



Forest2Market®

Solutions for the Forest and Wood Products Industries

Market Guide

for TIMBER OWNERS

East-South Region

March/April 2010

Volume 10, Issue 2

Market Outlook

Prices for all categories of wood fiber except hardwood sawtimber rose this period.

Pine Sawtimber prices gained more than \$1 per ton, moving from \$28.35/ton to **\$29.69/ton**, a 4.7 percent increase. This movement is the result of increased demand: mills are building inventory in expectation of the upward trend in the number and volume of lumber orders and lumber prices will continue.

Pine Chip-n-Saw prices increased dramatically this period, moving from \$15.69/ton to **\$17.41/ton**, an 11 percent improvement.

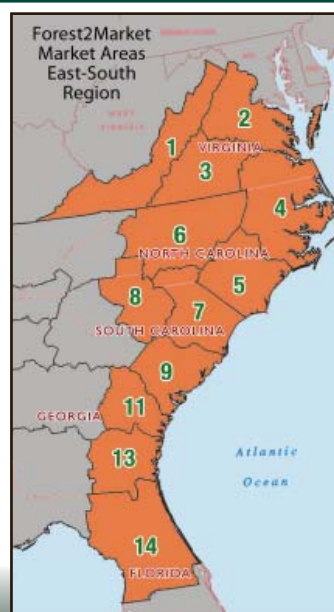
Expect pine sawlog prices to fall over the summer, a reaction to the discontinuation of the homebuyer tax credit.

Pulpwood prices gained ground as well. With positive news on the gross domestic product (GDP) front (paper demand generally tracks GDP), pulp demand is on the rise, and competition for the limited supply is driving the market.

Pine Pulpwood prices increased during the period, up 2.5 percent, from \$10.81/ton to **\$11.09/ton**.

The two-month average for **Hardwood Pulpwood** prices jumped, up 36 percent from \$7.77/ton to **\$10.58/ton**. Pulpwood prices should begin leveling off mid-year as well.

Hardwood Sawtimber prices dropped again this period, falling 4 percent after last period's fall of 5 percent, from \$19.57/ton to **\$18.78/ton**.



Weighted Average Stumpage Prices (\$/ton) Mar/Apr 2010

Forest2Market Micromarket #	14" Pine Sawtimber	10" Pine Chip N Saw	Pine Pulpwood	Hardwood Sawtimber	Hardwood Pulpwood
1	\$ 20.98	\$ 11.44	\$ 8.03	\$ 21.15	\$ 4.49
2	\$ 32.81	\$ 19.13	\$ 9.58	\$ 18.58	\$ 9.95
3	\$ 30.10	\$ 18.46	\$ 8.89	\$ 20.31	\$ 8.01
4	\$ 26.87	\$ 15.68	\$ 11.58	\$ 19.35	\$ 9.33
5	\$ 26.94	\$ 17.84	\$ 11.14	\$ 22.54	\$ 5.31
6	\$ 32.91	\$ 17.79	\$ 9.18	\$ 17.75	\$ 6.07
7	\$ 34.47	\$ 20.43	\$ 10.45	\$ 20.58	\$ 10.21
8	\$ 33.12	\$ 17.51	\$ 9.57	\$ 21.50	\$ 12.73
9	\$ 30.40	\$ 17.17	\$ 11.86	\$ 21.29	\$ 13.91
11	\$ 27.94	\$ 18.41	\$ 10.53	\$ 19.69	\$ 12.27
13	\$ 29.12	\$ 18.65	\$ 12.84	\$ 17.50	\$ 10.53
14	\$ 30.59	\$ 16.48	\$ 13.79	\$ 19.35	\$ 8.53

This report contains aggregated individual timber sale stumpage data. Many variables, such as raw material demand, mill inventories, buyer competition, quality, topography and weather, play key roles in determining local prices. Pine Sawtimber prices are based upon a 14-inch Diameter-at-Breast-Height (DBH) log size. Pine Chip N Saw prices are based upon a 10-inch DBH log size.

Industry Happenings

Rollcast Energy has secured the required permits for its 53.5 MW biomass power plant in Barnesville, Ga. The company plans to begin construction at the end of 2010 and expects the plant to be on line in 2012. Approximately 500,000 tons of logging and urban wood waste will be consumed by the plant annually. Rollcast also plans two additional facilities: one near Franklin, Ga., and another near Newberry, S.C. The Newberry facility will use a greater proportion of logging residues than the Ga. plants, which will use more urban wood waste since they are near the Atlanta area.

Orangeburg County Biomass is in the beginning stages of

planning a 35 MW biomass power plant in an Industrial Park in the eastern part of the county.

Rayonier sold 4,900 acres of land in 16 counties in South Georgia in April to 40 buyers for a total of \$6.3 million, or an average of \$1286 per acre. The company divided the original 6,200 acres offered for sale into 106 tracts ranging from 2-143 acres. Auctioneer Gene Klingaman said, "We had more than 40 different successful buyers, so the bidders seeking smaller amounts of land more than held their own against the larger investors. This served to create more competition, ensuring that the high bids would represent fair values based on today's market conditions."

RWE Innogy of Germany has broken ground on its 750,000 tons/year wood pellet manufacturing facility in Waycross, Ga., which will open in the first quarter of 2011. The plant, Georgia BioMass, will cost \$150 million and create 75 jobs. Additional jobs will be created in the forestry and logging industries. Georgia BioMass will ship the pellets it produces to Europe through the Port of Savannah.

Georgia-Pacific's purchase of Grant Forest Products' two South Carolina OSB mills has been approved by the bankruptcy court. The mills are located in Allendale and Clarendon.

Helpful Information

A Complete Look at Logger Expenses

In the last issue, we promised a more in-depth look at the cost structure of a logging business as a way of providing insight into the difference between the stumpage price paid to a timberland owner and the price paid by the mill for the timber.

Total price at the mill can be divided into four categories: stumpage price, harvesting costs (all the costs listed in Table 1 except those associated with hauling the timber from the timber tract to the mill), trucking or hauling costs and logger profit.

Table 2 shows the components of delivered price broken down as a percentage of total price.

Across the board, these numbers show that the majority of the price being paid by the mill goes back to the timberland owner. This number is highest for sawtimber, reflecting the investment of time and money that landowners make in order to produce larger trees.

The dollar amounts for both harvesting and hauling are roughly equivalent, as a truckload of sawtimber and a truckload of pulpwood weigh roughly the same and take roughly the same amount of effort to cut and load onto the truck. The higher percentages for pulpwood in these two categories are primarily a reflection of the lower total price that a mill pays for pulpwood.

Profit margins for the supplier range from an average of 3 to 5.5 percent. In general, a profit margin reflects two things: the amount of value added to the product during processing and the amount of risk associated with the endeavor. While loggers don't technically add value to the timber they process and deliver, they do turn trees into logs. Without them, no wood would be available to

the mills that do add value to timber by converting it to lumber, paper or furniture.

The risks of working in the logging industry are also significant. Nationally, the average worker's fatality rate was 3.6 deaths per 100,000 in 2008; for loggers, that number was 115.7 per 100,000. Short of the military and commercial fishing, logging is considered the most dangerous job available in the U.S.

The financial risks for the owner are also high. On one hand, these companies have to invest in several pieces of heavy equipment, ranging in cost from \$250,000 to \$1 million. On the other hand, the source of income is far from stable. The ability to harvest, get paid and make equipment payments depends upon multiple factors outside the control of loggers: natural disasters, wet weather, tract availability, and consumer/mill demand.

In the current economy, the weight of the costs has driven many loggers out of business; the estimates of the number of companies no longer operating range from 25 to 50 percent. When the market recovers, landowners may have difficulties finding reliable loggers when they are ready to sell. In addition, because they are leery of taking out additional equipment loans, many loggers can't take advantage of new opportunities like the emerging market for harvest residues for energy production. When loggers can't collect or deliver this material, landowners miss out on an additional source of revenue as well.

Table 2: Breakdown of Logger Costs from the Forest to the Mill, Southwide, 1Q2010

	Pine sawtimber	Pine pulpwood
Stumpage price	58.0%	37.5%
Harvesting costs	25.0%	36.0%
Hauling costs	14.0%	21.0%
Profit margin	3.0%	5.5%

Percentage of total costs based on a weighted avg price/ton

Table 1: The Cost Structure of a Logging Business

Source: MS State University, "Logging Cost and Productivity Survey," 2002: <http://www.wssg.cfr.msstate.edu/documents/Brochure-Master.pdf>.

- I. Equipment
 - a. Loan payments
 - b. Depreciation
 - c. Taxes (highway use, personal property)
- II. Labor
 - a. Payroll (wages and salaries)
 - b. Payroll taxes (Social security, Medicare and Unemployment)
 - c. Worker's Compensation Insurance
 - d. Employee benefits
- III. Consumables
 - a. Tires
 - b. Fuel
 - c. Oil and lubricants
 - d. Parts and maintenance
 - e. Truck and equipment washing
 - f. Chain saws and other small tools
 - g. Gravel
 - h. Mats
 - i. Wrecker service
- IV. Administrative Overhead
 - a. Secretary wages
 - b. Bookkeeping/Accounting fees
 - c. Office expenses
 - d. Licenses
 - e. Fines
 - f. Legal fees
 - g. Professional dues
 - h. Travel expenses
 - i. Phone expenses
 - j. Medical expenses
 - k. Educational costs
- V. Insurance
 - a. General liability
 - b. Equipment fire/theft/vandalism
 - c. Umbrella policy
- VI. Contract Services
 - a. Contract hauling
 - b. Road building/best management practices

