



Stumpage Price 4cast ArkLaText Forecast Region

July 2010 - June 2012

Volume 6, Issue 3

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 ®

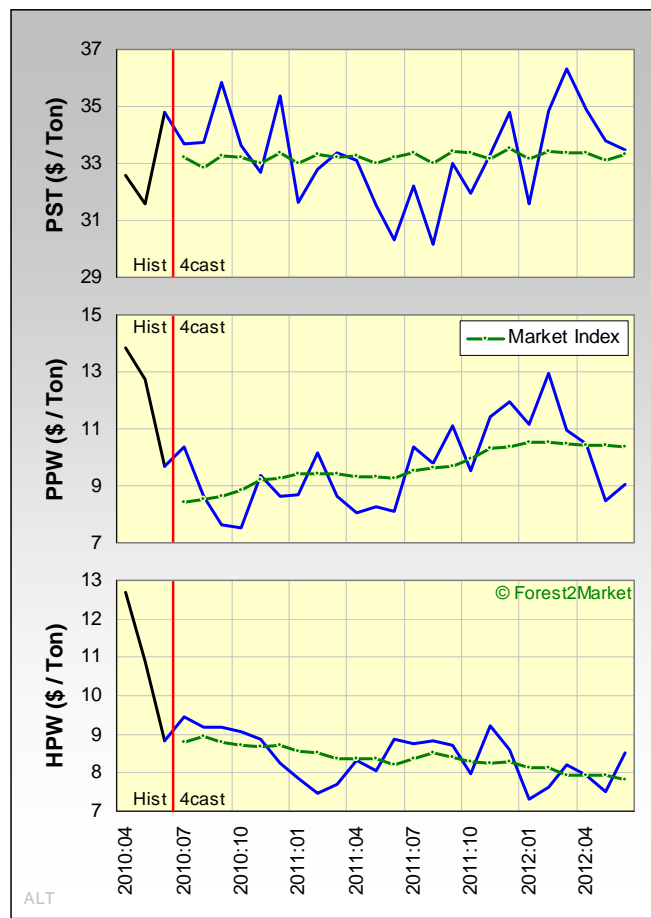
4cast Executive Summary

Composite log price from July to December will trade in a range of \$1.70 around an average of \$34.16, ending the rising trend that started last August. The market will begin to slide noticeably lower over the first eight months of 2011, bumping against a \$30 floor, as housing starts head lower once again and the U.S. economy sinks back into recession. Prices firm in late 2011 – due to a stabilizing but weak housing sector coupled with a weakening US dollar – ending the year near \$35 per ton. Composite prices achieve a forecast high above \$36 during 1Q2012 as housing continues to edge higher. We anticipate some additional near-term weakness in pine pulpwood pricing (bottoming at \$7.51 in October) before a ragged recovery (topping out at \$12.94 in February 2012) sets in for most of the remainder of the forecast. The overall forecast average price will be essentially the same as the present long-term historical average. Unlike pine, hardwood's price forecast exhibits an overall downward trend within a fairly tight range of \$2.16 per ton. July 2010's \$9.47 will be the high point of the forecast, while the \$7.31 of January 2012 will be the low point. ■



		----- Pine Sawtimber -----					
		Composite Market*	Benchmark Prices		Pulpwood		
		DBH Price	10-inch	14-inch	Pine	Hdwd	
		(Inches)	----- (\$ / Green Ton) -----				
Actual	2010:04	15.7	32.58	16.77	29.58	13.84	12.69
	2010:05	15.3	31.56	16.30	29.11	12.71	10.90
	2010:06	16.2	34.77	18.36	31.17	9.69	8.83
Estimated	2010:07	15.7	33.68	17.87	30.68	10.34	9.47
	2010:08	15.5	33.75	18.20	31.01	8.63	9.18
	2010:09	15.7	35.82	20.01	32.82	7.61	9.20
Projected	2010:10	15.2	33.64	18.53	31.34	7.51	9.05
	2010:11	15.2	32.70	17.59	30.40	9.37	8.85
	2010:12	15.5	35.38	19.84	32.65	8.62	8.26
	2011:01	14.4	31.65	17.93	30.74	8.67	7.87
	2011:02	15.5	32.81	17.27	30.08	10.17	7.48
	2011:03	15.9	33.37	17.32	30.13	8.65	7.72
	2011:04	16.0	33.09	16.91	29.72	8.07	8.32
	2011:05	15.8	31.51	15.57	28.38	8.27	8.05
	2011:06	15.7	30.33	14.53	27.34	8.12	8.85
	2011:07	15.2	32.22	17.11	29.92	10.38	8.77
	2011:08	14.8	30.13	15.66	28.47	9.81	8.83
	2011:09	15.1	32.99	18.03	30.84	11.10	8.72
	2011:10	15.0	31.97	17.16	29.97	9.54	7.97
	2011:11	15.4	33.29	17.89	30.70	11.44	9.24
	2011:12	15.8	34.77	18.83	31.64	11.97	8.58
2012:01	14.4	31.59	17.88	30.69	11.18	7.31	
2012:02	15.1	34.86	19.90	32.71	12.94	7.64	
2012:03	15.6	36.31	20.63	33.44	10.92	8.23	
2012:04	15.6	34.88	19.21	32.02	10.48	7.95	
2012:05	15.8	33.78	17.85	30.66	8.48	7.52	
2012:06	15.4	33.50	18.09	30.90	9.06	8.54	

* Composite of chip-n-saw, sawtimber and ply logs
Sources: Actual data from Forest2Market databases
Projections developed by Delphi Advisors



The stumpage price forecasts are developed exclusively for Forest2Market by Delphi Advisors™ LLC (www.delphiadvisors.com). While data are deemed to be from reliable sources, and the quantitative methods utilized conform to industry standards, any projections are subject to risk and uncertainty and are not guaranteed.

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Macroeconomic Summary and 4cast

The final downward revision of 1Q2010 GDP growth does not provide much hope for a stronger rebound during 2Q2010 and beyond; also, most domestic and global risks appear to be to the downside. Lackluster hiring, along with the need by consumers to deleverage debt, means discretionary spending is unlikely to drive the U.S. economy higher. Manufacturing growth may have already topped out for this cycle and could actually shift into reverse, further slowing improvement in employment. Residential construction will require several months to recover from the expiration of the federal homebuyer tax credit; total permits and pending home sales dropped by double-digit percentages in May while foreclosures increased. Most approaches intended to control the burgeoning federal deficit and debt favor tax increases over spending cuts. The Federal Reserve may be preparing for another round of quantitative easing to prevent a bout of deflation. Doing so could weaken the dollar, which would in turn cause a rise in crude oil prices, compounding economic headwinds. ■

Table M1. Macroeconomic 4cast summary

Category	Actual or Estimated 2010:06	----- Projected Averages -----		
		2010:07 - 2010:09	2010:10 - 2010:12	2011:01 - 2011:03
Real GDP (% Chng)	2.55	1.96	2.40	1.20
Housing Starts (mill.)	0.580	0.573	0.688	0.654
Indust Prod (% Chng)	1.98	-0.54	-0.06	0.39
Prime Rate (%)	3.25	3.25	3.25	3.25
Oil Price (\$ / bbl)	75.35	79.38	77.75	78.51
Canadian\$ / US\$	1.038	1.009	0.979	0.985
Euro / US\$	0.818	0.844	0.867	0.840
Yen / US\$	90.8	89.6	90.5	93.7
PPI, Intermediate Materials (% Chng)	-0.60	0.04	0.28	-0.14

Note: For monthly details see Table 1 in the *Economic Outlook* report

Sources: Actuals from Federal Reserve Bank of St Louis database, US Bureau of Labor Statistics, Federal Reserve Report G-17, US Census Bureau, Financial Forecast Center, and US Bureau of Economic Analysis.

Projections developed by Delphi Advisors

Weather 4cast

Figure W1 shows the previous six months' rainfall in this market region, and our forecast – which is based upon the Climate Prediction Center's* (CPC) "middle of the road" prediction and normal precipitation patterns). Our 24-month weather forecast (Table W1) attempts to strike a balance between remaining faithful to the CPC's outlook and introducing a greater degree of monthly volatility – without straying too far from historical norms.

* <http://www.cpc.ncep.noaa.gov/>

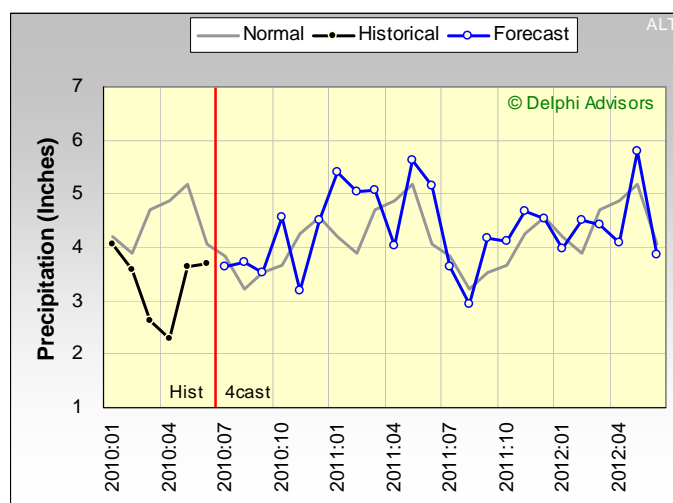


Figure W1. Historical rainfall pattern, and 4cast compared to historical norms

By adopting this approach, we give some indication of the likely effect of weather on prices, while not overwhelming the price forecast with weather-related impacts. ■

Table W1. Monthly precipitation 4cast, with deviations from normal

ALT		Normal	Actual or Projected	Deviation from Normal
----- Inches -----				
Actual	2010:04	4.86	2.29	-2.57
	2010:05	5.18	3.63	-1.56
Estimated	2010:06	4.06	3.70	-0.36
	2010:07	3.83	3.63	-0.20
Projected	2010:08	3.23	3.73	0.51
	2010:09	3.52	3.51	-0.01
	2010:10	3.68	4.56	0.88
	2010:11	4.26	3.19	-1.07
	2010:12	4.56	4.50	-0.06
	2011:01	4.20	5.41	1.21
	2011:02	3.88	5.05	1.17
	2011:03	4.71	5.07	0.36
	2011:04	4.86	4.02	-0.84
	2011:05	5.18	5.63	0.44
	2011:06	4.06	5.16	1.10
	2011:07	3.83	3.62	-0.21
	2011:08	3.23	2.93	-0.30
	2011:09	3.52	4.18	0.66
	2011:10	3.68	4.11	0.43
	2011:11	4.26	4.67	0.41
	2011:12	4.56	4.53	-0.03
	2012:01	4.20	3.97	-0.23
2012:02	3.88	4.50	0.62	
2012:03	4.71	4.42	-0.29	
2012:04	4.86	4.08	-0.78	
2012:05	5.18	5.79	0.61	
2012:06	4.06	3.87	-0.19	
Forecast Average				0.17

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Pine Sawtimber Price 4cast

Since dropping to nearly \$25 per ton last August, composite pine log prices have increased by over 38 percent, nearly breaking \$35 per ton in June (Figure S1). Our models indicate this increase is running near empty. Composite log price will pull back modestly in July to below \$34 from June's level near \$35.

From July to December prices will trade in a range of \$1.70 per ton around a \$34.16 average (table, p. 1). Although we see prices essentially moving sideways over the balance of 2010 they will still manage to break above \$35 per ton twice before year-end. Once the "demand-pull forward" from the home buyer tax credit has run its course over the summer, we expect housing starts will climb in 4Q2010, briefly breaking above 0.7 million SAAR in October (see Economic Outlook for more details). This provides sufficient lift to maintain prices but not enough to move them significantly higher.

The market will begin to slide lower over the first eight months of 2011, bumping against a \$30 floor, as housing starts retreat once again and the U.S. economy sinks back into recession. A stabilizing but weak housing sector, coupled with a weakening US dollar, causes prices to firm in late 2011, ending the year near \$35 per ton. Composite prices achieve a forecast high above \$36 during 1Q2012, averaging slightly over \$34 over 1H2012, as housing continues to edge higher.

Comparing the 4Cast to the 4Cast Market Index (top graph in figure on p. 1) the next four months constitute an extended selling window (see Table S1). Beginning in November the market shifts to favor buyers over the next 12 months (buyers hold the advantage in eight of those 12 months). In total during the 24 months, selling windows outnumber buying windows 11 to 10.

Table S1. Pine sawtimber Market 4Cast-at-a-Glance

Month	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Year	2010						2011					
Window	S	S	S	S	B	S	B	B	N	N	B	B+
Year	2011						2012					
Window	B	B+	B	B	N	S	B	S	S+	S	S	S
ALT	"B+" = Strong Buyers' Window, "B" = Buyers' Window Neutral Window											
PST	"S+" = Strong Sellers' Window, "S" = Sellers' Window											

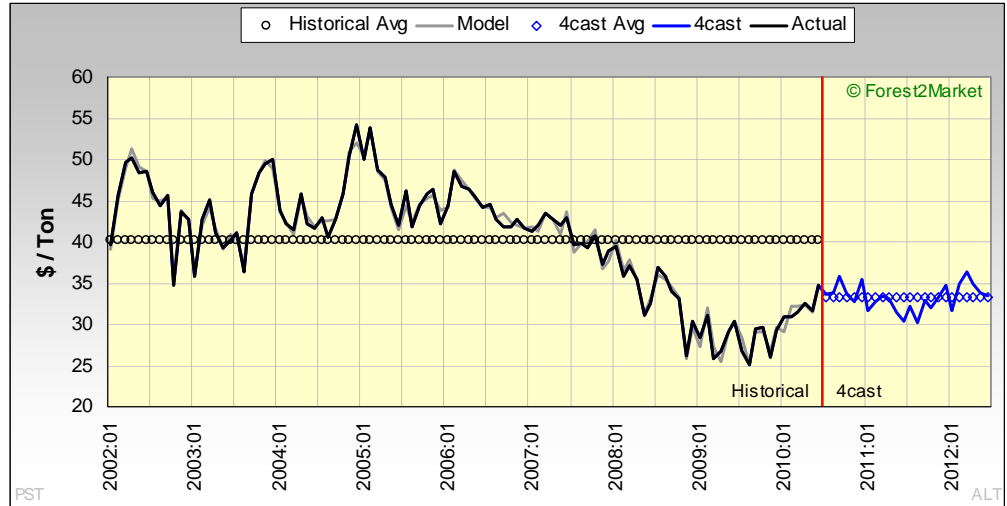


Figure S1. Pine sawtimber composite market stumpage price 4cast

July 2010's price retreat is led by average log size – represented by average tree DBH and classified as a local market effect¹ in Figure S3 (p. 4) – which falls from 16.2 inches in June to 15.7 inches. Average monthly log size and price are positively correlated in this market; in fact, the relationship has strengthened over the past 12 months. We anticipate this relationship will continue to be significant over the next 24 months (Figure S2).

July's log size fell despite dry ground conditions. Concurrently falling log size and drier ground conditions are a bit of an anomaly; drying logging conditions generally result in increasing, not decreasing log size.² As Table W1 on page 2 indicates, rainfall over the past four

¹For more on modeling approach used in 4Cast see our Perspective "Peering into the Black Box" at <http://www.delphiadvisors.com/perspectives/peering-blackbox.pdf>.

²For more on the relationships between pine log prices, pine log size, and precipitation in the U.S. South in our Perspective "Two Out of Three Ain't Bad" at <http://www.delphiadvisors.com/perspectives/2-of-3.pdf>.

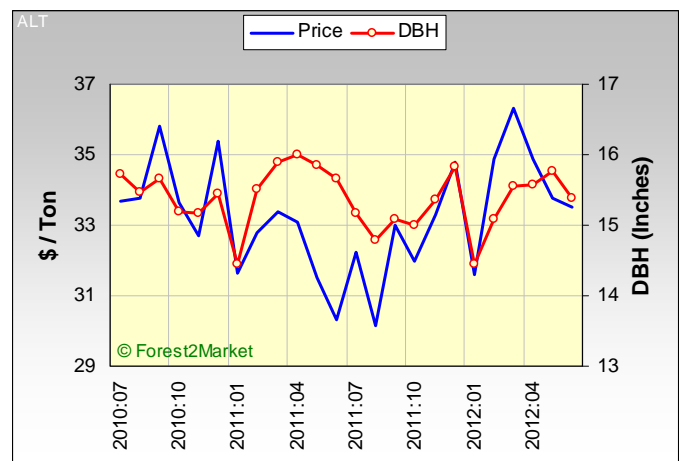


Figure S2. Relationship between pine sawtimber DBH and composite market stumpage price 4casts

months has been below normal; in fact, rainfall over 1H2010 has been 26 percent below normal. In July, seasonal buying factors that reduce log size between June and July in this market trumped dry ground conditions because the extended dry period over 1H2010 had already contributed to an elevated average log size; average log size over 1H2010 was 0.3 inch larger than the market average for these months.

Dry weather conditions directly affected log prices in July; weaker pricing is consistent with drier conditions as greater accessibility expands supply. Softening U.S. economic conditions in late 1Q and early 2Q further contributed to July's price decline. Dry weather and spongy conditions in housing (an industry sector effect) apply increasing downward pressure on the market. However, these effects will be offset by a weaker U.S. dollar against the loonie and seasonal buying patterns, holding composite prices essentially flat in August.

After moving sideways in August, prices in September will push to near \$36, as housing relocates its footing in the aftermath of the home buyer tax credit expiration. A policy risk of temporary tax incentives is that they may not increase economic activity as intended but simply redistribute it; buyers shift the timing of their purchase to take advantage of the incentive but would have probably made the purchase if the incentive weren't offered, just at a different time. If that happens, economic activity can temporarily falter after the incentive expires as demand that would have driven the market after the incentive expired was "pulled forward" to take advantage of the incentive.

We believe this common response to temporary tax incentives largely explains March and April's significant increase in housing starts. Buyers rushed to take advantage of the expiring home buyer tax credit at the end of April, pulling forward some sales that would otherwise have occurred in May, June and July. For example, March and April's average starts were 9 percent higher than the four-month average of the November to February: 0.647 million SAAR versus 0.596 million SAAR, respectively. However, in May starts fell to 0.593 million and we forecast June and July to average 0.558 million, a three month average of 0.570 million – a 12 percent drop from the March/April average. This effect is temporary, and we expect housing starts will climb once again in August and September.

Larger log size and the net effect of lagged impacts of changing crude oil prices, a general economy effect, will reinforce September's composite log price increase. Crude oil price's impact on stumpage markets is complex.³ For this market, counterbalancing crude oil effects can result in lifting, dampening, or maintaining prices depending on the specific mix of these factors. In this case, the overriding impact is lower crude oil prices reducing marginal conversion (i.e., both raw material delivery and manufacturing) costs, increasing marginal production and lifting demand.

Prices will begin to edge lower in October and November on seasonal buying and softer U.S. manufacturing activity (a factor within industrial sector effect). The lagged impact of housing starts breaking above 0.7 million SAAR in October will stir markets sufficiently to bounce prices back above \$35 in December. However,

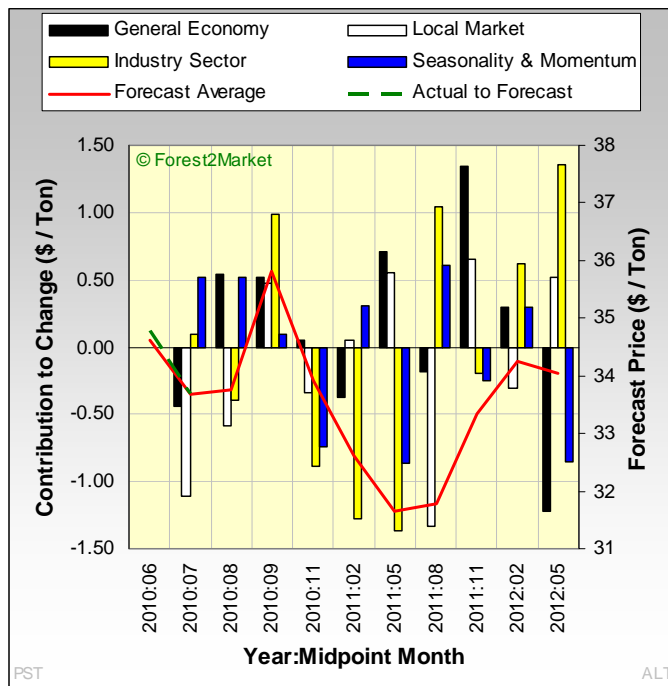


Figure S3. Period-to-period changes in pine sawtimber composite market price 4cast

³For more information on the impact of crude oil prices on stumpage markets see our Perspective "Slippery Stuff" at <http://www.delphiadvisors.com/perspectives/slippery-stuff.pdf>.

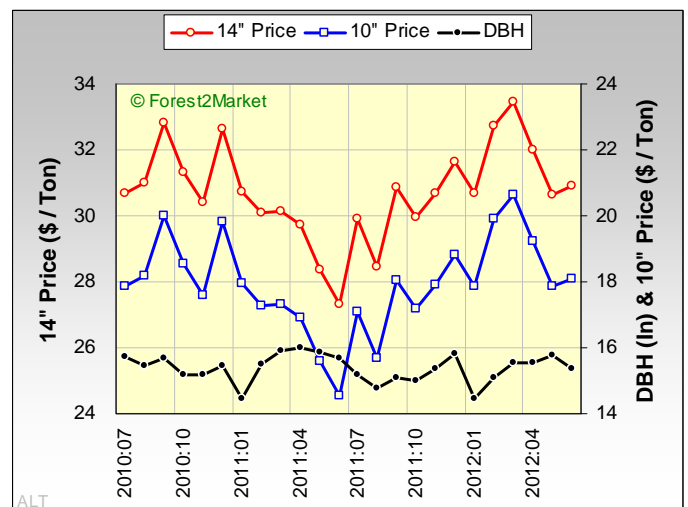


Figure S4. Relationship between pine sawtimber DBH and benchmark price 4casts

housing will begin to ebb lower beyond October, and manufacturing continues lower; this combination will drag 1Q2011 prices to average below \$33.

Prices will continue to crumble as the U.S. economy kicks into reverse in 2Q2011, further undermining manufacturing production levels. Prices test a \$30 floor in June 2011, corresponding to the low point on benchmark pricing for the forecast (Figure S4), and again in August 2011.

Falling log size will be the principal factor behind the August price near \$30 and 3Q2011 price below \$32. But first some additional context is in order. For the entire forecast, the projected log size average is 0.3 inch larger than the historical market average. This type of market response is not uncommon when demand for solid wood falls; timber owners attempt to increase the per unit value of their sales by selling larger timber. It also allows their smaller, generally faster-growing timber to continue growing on the stump.

Narrowing the focus from the 24-month forecast period, 1H2011 average log size is also forecast to be 15.6 inches, 0.3 inch larger than the historical market average for these same months. During 3Q2011, however, the difference between forecast and historical market average will narrow to 0.1 inch – producing a 0.6 inch decline in log size from 1H2011's average to 3Q2011's average. Stronger pulp and paper production relative to solid wood production, which shifts the mix of stands offered for sale toward stands with a higher component

of pine pulpwood and smaller sawlogs, will cause a reduction in log size in 3Q2010.

Markets will break off their downward trend in September as dropping crude oil prices and renewed weakness of the greenback against the loonie lift prices. Log size will also reverse course from its 3Q2011 decline as the housing start decline stabilizes, shifting stand selection toward larger diameter trees. As a result 4Q2011 average log size will increase by 0.4 inches relative to 3Q2011 while expanding the margin between 4Q2011 and the 4Q historical market average to 0.4 inch. The larger average tree size will apply upward pressure on 4Q2011 composite prices.

Prices will retrench briefly in January 2012 before pressing higher on marginally stronger housing, seasonal buying patterns, and a weaker US dollar against the loonie, achieving a forecast high above \$36 in March 2012. Average 1Q2012 price will be above \$34. Prices will trade lower in 2Q2012 on seasonal buying patterns as rising crude oil prices – the result of improving global demand and a weaker US dollar – cancel the impact of slowly improving industrial sector demand on the pine log market. As a result, average 2Q2012 composite log prices will remain above \$34 but drift slightly lower than 1Q2012's price. However, the relative stability in composite price will mask the 2Q2012 market weakness reflected in the 14-inch benchmark price, which drops by over \$1 per ton between 1Q and 2Q2012. ■

Pine Pulpwood Price 4cast

Pine pulpwood stumpage prices extended their retreat during the past three months, falling to \$9.69 in June from the February's peak of \$16.39 per ton (Figure P1; table, p. 1). Our models show that logging conditions were among the factors associated with the price run-up and subsequent retreat.

Readers may recall that rainfall ranged from normal to nearly 4.5 times normal amounts between July and December 2009 (making for muddy conditions during autumn inventory building); also, weak solid wood demand last year kept residual chip supplies low, which exacerbated the sloppy weather's impact on pine pulpwood's price. Since 2010 began, however, rainfall has been consistently below normal (see Weather section, p. 2). In addition, solid wood conditions have been stronger during 1H2010, which has modestly expanded residual chips supplies and contributed to recent pine pulpwood price declines.

We anticipate some additional near-term weakness in pine pulpwood pricing (bottoming at \$7.51 in October) before a ragged recovery (topping out at \$12.94 in February 2012) sets in for most of the remainder of the forecast. The overall forecast average price will be essentially the same as the present long-term historical average.

Overlaying the 4cast market index on the composite price forecast (center graph in figure on p. 1) shows when pulpwood buyers and sellers will be relatively advantaged during the next 24 months. Buying windows will dominate the first half of the forecast, with selling windows taking over during much of the latter half.

After taking a minor breather in July, pine pulpwood prices will continue lower through October. The start of the usual second-half decline in pulp sector output and

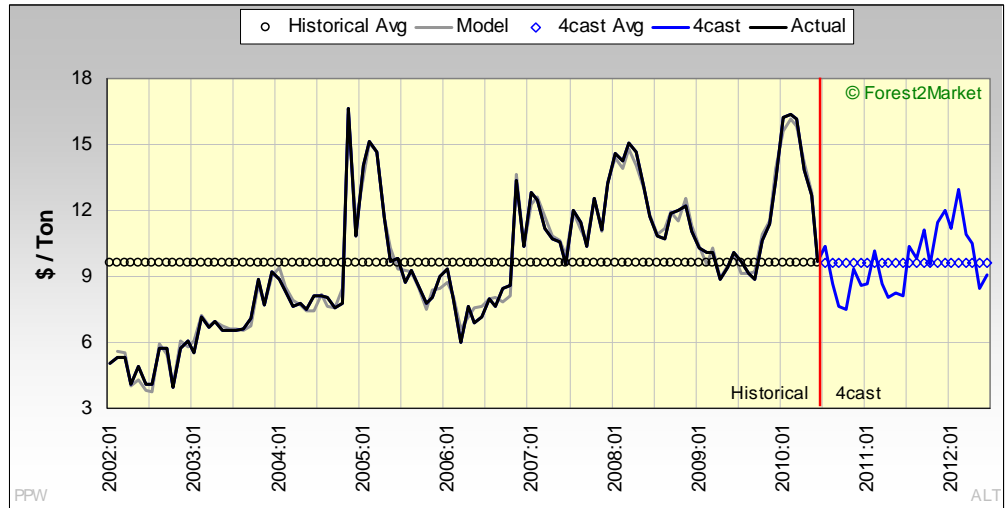


Figure P1. Pine pulpwood stumpage price 4cast

an extension of the correction in prices at the producer level (components of the industry sector effect shown in Figure P2) will be the main drivers in August.

The general economy and seasonal effects will take the reins in September. The relevant general economy factors in this case include lagged rates of change in the euro-dollar exchange rate and lagged rates of change in oil prices relative to their earlier moving averages. The dollar generally appreciated against the euro in mid-2010 – which decreased demand for pulpwood by making domestically produced goods less attractive to the European market, and foreign goods more competitive in U.S. markets. Also, since the look-back period cov-

Table P1. Pine pulpwood Market 4Cast-at-a-Glance

Month	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Year	2010						2011					
Window	S+	N	B	B	N	B	B	S	B	B	B	B
Year	2011						2012					
Window	S	S	S	B	S	S	S	S+	S	N	B+	B
ALT	"B+" = Strong Buyers' Window, "B" = Buyers' Window Neutral Window											
PPW	"S+" = Strong Sellers' Window, "S" = Sellers' Window											

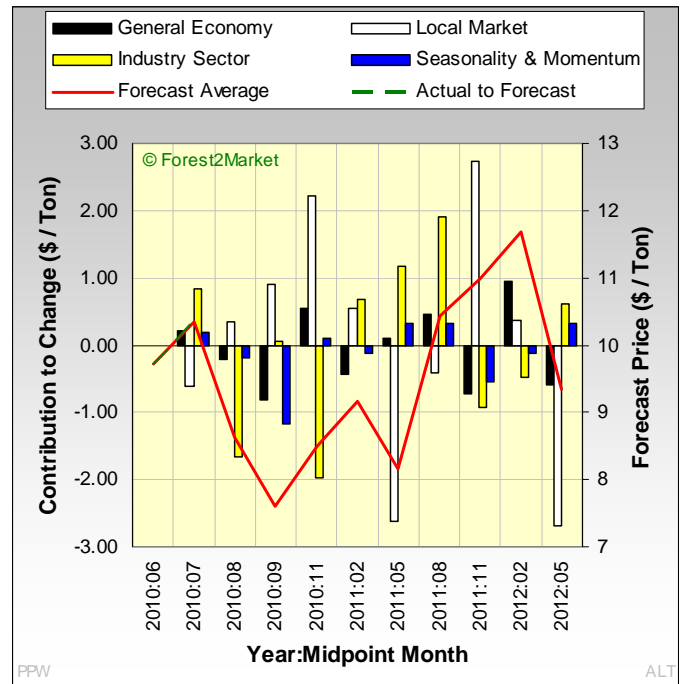


Figure P2. Period-to-period changes in pine pulpwood stumpage price 4cast

ered by the oil factors included some months during which the price of oil rose and others when it fell, we interpret those factors as indicating a softening in overall demand (i.e., conversion costs are higher and so marginal production is trimmed) and a tendency to acquire more raw material from outside the region (i.e. demand is dispersed, reducing demand in the immediate geography). The link in footnote 3 on p. 4 contains more information on oil's impact on stumpage prices.

October's price will fall another dime, to the forecast low of \$7.51, but the subsequent four months will trace out a rebound that ultimately breaks above \$10 in February 2011. This time the upward trend will be a function of the greenback's depreciation against the loonie; procurement patterns that are more concentrated in the region by higher oil prices, thus driving up demand; and generally above-average rainfall that complicates winter inventory building by limiting access, and thus reducing supply.

Although above-normal rainfall will continue to be the general rule (except for April 2011), warmer weather and active vegetative growth will expand potential supply by helping to improve logging conditions. Prices will drop back to the low \$8 level by April and remain there through June.

July 2011 will kick off a second price rally. Declines in housing starts and solid wood industrial production will coincide at that time, shrinking the volume of residual chips available to pulp sector mills. The impact of wet logging conditions will be sufficient to overcome the partially offsetting downward impacts of the other effects between October and December; rainfall is expected to rise during those mostly dormant-season months.

Despite hitting the forecast peak of \$12.94 in February 2012, pulpwood prices will exit 1Q2012 lower than they started. The lagged impact of falling 2H2011 oil prices will initially provide some support for longwood demand, but that will fade as residual chip supplies begin to recover with the resumption of post-holiday solid wood production schedules.

Improved ground conditions will expand supply and lower prices during 2Q2012 as rainfall patterns return to near normal, temperatures warm, and vegetative growth resumes. Pine pulpwood drops to \$8.48 in May but manages to limp back to \$9.06 in June – almost equidistant between this region's long-term historical average for June (\$8.53) and the overall average (\$9.58). ■

Hardwood Pulpwood Price 4cast

Like pine pulpwood, hardwood pulpwood prices have retreated significantly since peaking at \$15.87 in February (Figure H1); June's average price of \$8.83 means that prices have dropped by roughly 44 percent. Also like pine, the rise and fall of hardwood's price was chiefly weather induced. In this case, too, solid wood markets played a role; most hardwood pulpwood supply across the South is generated as a by-product of pine log harvest activity. The soft solid wood demand last year exacerbated the precipitation effects by reducing the supply of hardwood pulpwood across the wood system. Stronger 1H2010 solid wood markets, coupled with dry conditions, have subsequently expanded supplies and dragged prices lower.

Unlike pine, however, hardwood's price forecast exhibits an overall downward trend within a fairly tight range of \$2.16 per ton. The temporary divergence of the two products' prices after mid-2011 will allow the pine-hardwood price ratio to rise to levels not seen since early 2008 (Figure H2). July 2009's \$9.47 will be the high point of the forecast, while the \$7.31 of January 2012 will be the low point. That price divergence may offer mills a chance to economize by shifting to higher proportions of hardwood pulpwood in their furnish mix.

Buying and selling windows will come in fairly lengthy blocks during the first half of the forecast, then alternate at shorter intervals thereafter (Table H1; bottom graph in figure on p. 1).

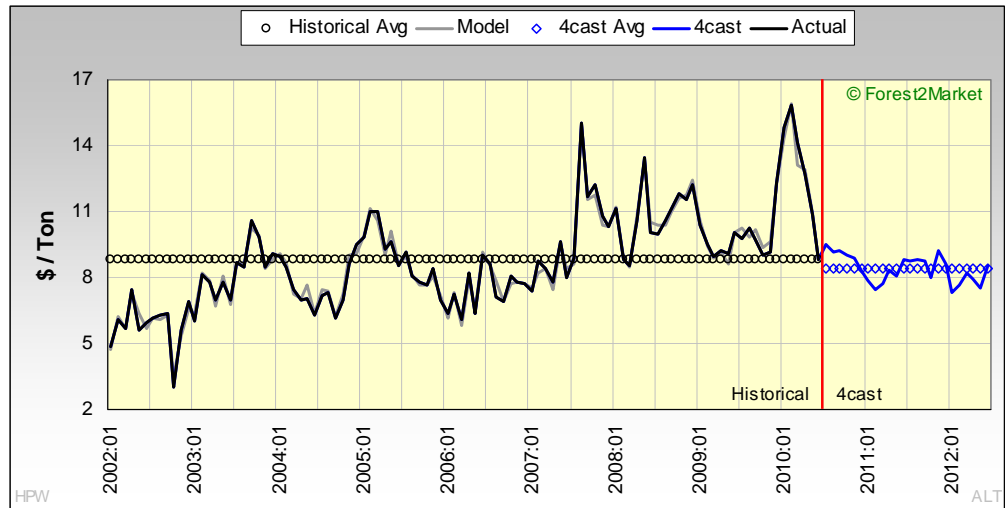


Figure H1. Hardwood pulpwood stumpage price 4cast

Our models are calling for a minor price bump in July, brought about by a combination of industry sector and seasonal effects (Figure H3, next page). The seasonal factors deal with annual price patterns and the probability of weather-related supply disruptions. The industry sector effect, on the other hand, is itself the product of a variety of concurrent and lagged factors related to regional pulp sector activity. Since some of those factors behave as demand variables and others as supply variables, their net effect provides a glimpse into the balance between supply and demand. On net, then, our models see the return of hardwood prices to the regional long-term historical average as providing some upward price pressure from additional demand relative to supply.

Prices will slide lower between August and February 2011 as the upward push from seasonal and industry sector effects fades in August and then goes into reverse. Those effects will be joined sporadically by the general economy and local market effects. In August, the additional downward pressure from the general economy effect is largely the result of the greenback's appreciation against the loonie between April and May; drier logging conditions from below-normal 1H2010 rainfall will expand potential raw material supplies by improving access to low lying stands that contain a larger proportion of hardwood.

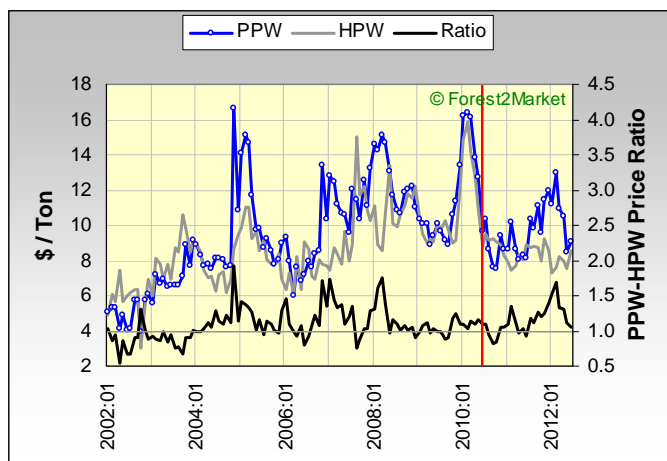


Figure H2. Pine and hardwood pulpwood prices versus pine-hardwood price ratio

Table H1. Hardwood pulpwood Market 4Cast-at-a-Glance

Month	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Year	2010						2011					
Window	S	S	S	S	S	B	B	B+	B	N	B	S
Year	2011						2012					
Window	S	S	S	B	S+	S	B+	B	S	N	B	S
ALT	"B+" = Strong Buyers' Window, "B" = Buyers' Window Neutral Window											
HPW	"S+" = Strong Sellers' Window, "S" = Sellers' Window											

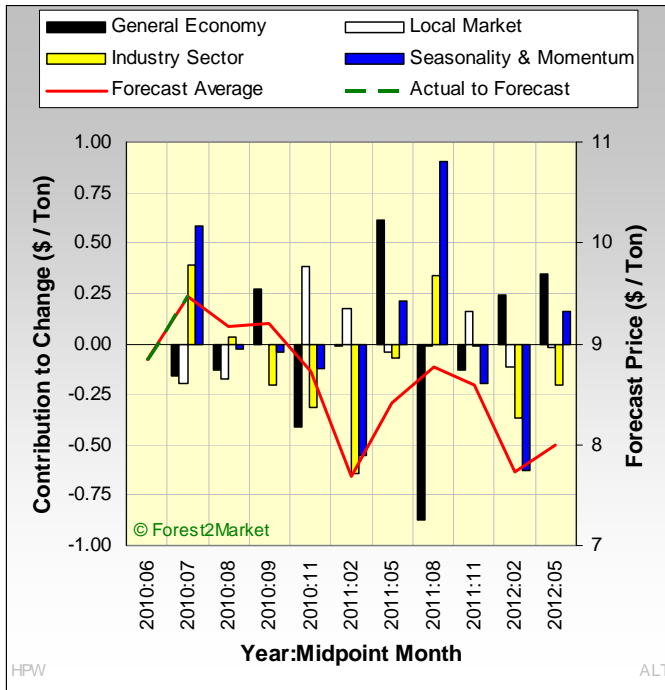


Figure H3. Period-to-period changes in hardwood pulpwood stumpage price 4cast

After stalling in September because of offsetting effects, the price decline will pick up speed in 4Q2010. Pulp sector demand typically falls off during the second half of each year, and we expect that pattern to be repeated. Simultaneously, the pace of change in lagged oil prices and currency exchange rates will augment the 4Q downward pulse. We expect oil prices to extend the rally begun in June; those higher prices will decrease demand for pulpwood (The link in footnote 3 on p. 4 contains more information on oil's impact on stumpage prices). At the same time, the dollar's appreciation against the euro will decrease demand for domestically produced finished goods.

The retreat will extend into February 2011 as mills draw down wood yard inventory, reducing market demand. Prices will then trend higher through June, primarily on the impetus of 1Q2011 dollar depreciation against the euro and an oil price-induced rise in raw material demand.

Countervailing effects will move prices sideways through 3Q2011, followed in 4Q2011 by a bit of volatility that is induced by alternating factors: Demand will decrease in October from the lagged impacts of rising interest rates; above-normal autumn rainfall will provide upward price pressure in November; and completion of inventory building will ratchet prices lower in December.

Wood yard inventory draw-downs will pull January 2012's price lower still, but then the dollar's 2H2011 depreciation against the loonie will provide fuel for a rally through March 2012.

The expected 1H2012 increase in solid wood industrial production (a broader measure of activity than housing starts, which are expected to be flat between 3Q2011 and 2Q2012) will weaken hardwood longwood prices once again in April and May. As we have stated in the past, much of hardwood pulpwood supply across the South is a byproduct of pine sawtimber harvest activity. Thus, an increase in sawtimber supply also boosts hardwood pulpwood supply.

The forecast ends on an "up" note as the dollar's depreciation against both the euro and loonie, and a greater reliance on woods-based raw material delivery help boost demand. ■