Southern Softwood Trends from a Timber Mart-South Perspective

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Abstract: An overview of Timber Mart-South, the quarterly market report for timber products in the Southeastern U.S., includes a short history of the pricing service, market areas we serve, and reporting methods. An update features price changes since our last presentation at SOFEW in 2002. A major product market review analyzes the markets for southern pine stumpage. We use highlights from the Timber Mart-South Market Newsletter with reports on changes in mill production, changes in industry structure, significant weather events, and other timber market news.

Key Words: Timber Mart-South, stumpage, prices, southern pine, markets

INTRODUCTION

Timber Mart-South, a quarterly market price survey and report of timber products in the Southeastern U.S., was founded by Frank Norris in 1976 and then acquired by the Frank W. Norris Foundation in October of 1995. Under the Foundation’s ownership, the Report is published, according to contract, at the D.B. Warnell School of Forest Resources at the University of Georgia.

Timber prices are published quarterly for twenty-two Southern U.S. market areas along with state-level averages and a south-wide price index. We quote average-low, average-high, and over-all average prices on pine and hardwood sawtimber, pine and hardwood pulpwood, pine plylogs, poles, and chip-n-saw as well as pine and hardwood chips. Prices are listed in U.S. dollars per thousand board feet (Scribner, Doyle, and International log rules), per cord, and per ton. Each complete regional report contains eleven four-page state reports listing stumpage and delivered prices. All reports are designed to give the facts you need in a simple, easy-to-read format.

Timber price information is obtained from a variety of buyers, sellers, and brokers located throughout the Southeast. A survey is made of a large number of mills, yards, contractors, investors, and consultants engaged in the timber business on a day-to-day basis. Actual timber sales are used for much of the database. Reported prices are then sorted, averaged, and published at the end of each quarter.

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High-average prices represent the average of the upper fifty percent of the quarter’s reported prices. Obvious outlier prices are discarded before this calculation. Low-average prices represent the average of the lower fifty percent of prices. Over-all average prices represent the average of these two averages.

Prices provided by Timber Mart-South are unbiased, independent, and offer a ready source of timber market information. Timber Mart-South is an invaluable tool for both buyers and sellers as a guide to the market value of timber products in an area. Our historical price series provide an excellent view of the trends in prices throughout the South.

**Timber Mart-South Services**

Since the relocation of Timber Mart-South to the University of Georgia, efforts to produce a reliable and useful publication have expanded the base of price reporters from 133 to more than 200. This was the result of a concerted effort to increase the scope and distribution of price reports.

Another on-going project is the publication of a timber market newsletter, the *Timber Mart-South Market Newsletter*. Listing mill openings/closures/curtailments, company restructuring, mill/land acquisitions, and any other information that may affect the price of timber currently or in the future, the newsletter has become a comprehensive source for Southeastern U.S. timber market information. Our regular quarterly press releases keep national and worldwide media aware of timber prices.

To supplement our archive of twenty-six years of timber price reports, computerized historical timber price data has allowed trend analysis to become an additional service offered by Timber Mart-South. Our website, www.TimberMart-South.com, provides public access to our archive of newsletters and press releases, as well as charts showing the quarterly stumpage prices for major timber products. In 2001, we started email delivery of our reports in machine-readable format. These added services have increased the number of subscribers to Timber Mart-South by fifty-four percent. We also fill many orders for individual reports and contract for special projects.

There are two constant goals for Timber Mart-South. The first is to provide continuity in the reports. This allows the database to be an effective tool for following trends in timber product prices. Secondly, we continually evaluate the need for improvement in the quality of the report, including accuracy of published prices as well as enhanced report presentation and readability.

Ideas for future development include providing custom area reports that aggregate several normal reporting regions or a group of selected counties; increasing awareness of our instructor packets to aid in teaching about timber markets; and providing prices for other, species-specific products in active markets when available. TMS also plans to increase online delivery to include the download of reports and data from our website.
Southern Timber Market Trends

Timber Mart-South brings our subscribers analysis of the current news and events in the Forest Products Industry. For example, the year 2002 brought the end to a prolonged drought in the Southeastern U.S. Heavy precipitation reduced logging in wet areas, putting upward pressure on hardwood prices. A southern pine bark beetle epidemic in the eastern South meant salvaged beetle-killed pine put downward pressure on pine prices in many timber markets from northern Alabama east to South Carolina. An overview of timber prices shows that the record-breaking stumpage rates enjoyed in 1996 through 1998 have declined. In Figure 1, pine and hardwood sawtimber stumpage rates recovered from lows of 1st Quarter 2001 with increases in four out of five major products in 2002.

![Figure 1: Southeast Quarterly Average Stumpage Prices: 4th Q 1976 to 1st Q 2003](image)

Only pine chip-n-saw prices remained lower than the 4th Quarter 2001 by the end of 2002. Over a ten-year period, pine pulpwood prices had a declining trend, reflecting a reportedly widespread over-supply. Some analysts expressed concern that the over-supply in pine pulpwood would eventually spread to smaller sawtimber.

Policy issues related to timber markets included the International Trade Commission’s ruling that placed high duties on Canadian lumber imports. In addition, press reports on arsenic in treated wood provoked an industry shift to wood preservatives without arsenic.

Weakening in the “strong dollar”, which some had blamed for reduced exports of U.S. wood products, was just one of the economic changes in the U.S. business markets as the country came to grips with the economic recession of 2001. Equity markets reached five-year lows in 2002. GDP growth for the year totaled 2.4 percent, up from 0.3 percent of the previous year, and housing starts continued to make a substantial contribution to GDP growth, reaching new record highs fueled by record low mortgage interest rates.
As in any business, the dynamics of supply and demand drive forest products markets. Dividing the markets into pulp-consumption and solid wood-consumption, we found different demand trends between the two sectors in 2002.

**Pulp Demand Changes**

International pulp prices were at ten-year lows in 2002. U.S. pulp production decreased from 2001 to 2002 but less than one percent. Paper production dropped about 2 percent while paperboard production increased almost 3 percent according to the American Forest & Paper Association (AF&PA.) Figure 2 shows wood pulp production levels and how southwide average pine pulpwood stumpage prices declined but at a slower rate in 2002 than over the previous four years. Pulp capacity in the South has declined from peak levels of 1995 through 1998 and industry restructuring appears to have responded to changes in global fiber markets.

![Figure 2: Annual Wood Pulp Production vs. Average Pine Pulpwood Stumpage](source.png)
Softwood Lumber Demand Issues

The Canadian softwood lumber import controversy has highlighted both the U.S. trade imbalance and the impact of international exchange rates. In the U.S., softwood lumber imports have increased from about 18 billion board feet in 1996 to about 21.5 billion board feet in 2002. Southern yellow pine (SYP) production nearly reached peak levels of 2000 in 2002 (Figure 3.) Pine sawtimber stumpage prices appear to have responded favorably, but some analysts suggest that the prices were weaker than could be expected from such high production levels.

![Figure 3: Southern Yellow Pine Production vs. Average Pine Sawtimber Stumpage](image)

Record low lumber prices maintained downward pressure on pine sawtimber stumpage prices in 2002. High levels of production by Canadian lumber manufacturers and sawmills in the South reportedly over-supplied lumber markets. Mill curtailments, in spite of record-level production, suggest an excess of sawmill capacity in the South.

Softwood lumber markets have continued to be impacted by the voluntary decision of the lumber treating industry to move consumer use of treated lumber products away from a variety of pressure-treated wood that contains arsenic such as chromated copper arsenate (CCA). An emotion-laden campaign, waged primarily in the U.S. press, provoked the latter defensive move by the industry. Between one-third and one-half of SYP lumber production receives further processing by pressure-treatment. These industry changes take full effect by the end of 2003. The impact on stumpage markets will depend upon whether the end users continue to choose wood over its competitors: steel, plastic and concrete.

Foreign Trade

The Federal Reserve Board exchange rate data show that foreign currency of both U.S. forest products competitors and markets have “strengthened” against the Dollar over the past seven years. The U.S. competes with Canada, Europe, Australia, and New Zealand for wood markets such as Japan. As a result of the relative exchange rates, from 4th Quarter 1997 to 4th Quarter 2002, pine sawtimber stumpage prices in the U.S. South
increased at about 1.7 percent annual rate, but the same pine sawtimber would have increased at an annual rate of 4.0 percent in Canadian Dollars, 5.4 percent in Swedish Krona or 6.1 percent in Australian Dollars. In the Japanese market, pine sawtimber prices would have risen 5.8 percent in Yen per ton. As a consequence of the strong dollar, the U.S. Forest Products Industry lost considerable cost advantage over its international competitors.

The easing of this long-term trend in late 2002 meant that as pine sawtimber stumpage prices in the U.S. South increased from 4th Quarter 2001 to 4th Quarter 2002 in U.S. Dollars, they also increased but to a lesser extent in Japanese Yen per ton and Canadian Dollars. Prices actually dropped in Swedish Krona, Australian Dollars, and New Zealand Dollars as the U.S. Dollar “weakened” against those currencies. The strong dollar had opened the door to increased foreign lumber imports into the U.S. and at the same time shut the door to exports of lumber and other wood products from the U.S. South. Time will tell whether a weakening Dollar can slow or reverse the trend and how long such a change might take.

**Mill Curtailments**

A review of Timber Mart-South market news shows that in 2002, the Forest Products Industry continued a pattern of consolidation through mergers and purchases. In general, the publicly traded companies have purchased other companies and sold timberland. Changes included divestment of timberland by the publicly owned corporations: 1.1 million acres in the U.S. South in 2001, 1.2 million in 2002. Between the 1st Quarter 2001 and 4th Quarter 2002, Timber Mart-South reported that thirty-four pulp mills in the U.S. South curtailed production and two closed permanently as a result of the decrease in pulp and paper demand. We also reported that ninety-six softwood sawmills in the U.S. South curtailed production and twelve closed permanently. Panel production, a third market for timber, also curtailed production: fifty-nine mills out of sixty-eight. Five plywood mills closed with one re-opening in 2002. On a more positive note, two OSB mills opened in 2001 and in 2002 manufacturers announced expansion planned for the future.

In spite of the economic climate, the southern timber markets strengthened towards the end of 2002 and average stumpage prices gradually increased. At Timber Mart-South, we attribute such resilience to the South’s unique characteristics as a timber-growing region. Private ownership, high timber growth rates, easily harvested terrain and excellent infrastructure can continue to keep southern markets competitive in an increasingly global timber market.
LITERATURE CITATIONS


