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.

ARKANSAS STUMPAGE PRICE TRENDS
The first quarter was a real balancing act for the forest products industry. Rising imports and energy costs and a decline in residential construction left the industry struggling to adapt to a changing business climate. Historically, forest product companies have relied on company owned timberlands to source their raw material needs. As land values have escalated in recent years, companies have increasingly been forced to choose between timber and manufacturing. Under pressure from shareholders, public companies have responded in such ways as selling timberland (IP, Boise, GP, LP) or converting to real estate investment trusts (Potlatch, Rayonier), which pay lower taxes than corporations but are allowed only limited manufacturing revenues. In addition, rising energy costs continue to eat into profit margins. Despite advances, the industry remains one of the most energy intensive in the United States and is the third largest user of fossil fuels in the industrial sector. Furthermore, cheaper labor and less stringent environmental regulations abroad will continue to hamper domestic competitiveness. This has allowed low cost producers from South America, East Asia and Europe to gain significant market share in the past two years. Current reports show that European lumber shipments doubled in 2005 and are forecast to rise to a record 2.3 billion board feet in 2006.

Following an unseasonably dry January that helped spur a 16% spike in new home construction, housing markets began to show evidence of the “orderly cooling down” predicted by analysts. Rates of price appreciation in the housing sector began to recede in the first quarter as well, declining 4.5% from previous months. F2M forecasts call for a six to seven percent decline in single-family housing starts in 2006 followed by smaller declines in 2007. Annual housing starts were down 7.9% for the month of February to a seasonally adjusted annual rate of 2.12 million units. Thirty-year fixed rate mortgages finished the quarter averaging 6.25%, an 8.3% increase over first the quarter of 2005. Demand for lumber is expected to fall as well with southern lumber production forecasted to drop by 2.4% to 18 billion board feet in 2006.

Expect stumpage prices to fall in the second quarter of the year. Mills across the southeast have taken full advantage of the dry weather and have completely filled log yards. Demand for residential construction materials will continue to decline keeping prices for lumber and plywood on a downward trend. Higher fuel costs will continue to affect everything from production to delivery costs for both producers and end users as summer demand kicks in and oil refineries lose production switching over summer fuel blends.