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.
Concerns of inflation intensified, as the Fed cut interest rates more than three times during the first quarter of 2008 in order to stall further retrenchment of economic growth. The quarter ended with the federal funds rate at 2.25 percent, down from 5.25 percent year-over-year, and the discount rate at 2.5 percent, down from 6.25 percent year-over-year. The deep rate cuts were implemented in order to shore up the downward spiraling economy, as well as the financial services industry which reported a number of multi-billion dollar mortgage-related write-downs including the recent Bear Stearns bailout. International markets also began to feel the squeeze of the U.S. housing meltdown. The Union Bank of Switzerland, shortly after a reported $14 billion mortgage-related write down, estimated that global fallout from the subprime mess could exceed $600 billion. In the U.S., tighter lending standards and a collective tightening of the belt has mitigated the effect of a resultant drop in the prime rate, which the Fed initially hoped would spur some economic growth.

Solid wood demand continued to deteriorate, and it is not expected to level off until the second half of 2008. Benchmark prices for 10” stumpage declined by 4.4 percent and 14” stumpage declined by 6.8 percent this quarter, while Random Lengths reported a 7.3 percent year-over-year decline in southern lumber composite prices during the first quarter of 2008. Weak solid wood demand forced a number of sawmill closures, shift reductions and temporary shutdowns throughout the U.S. South. The housing market, despite a drop in housing starts by 26.2 percent in January compared to the same time in 2007, received little relief from the prime rate reduction. New home and existing home inventories in January stood at 9.9 months and 10.3 months respectively. Housing starts dropped by 26.2 percent in January compared to the same time in 2007. Construction and solid wood demand, by extension, will not pick up until the glut of existing homes goes down. Plywood demand remained strong, with a 7 percent price increase reported by Random Lengths for this quarter.

Expect stumpage prices to trend moderately down during the second quarter before reaching a plateau in the second half of 2008. Higher oil prices, weak demand and a move on the part of sawmills to smaller logs, in order to cut back on costs, will continue to depress prices throughout the South.

**PULPWOOD PRICES**

Pulpwood demand remained strong Southwide, buttressed by relatively steady production in the pulp and paper market. Stumpage prices in the West-South region experienced a large downward price correction due to a hike in price caused by wet conditions in 2007. Stumpage prices increased Southwide due to several factors that strained local pulpwood supplies including transportation costs and reduced residual chip supplies. Diesel costs, which pushed Southwide pulpwood freight rates up by 5.8 percent, strained local raw material supplies.

Southwide pulpwood prices will trend upwards during the next quarter, despite continuing downward pressure from the slowing economy and a return to normal prices in some regions due to local effects. Pulp and paper producers facing sawmill chip shortages will continue to rely on longwood chips until the lumber market recovers, which is not expected to occur until early 2009. Weather in the Mid-South region will help bolster inventory and send stumpage prices down during the next quarter. Stumpage prices will remain relatively steady in the East-South region, before picking up again in the early summer. A return to normal weather will continue to send pulpwood prices lower in the West-South region.