



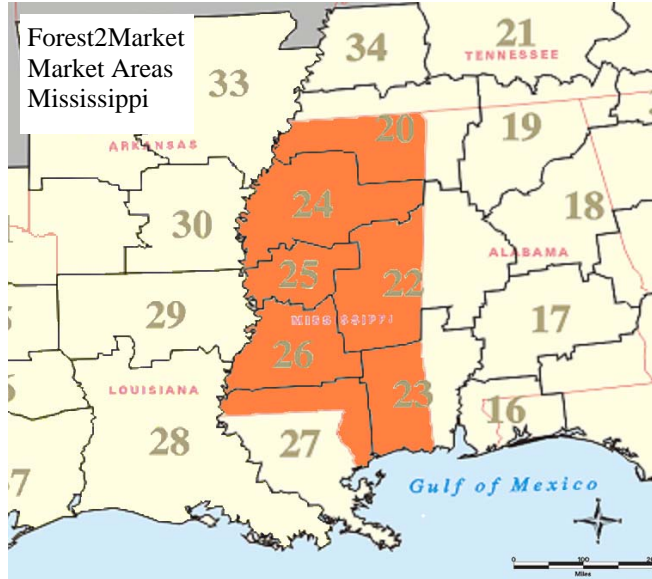
Forest2Market®
Solutions for the Forest and Wood Products Industries

Mississippi Timber Report

A PUBLICATION OF FOREST2MARKET®

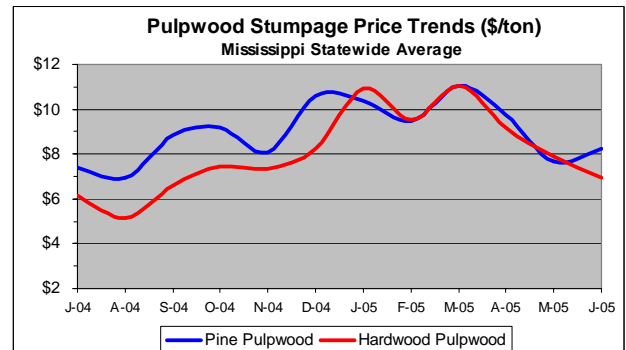
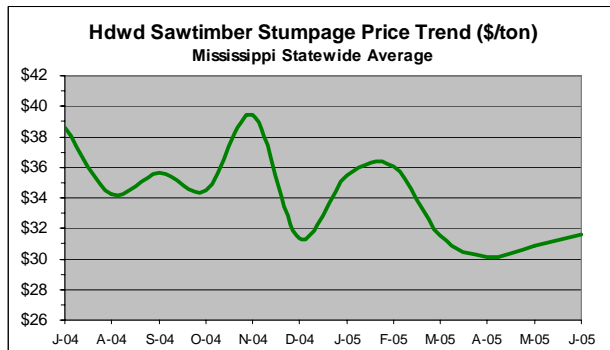
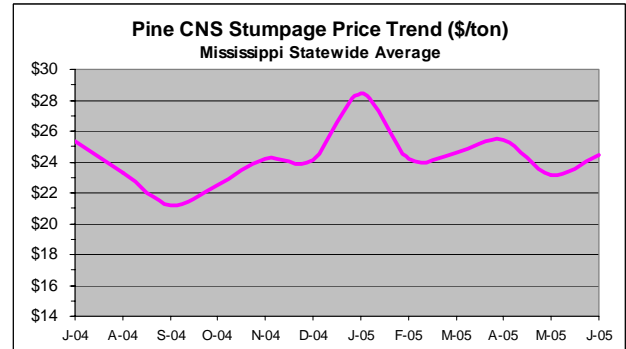
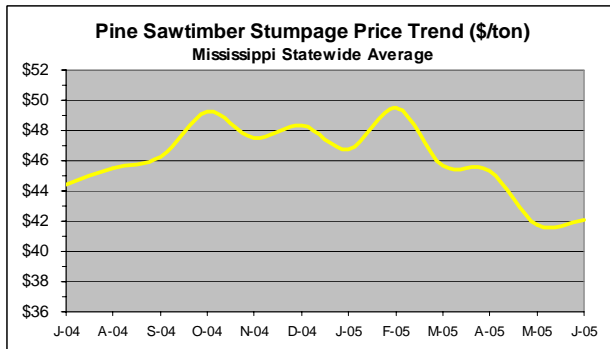
**2nd Quarter
2005**

**Volume 2
Number 2**



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 for prices that are specific to your local area.

MISSISSIPPI STUMPAGE PRICE TRENDS



MISSISSIPPI STUMPAGE PRICES

Pine



Thanks Mississippi! It has been one complete year that Forest2Market has reported prices for the *Mississippi Timber Report*. Prices for all products decreased this quarter as the summer season arrived bringing hot temperatures with it. Ground conditions dried out over the quarter allowing better access into tracts and more availability to timber. But even though prices fell they still remain at levels higher than the same period last year, with the exception of hardwood sawtimber products (see story below). **Pine Sawtimber** prices averaged **\$43.56/ton**, decreasing \$4.17/ton or 8.7% from last quarter. Compared to 2nd Quarter 2004, pine sawtimber prices (adjusting for log size) were \$1.23/ton or 2.8% higher this quarter. **CNS** prices decreased \$2.03/ton or 7.7% this quarter to average **\$24.36/ton**. Compared to the same period last year, **CNS** prices this quarter were \$1.18/ton or 5.1% higher. **Pine Pulpwood** prices averaged **\$8.90/ton**, decreasing \$1.08/ton or 10.9% from last quarter. Compared to 2nd Quarter 2004, pine pulpwood prices were \$1.75/ton or 24.5% higher this quarter.

Hardwood



Mixed Hardwood Sawtimber prices averaged **\$30.69/ton** this quarter, decreasing \$4.22/ton or 12.1%. Compared to the same period last year, mixed hardwood sawtimber prices decreased \$3.94/ton or 11.4%. Low-grade prices this quarter averaged \$22.89/ton, a decrease of \$1.87/ton or 7.5%. Prices this quarter were lower than 2nd Quarter 2004 by \$0.76/ton or 3.2%. High-grade prices decreased \$4.62/ton or 12.3% this quarter to average \$33.01/ton. Compared to 2nd Quarter 2004, high-grade prices were \$6.56/ton or 16.6% lower. **Hardwood Pulpwood** prices averaged **\$8.31/ton**, decreasing \$2.01/ton or 19.4%. Compared to 2nd Quarter 2004, prices were \$2.05/ton or 32.7% higher.

U.S. SOUTH TIMBER MARKET OUTLOOK

PINE SAWTIMBER PRICES - U.S. SOUTH

Despite increasing demand in the lumber market this quarter, downward pressure was exerted on pine sawtimber prices due to an abundant supply of timber in the market. In March, negative indicators such as rising mortgage rates and declining housing starts shook builder's confidence as the National Association of Home Builders' Housing Market Index fell 4.3% from March to April. However, just as the naysayers were claiming that the housing bubble might be over, mortgage rates began to fall and housing starts ratcheted up causing a surge of 4.5% in builder's confidence from April to May and 1.4% from May to June. Consequently, lumber prices were volatile, falling during the first half of the quarter before quickly rebounding in the second half - overall, lumber prices increased 3.9% during the quarter (see chart at right).

But while lumber prices maintained their fervor during the quarter, stumpage prices weakened as the supply of timber available for harvest increased in the market. During 2004's surprisingly wet summer, many buyers were forced off of their purchased "dry weather harvesting only" tracts and onto tracts with better logging conditions. Wet weather and high demand continued through the fall and winter, causing inventories to drop and the highest stumpage prices in the last five to six years. Entering the second quarter of 2005, buyers still held contracts with their 1.5 to 2 year harvesting rights on these "dry weather" tracts from last summer. With these tracts still on the books and much drier weather conditions during the quarter, buyers' participation in the market was dismal with some sellers receiving only one bidder at times on advertised sales. Plenty of wood was available and prices rapidly decreased. However, despite this rapid weakening and due mostly in part to the strong housing market and strong lumber market, second quarter stumpage prices have maintained some strength as southwide pine sawtimber prices were still \$3.18/ton or 7.4% higher than 2nd Quarter 2004's prices.

After buyer participation waned in the market and lower prices were being offered, sellers began to curtail the amount of advertised timber sales they were advertising and some pulled off the market completely. This balancing act of supply and demand by the market should help to temper the rapidity of decreasing prices in the near future. As for the second half of 2005, the latest figures on housing starts and new home sales basically reported flatness in the housing market which may have caused lumber prices to decline the last two weeks of June. However, one bright spot is that mortgage rates have fallen over the last three months and may propel new home construction over the second half of the year. Builder's confidence appears to confirm this. As such, expect pine sawtimber prices to increase during the latter half of the year as the winter approaches and wet weather seasonality has an impact. But if the housing market and lumber market continue to sputter, expect prices to not reach levels as high as last winter.

PULPWOOD PRICES - U.S. SOUTH

The U.S. economy continues to grow as the Commerce Department on June 29 revised the Gross Domestic Product (GDP) annual rate for 1st Quarter 2005 up from 3.5% to 3.8%, matching 4th Quarter 2004's GDP rate. The final figure outpaced economists expectations of 3.7% growth and marked the eighth straight quarter that GDP has grown more than 3%. GDP has not exceeded 3% for eight consecutive quarters since 1st Quarter 1983 to 1st Quarter 1986. The revision was the final piece of economic data that the Federal Reserve needed to raise the Federal Funds Rate for the ninth time to 3.25%. The Federal Reserve has raised the rate nine times by 0.25% from its June 2003 low of 1% in order to slow inflation. Also, during the quarter, consumer confidence improved as The Conference Board's Consumer Confidence Index moved from April's low of 97.5 to June's three year high of 105.8.

Despite U.S. economic growth, worldwide pulp and paper demand weakened during the quarter while producers' inventories increased, causing an oversupply in the pulp and paper market. With sluggish demand, increased supplies and higher costs, especially in Canada and Europe, producers' profit margins eroded and eventually caused worldwide market pulp prices to also erode. During May and June, the list price for North American Softwood Kraft market pulp fell from March and April's high of \$680/tonne to a low of \$631.51/tonne. This shrinking price and oversupplied situation in the pulp market, combined with drier weather conditions in the U.S. South, put downward price pressure on pine and hardwood pulpwood prices during the second quarter. However, like pine sawtimber prices, southwide pine pulpwood prices were still \$0.96/ton or 13.0% higher than 2nd Quarter 2004's prices while hardwood pulpwood prices were \$1.80/ton or 25.7% higher than the same period last year.

The U.S. economy is expected to slow for the second half of 2005 as GDP is expected to shrink to 3.5%. Lackluster demand in the pulp and paper industry is expected to continue in the second half of the year. This muted demand with current oversupplied inventories does not forebode well for pulpwood prices for the rest of the year. The key will be winter weather conditions that may hamper supply. Expect prices to increase beginning in the fall due to wet weather seasonality, but like pine sawtimber, not reach the level of last winter.

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