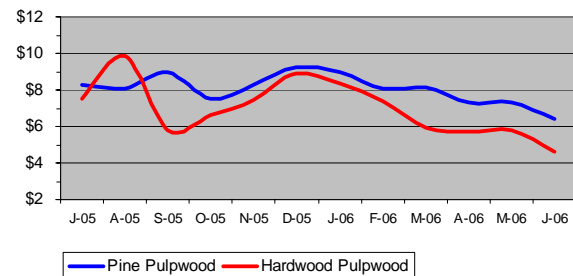
**Pine CNS Stumpage Price Trend (\$/ton)**  
Mississippi Statewide Average



**Hdwd Sawtimber Stumpage Price Trend (\$/ton)**  
Mississippi Statewide Average



**Pulpwood Stumpage Price Trends (\$/ton)**  
Mississippi Statewide Average



# MISSISSIPPI STUMPAGE PRICES

## Pine



Downward pressure was exerted on stumpage prices this period as dry weather allowed mills' log supplies to remain full throughout the quarter. The slow-down in the housing market also forced lumber mills to reduce lumber production and their consumption of logs, causing further weakening in stumpage prices. **Pine Sawtimber** prices decreased \$2.29/ton or 5.2% from last quarter to average **\$41.79/ton**. **CNS** prices declined 8.8% or \$2.01/ton to average **\$20.74/ton**. **Pine Pulpwood** prices decreased by \$1.45/ton or 17.0% to average **\$7.06/ton**.

## Hardwood



Hardwood mills had more than enough logs to meet demand during the quarter, but demand for oak logs for flooring markets kept high-grade hardwood sawtimber stumpage prices steady. **Mixed Hardwood Sawtimber** dropped 6.6% or \$1.88/ton to average **\$26.37/ton**. High-grade material held steady increasing 0.1% or \$0.04/ton to average \$30.86/ton while low-grade material decreased by \$2.58/ton or 10.3% to average \$22.47/ton. **Hardwood Pulpwood** dropped \$1.70/ton or 23.2% to average **\$5.64/ton**.

# U.S. SOUTH TIMBER MARKET OUTLOOK

## PINE SAWTIMBER PRICES - U.S. SOUTH

The second quarter of 2006 brought a reversal of fortunes for the lumber and paper segments of the forest products industry. Wood products companies saw lumber prices slide due to less than enthusiastic residential construction markets after posting record numbers throughout 2005. The latest forecasts predict annual housing starts for 2006 to average 1.95 million units followed by another decline in 2007 to 1.85 million units. Pulp markets during the quarter regained some momentum in both North America and Europe. The upward swing in pulp indices is due mostly to capacity reductions in Canada (Western Forest Products, Bowater, Weyerhaeuser) brought about by a depreciating U.S. dollar and more efficient South American producers. Wall street rallied on the news that the latest round of interest rate hikes are having their intended affect taking the news as an indication that the fed may be less hawkish than originally anticipated the remainder of the year. Wall Street also continued to put pressure on paper companies to shed poor-performing business segments, focus capital in areas with comparative strengths and pay down debt (Weyerhaeuser, Smurfit-Stone, International Paper) in an effort to increase share prices. Global economic growth continues to present challenges to an industry which relies heavily on raw materials, labor, and energy. These inputs continue to have a negative impact on the profits of North American and European companies. Producers in South America and the Far East continue to maintain a cost advantage shipping both wood and paper products at less cost because of cheaper raw materials and a cheaper labor force. Scandinavian producers, with some of the most efficient sawmills and pulp mills in the world, have little cost cutting room left to offset the fuel price increases.

The orderly slowdown in housing markets predicted by analysts is officially on track. Rising interest rates, a decline in new orders, increased cancellation rates, and larger inventories all combined in the second quarter to push down shares of publicly traded home builders in June. Thirty-year fixed rate mortgages ended the quarter at 6.78%; up 1.16% from last year at this time. Annual housing starts declined 10.8% from first quarters numbers and builders confidence waned 8.7% in June. Lumber and plywood prices mirrored the trend declining 8.2% and 6.0% from last quarter respectively. Toward the end of the quarter, the Fed increased short-term interest rates putting further upward pressure on mortgage rates.

**Expect stumpage prices to decline slightly during the third quarter due to a downward trend in mill productivity in response to the decline in demand for lumber and plywood. Look for another bad hurricane season to alter the trend if expert forecasts ring true. High fuel costs will play a role in driving down raw material prices, especially if the Gulf Coast is subject to another series of storms.**

## PULPWOOD PRICES - U.S. SOUTH

Pulp and Paper markets began to see the results of capacity shutdowns announced earlier this year. Northern Bleached Softwood Kraft prices increased 7.1% over last quarter. Most of the tonnage being taken off the market is the result of numerous closures and shutdowns from North American mills. In the previous 6 months, 1,129,000 tons of annual Coated and Uncoated Free Sheet capacity was permanently shuttered along with 710,000 tonnes of softwood and hardwood pulp capacity by Domtar, Bowater, Glatfelter, and Weyerhaeuser. The capacity shutdowns were followed by announcements of July price hikes of \$20 to \$30 per tonne on market pulp by both North American and Scandinavian producers. Declines in newsprint production outpaced declines in consumption keeping prices tight. Production was down 6.5% from May of 2005 with consumption down 8.5% during the same period.

**Expect pulpwood stumpage prices to show a slight decline heading into the third quarter. Mill inventories remain high heading into the dry-weather logging season. Companies looking to keep a tight leash on inventory costs will focus on managing their raw material supply in the face of higher energy costs and a declining demand for end products.**