



Forest2Market®
Solutions for the Forest and Wood Products Industries

Mississippi Timber Report

A PUBLICATION OF FOREST2MARKET®

**2nd Quarter
2008**

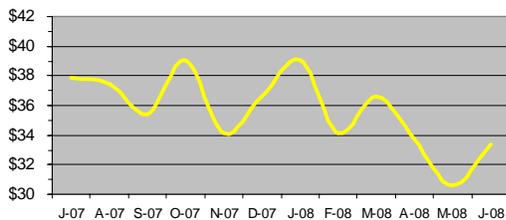
**Volume 5
Number 2**



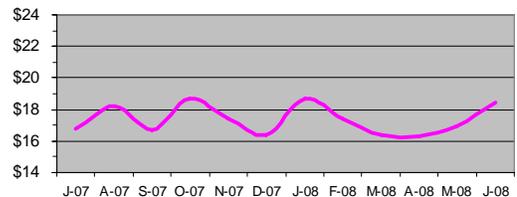
Since many variables, such as raw material demand, mill inventories, buyer competition and weather, play key roles in determining local prices, we encourage you to subscribe to our continuously updated online price service at www.forest2market.com for prices that are specific to your local area.

MISSISSIPPI STUMPAGE PRICE TRENDS

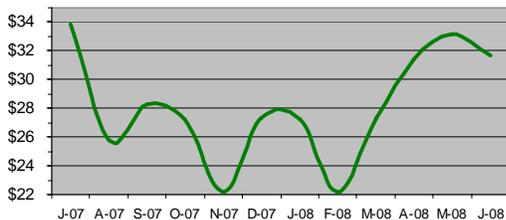
Pine Sawtimber Stumpage Price Trend (\$/ton)
Mississippi Statewide Average



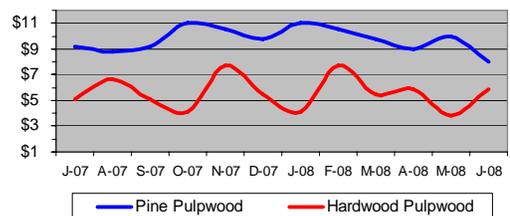
Pine CNS Stumpage Price Trend (\$/ton)
Mississippi Statewide Average



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



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



MISSISSIPPI STUMPAGE PRICES



Pine

Driven by shrinking demand for finished products (a result of the lackluster housing market) and historically high fuel costs, prices in most product classes saw a decline in Mississippi this quarter. **Pine Sawtimber**, the hardest hit, fell \$3.48/ton to end at **\$32.76/ton**. **Pine CNS** rose \$0.49/ton to close at **\$17.37/ton**.

Low sawmill and chipmill residuals, steady demand for pulp and a favorable export market created by the weak U.S. dollar has partially shielded hardwood and pine pulpwood prices from the market downturn, as their prices hovered above historic levels. **Pine Pulpwood** fell \$1.19/ton to end at **\$9.16/ton**.

Hardwood



Hardwood Pulpwood only slightly affected this period, fell \$0.55/ton to close at **\$5.30/ton**. Due to the lack of a viable pine sawtimber market, and drier weather Hardwood Sawtimber overall rose, with **Low Grade Hardwood** rising \$3.12/ton to end at **\$23.38/ton** and **High Grade Hardwood** falling only \$1.31/ton to end at **\$35.15**. **Mixed hardwood** saw the highest increase with more of the blend made up of high grade; ending the period at **\$31.74/ton**, \$6.67/ton higher than last quarter.

U.S. SOUTH TIMBER MARKET OUTLOOK

PINE SAWTIMBER PRICES

The Federal Reserve's concern over inflation trumped their concerns over economic growth in 2Q2008, as the federal funds rate was cut just once, by 0.25 percent, in April. The rate is currently at 2 percent. The US dollar continues to be weak, which has intensified inflation worries; as a result, the Fed will likely remain on the sidelines for the rest of 2008 and begin increasing rates in 2009. The prospects for growth in the US economy are not good either due to widening troubles in the housing markets, global food shortages, and elevated energy prices. In addition, the financial sector has degraded significantly due to credit issues associated with risky mortgages, and all indicators suggest that more bad news is on the horizon. Timber markets should be most concerned about two of these factors: housing and oil prices.

In the housing market builder confidence is low: new home construction remains at a standstill due to increasing foreclosures and decreasing sales and home prices. In the second half of 2008, home prices will continue to lose altitude—another 10–15 percent of perceived value—as a result of the ascending number of defaults, foreclosures, and auctions. This will inevitably lead to more buyers in the market for houses and legislation intended to prevent further foreclosures and provide incentives for home buyers. We anticipate home sales will find a bottom some time in 3Q2008, causing unsold inventories to begin to fall meaningfully in 4Q2008. Housing starts will finally bottom out in 1Q2009 and move gradually higher thereafter.

Historically, crude oil prices have marched in lockstep with diesel prices (.99 correlation). The price of oil spiked at over \$140/barrel in June. In the near term, prices should linger in the \$130–\$150/barrel range. The one positive sign in oil prices is a gradual decrease in demand due to consumer conservation. Just prior to Memorial Day, for instance, gasoline sales in the US were down 7.6 percent over the previous year. In addition, the demand will begin contracting in developing countries like China and Indonesia as their governments remove subsidies and conservation ensues. The impact of moderating demand, both in the US and around the world, will lead to some relief in oil prices—and therefore diesel prices—by the end of 2008, though they will remain higher than historical norms.

We expect stumpage prices will be moderately higher in 3Q2008 and 1Q2009, with the largest gains coming in the beginning of the new year. Prices for sawtimber should experience a steady but gradual upward climb through 2009, returning to “normal” levels due to rebounding housing starts.

PULPWOOD PRICES

Pulpwood prices will decline in the near term as a result of high oil prices. As oil prices drop in the last part of 2008, Pulpwood prices will begin a gradual but steady increase, the result of lower oil prices. Lower oil prices translate into lower costs and greater production regionally, which further increases demand and then price. Prices will remain fairly steady in 1Q2009.