



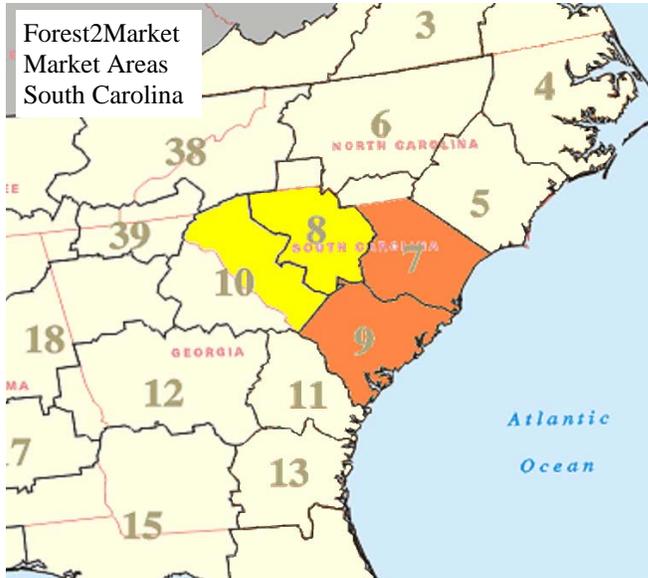
Forest2Market®  
Solutions for the Forest and Wood Products Industries

# South Carolina Timber Report

A P U B L I C A T I O N O F F O R E S T 2 M A R K E T ®

**1st Quarter  
2006**

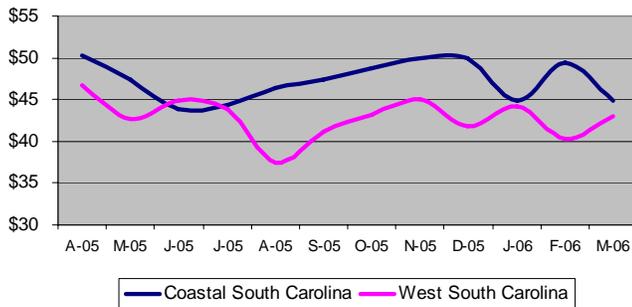
**Volume 2  
Number 1**



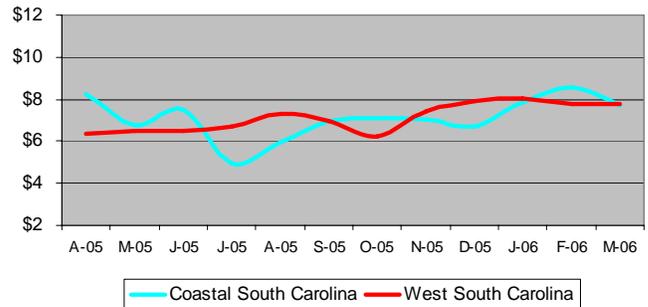
Since many variables, such as raw material demand, mill inventories, buyer competition and weather, play key roles in determining local prices, we encourage you to subscribe to our continuously updated online price service at [www.forest2market.com](http://www.forest2market.com) for prices that are specific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

## SOUTH CAROLINA STUMPAGE PRICE TRENDS

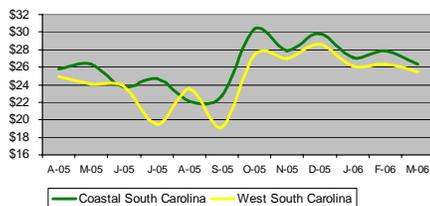
**Pine Sawtimber Stumpage Price Trend (\$/ton)**



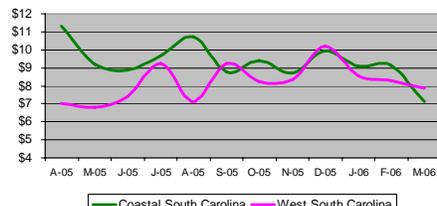
**Pine Pulpwood Price Trends (\$/ton)**



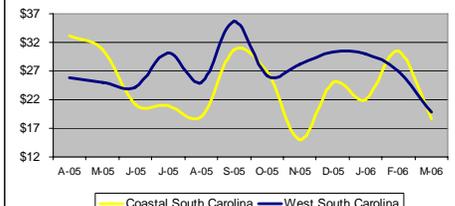
**Pine CNS Stumpage Price Trend (\$/ton)**



**Hardwood Pulpwood Price Trends (\$/ton)**



**Hardwood Sawtimber Price Trends (\$/ton)**



# SOUTH CAROLINA STUMPAGE PRICES

Coastal South Carolina			
Weighted Average Stumpage Prices (\$/ton) 1st Quarter 2006			
Product	Price	Price Change	Percent Change
Pine Pulpwood	\$ 7.96	\$0.90	12.8%
Pine Chip-n-Saw	\$ 26.77	-\$3.29	-10.9%
Pine Sawtimber	\$ 46.60	-\$2.53	-5.2%
Hardwood Pulpwood	\$ 8.57	-\$0.80	-8.5%
Hardwood Sawtimber	\$ 23.22	-\$2.22	-8.7%

West South Carolina			
Weighted Average Stumpage Prices (\$/ton) 1st Quarter 2006			
Product	Price	Price Change	Percent Change
Pine Pulpwood	\$ 7.84	\$0.56	7.8%
Pine Chip-n-Saw	\$ 25.93	-\$1.72	-6.2%
Pine Sawtimber	\$ 42.17	-\$1.70	-3.9%
Hardwood Pulpwood	\$ 8.29	-\$0.27	-3.1%
Hardwood Sawtimber	\$ 27.66	\$0.50	1.8%

## U.S. SOUTH TIMBER MARKET OUTLOOK

### PINE SAWTIMBER PRICES - U.S. SOUTH

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 refiners lose production switching over summer fuel blends.**

### PULPWOOD PRICES - U.S. SOUTH

Pulp and paper producers continued to balance supply and demand during the quarter. Price hikes on some products have come in response to a tightening in the market due to capacity shut downs, especially in Canada. A strong uncoated free sheet market is set to continue into the second quarter with prices up \$20/ton since the beginning of the year. U.S. daily newsprint consumption declined by 6.3% from February of last year and analysts predictions suggest consumption in 2006 could be weaker than the anemic consumption of 2005; with more than two million tonnes of capacity rationalization scheduled for the first six months of the year. Publishing houses and newspaper publishers looking to cut costs continue to reduce usage in the face of circulation declines and shaky advertising markets.

**Expect pulpwood prices to show a slight decline heading into the second quarter as dry weather seasonality occurs and pulp producers focus on balancing production with declining demand as a result of capacity shutdowns. In addition, rising fuel prices will eat into stumpage prices as harvesting costs increase. However, one bright spot may be a reduction in the supply of residual chips in the market as sawmills reduce production in response to the declining lumber markets. If this occurs, pulp mills may optimize their raw material consumption by increasing their dependence on pulpwood.**