



Historic Lows in Southern Pine Sawtimber Prices (?)

The past few years have not been high-income years for most timber growers in the US South. The collapse in US housing starts beginning in 2006 has resulted in a significant reduction in demand for lumber, logs and timber. We pointed out in *Timber Prices* (Vol 6 No 2) that housing starts in 2009 were running at one third of their long-term average, while pine sawtimber prices were at two thirds of their long-term average. Housing starts have improved slightly, but pine sawtimber prices have not. How bad are sawtimber prices?

Figure 1 shows quarterly southwide sawtimber prices published by Timber Mart-South (TMS) since 1976. Current prices are at levels last seen in the mid-1990s, and still higher than they were between 1976 and the mid-90s. But these are nominal prices. What happens to these prices when we take inflation into account?

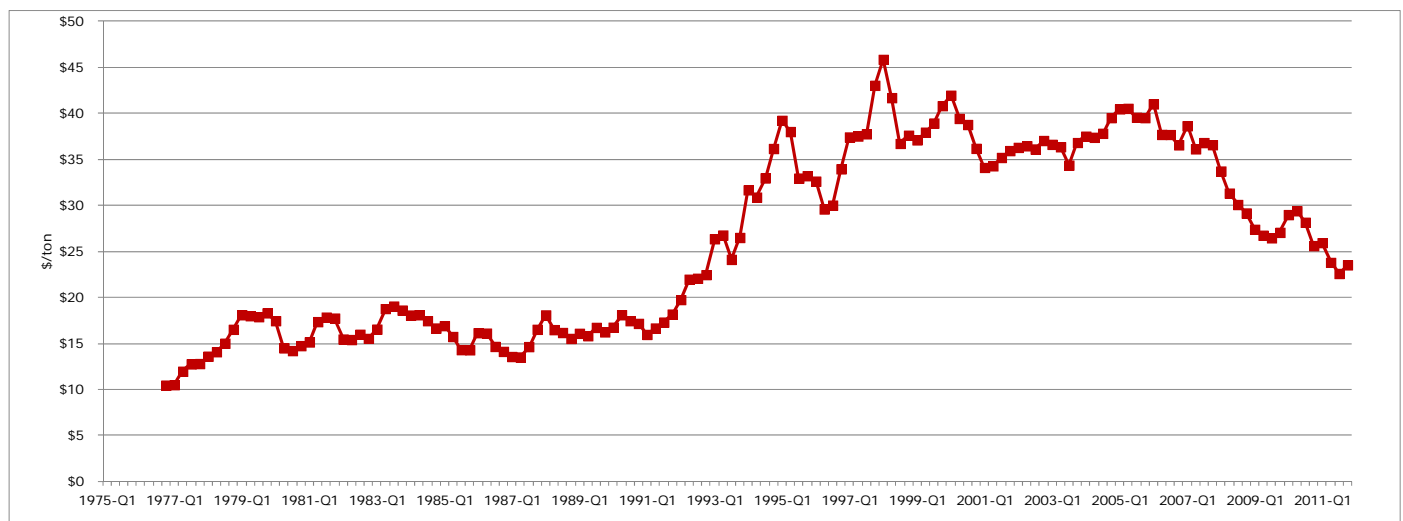
When adjusted for inflation (Figure 2), current prices *are* the worst ever reported by Timber Mart-

South. They held up fairly well until the second half of 2010, then they fell from about two-thirds of the long-term average to 56 percent of the long-term average. Current prices are about 16 percent lower than the last lowest price in the first quarter of 1991.

But there are only 36 years of prices here. That is barely enough time to grow a single crop of southern pine. (The southwide average rotation age might be 25-30 years, with some stands being grown for as few as 20 years and some still being grown to 50 years--it all depends on productivity and markets.)

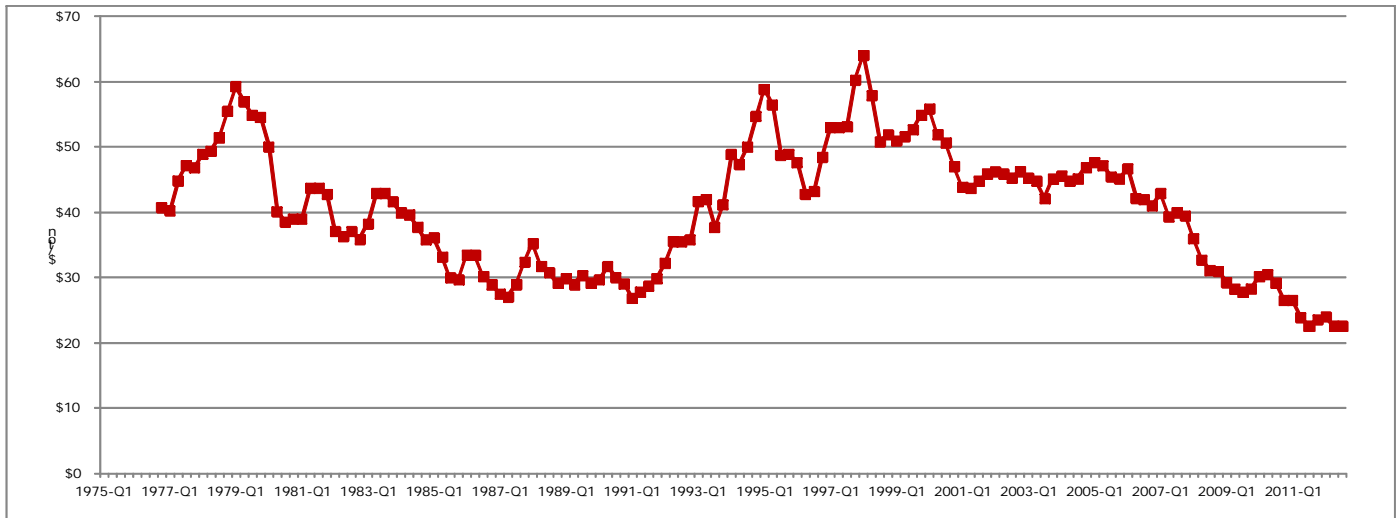
There is a way to look back further in time, using data from the Louisiana Department of Agriculture and Forestry (LA DAF), a technique we first showed back in *Southern Pine Sawtimber Price Trends* (Vol 1 No 2). LA DAF has been publishing stumpage prices since 1955 (two rotations).

Figure 1. Southwide Sawtimber Stumpage Prices (nominal \$)



Source: *Timber Mart South*

Figure 2. Southwide Sawtimber Stumpage Prices (real (inflation-adjusted) \$)



Source: *Timber Mart-South*

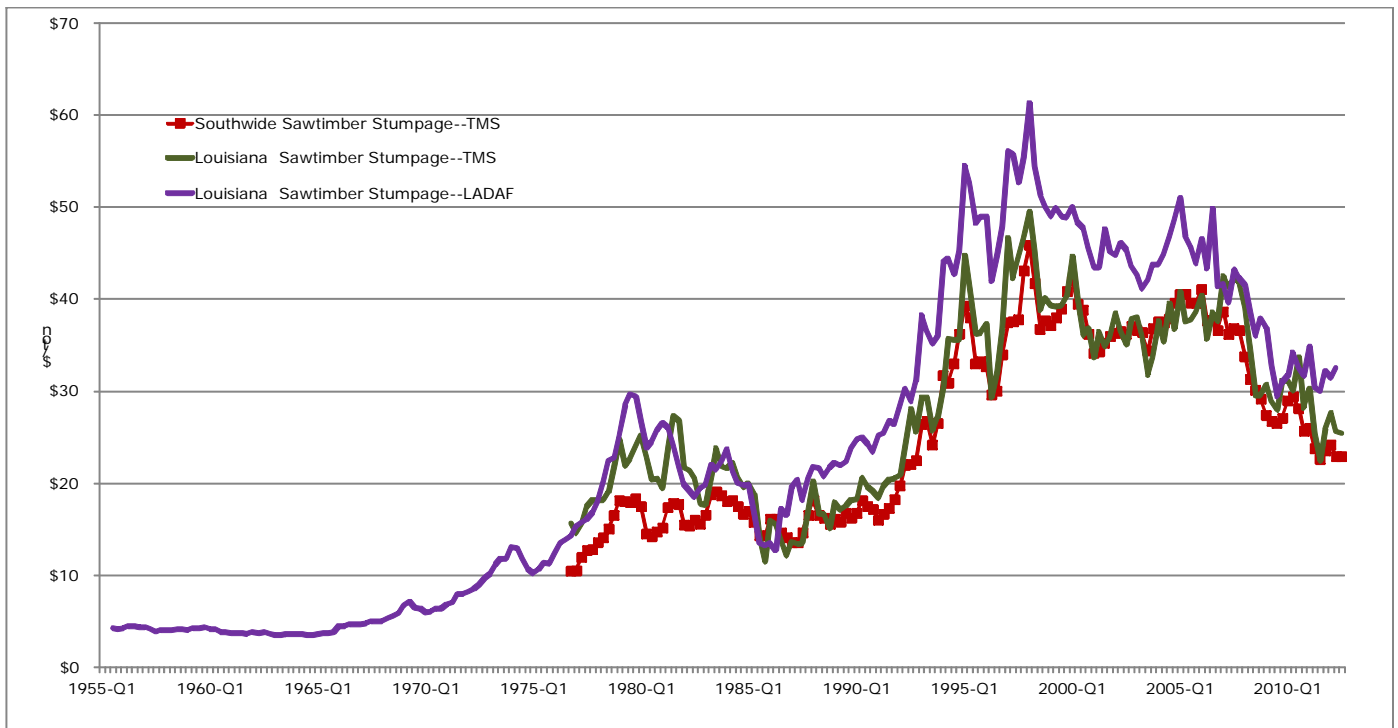
Figure 3 compares southwide and Louisiana southern pine stumpage prices published by Timber Mart-South with prices for Louisiana pine sawtimber published by LA DAF.

Where they overlap (since the fourth quarter of 1976), the three series are highly correlated with each other (Table 1).

Table 1. Correlation Coefficients for Nominal Price Series

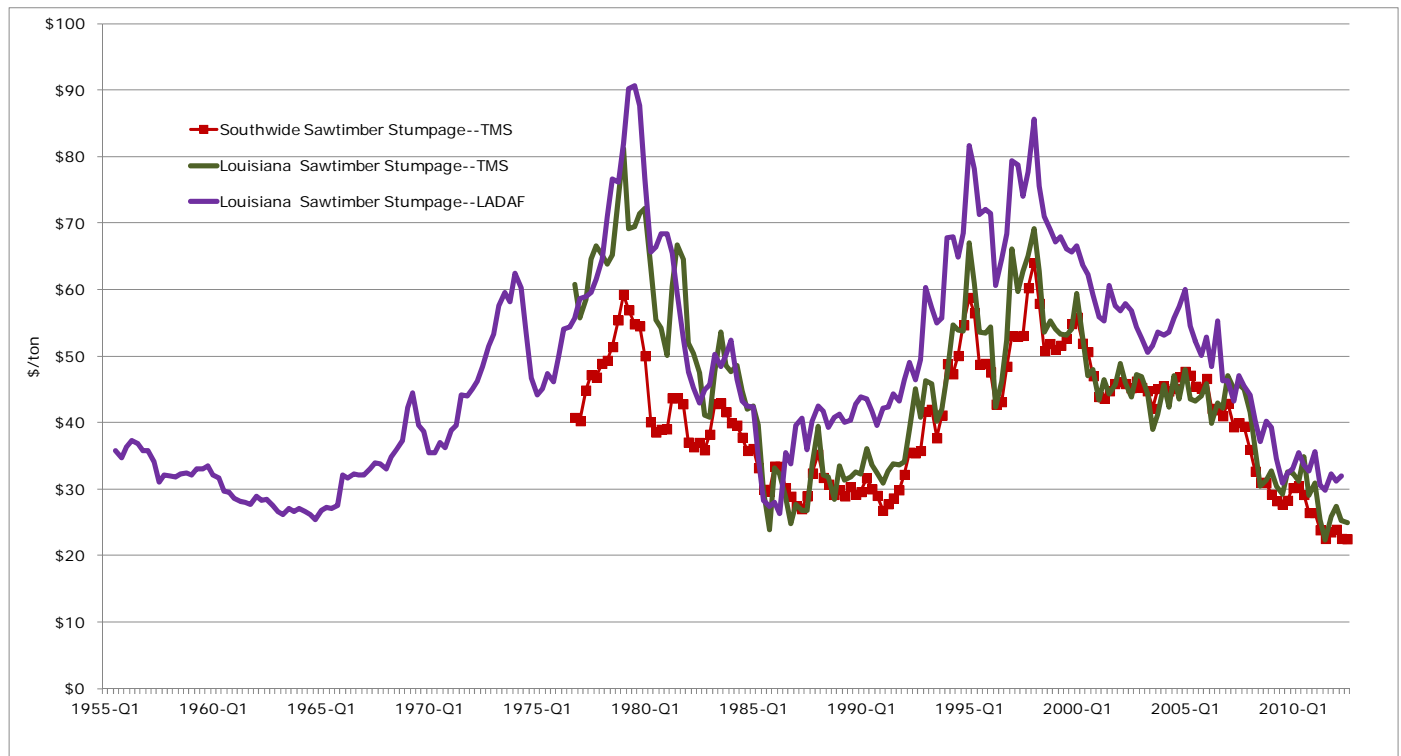
	Southwide (TMS)	LA (TMS)	LA (LA DAF)
Southwide (TMS)	1.0000	0.9641	0.9598
LA (TMS)		1.0000	0.9542
LA (LA DAF)			1.0000

Figure 3. Southern Pine Sawtimber Prices from TMS and LA DAF (nominal \$)



Sources: *Timber Mart-South and Louisiana Department of Agriculture and Forestry*

Figure 4. Southern Pine Sawtimber Prices from TMS and LA DAF (real \$)



Sources: *Timber Mart-South and Louisiana Department of Agriculture and Forestry*

Figure 4 shows the inflation-adjusted prices. The correlation coefficients for the three series are slightly lower than for the nominal series, but still strong (Table 2).

Table 2. Correlation Coefficients for Real Price Series

	Southwide (TMS)	LA (TMS)	LA (LA DAF)
Southwide (TMS)	1.0000	0.8784	0.9074
LA (TMS)		1.0000	0.8921
LA (LA DAF)			1.0000

When we look for the lowest prices in the series, we find the lowest prices occur at different times. Table 3 shows the ten lowest prices for each of the real price series in Figure 4. (We provide prices rounded to the nearest dollar to show that the range for these low prices is fairly tight and unrounded prices to provide detail for those who want it.)

For the TMS southwide prices since 1976, the last eight quarters have seen the eight lowest prices. The ninth and tenth lowest prices occurred back 20 years ago.

The picture is a little different for the TMS Louisiana prices. Here, six of the ten worst prices occurred in the last six quarters, but they are mixed in with prices from the mid-1980s.

And none of the recent quarters have seen the lowest prices for LA DAF prices. In fact, all the lowest prices in that series are from almost 50 years ago.

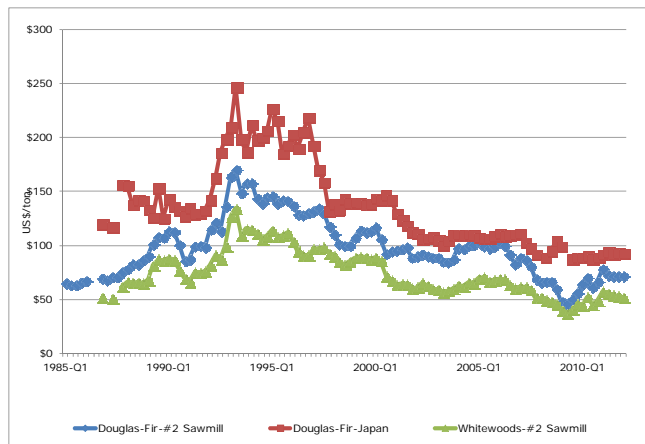
If the relationship between the TMS southwide prices and the LA DAF prices has remained steady over the past 50 years, it is likely that the lowest (real) southwide prices also occurred back in the 1960s.

Table 3. Lowest Price Rankings (Real \$/ton)

Rank (1 = Lowest Price)	Southwide Sawtimber Stumpage--TMS			Louisiana Sawtimber Stumpage--TMS			Louisiana Sawtimber Stumpage--LADAF		
1	2012-Q3	\$23	\$22.52	2011-Q3	\$22	\$22.39	1964-Q4	\$25	\$25.34
2	2011-Q3	\$23	\$22.56	1985-Q4	\$24	\$23.92	1964-Q3	\$26	\$26.10
3	2012-Q2	\$23	\$22.57	1986-Q4	\$25	\$24.85	1963-Q2	\$26	\$26.17
4	2011-Q4	\$24	\$23.54	2012-Q3	\$25	\$24.95	1986-Q2	\$26	\$26.28
5	2011-Q2	\$24	\$23.86	2012-Q2	\$25	\$25.24	1964-Q2	\$27	\$26.56
6	2012-Q1	\$24	\$23.96	2011-Q2	\$25	\$25.46	1963-Q1	\$27	\$26.60
7	2011-Q1	\$26	\$26.46	2011-Q4	\$26	\$25.81	1963-Q4	\$27	\$26.64
8	2010-Q4	\$26	\$26.46	1987-Q3	\$27	\$26.75	1965-Q1	\$27	\$26.74
9	1991-Q1	\$27	\$26.80	1987-Q2	\$27	\$26.79	1964-Q1	\$27	\$27.03
10	1987-Q2	\$27	\$27.03	2012-Q1	\$27	\$27.38	1965-Q3	\$27	\$27.09

Note that the West has not seen the real timber price decline experienced in the South (Figure 5). Export markets for both softwood logs and lumber have actually pulled real log prices up in that region.

Figure 5. Western Softwood Log Prices (real \$)



Sources: Log Lines and Oregon Department of Forestry

Summary

Current (real) southern pine timber prices are at low levels, but they are probably not lower than they have ever been.

For the past eight quarters, inflation-adjusted Southwide southern pine prices have been at their lowest levels since Timber Mart-South began publishing in 1976. But nobody sells stumpage into the Southwide market, they sell stumpage into their

local market. While the last quarter (Q3 2012) was the lowest quarter ever for TMS southwide prices, it was only the fourth lowest quarter for TMS Louisiana prices. And the longer term prices available from the State of Louisiana suggest that real prices were lower back in the mid-1960s.

Once housing starts recover (and there are some signs that this is beginning to happen), demand for pine sawtimber will increase. We have been storing timber on the stump for a few years (and could have at least a year or maybe 3 years worth of harvest stored on the stump (see *Housing Starts and Lumber Production*, Vol 8 No 4)) and this stored inventory will dampen any timber price recovery until it is worked through. If history repeats itself (see Figure 2 and Figure 4) we could see prices near \$60/ton in 10 or 15 years.

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