WHITE PAPER

Beyond Volatility:

Embracing Margin Discipline in the North American Lumber Industry

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Executive Summary

The North American lumber industry faces important challenges. This demands a strategic response. Known for its cyclicality and volatility, the industry faces persistent cost pressures, idle capacity, and a fragmented supply base of more than 475 companies—where the top ten represent under 50% of total capacity.

In the current trough, several mills are struggling with reduced profitability, and some operate at a loss. This is particularly afflicting primary processors and integrated players (i.e., those integrated downstream with exposure to pulp or engineered wood). Rising delivered log costs, high stumpage fees, and uncertainty around tariffs have compounded the pressure, threatening to further squeeze margins.

The future may however offer a relief. Multiple analysts, industry experts and our own models converge on a moderate recovery scenario for 2026–2028, underpinned by a structural US housing shortfall of roughly 3–4 million units and an aging housing stock—forces that together are expected to fuel annual growth of about 5–6 % in new home construction and 2–3 % in remodeling[1]. Taken together, these two segments account for roughly 70% of total lumber demand. With that, prices could recover above current levels as the supply–demand balance tightens. Market consensus price band for the random lengths framing lumber composite is of roughly US$520–650/mbf in 2026–2028 (+18–45% vs. today).

While these encouraging prospects for growth generate optimism, some material risks remain and might extend beyond 2025 (e.g., tariff uncertainty, macro drivers limiting house starts). Considering those risks and the cyclicality of the industry, industry players should focus on margin improvement to be resilient through the cycles. Specifically, we believe integrated players may consider the following moves: 1: Diversify into Engineered Wood Products (EWPs), 2: Gain exposure to the southern US, 3: Embrace Diversified Revenue Streams, 4: Digitize operations.

A challenged industry

The lumber industry faces several challenges: its demand is cyclical and at a low, it faces cost inflation and suffers from overcapacity and lack of discipline driven by fragmentation.

Cyclical trough

The industry experiences considerable volatility. After a steep run–up during the pandemic–driven housing boom, lumber prices have fallen by about half from their 2021 peak of approximately US$1,000/mbf

Cost pressures

Meanwhile, the overall cost to produce a board foot of dimensional lumber has risen by 17% since 2019. This rise is primarily driven by input fiber (softwood, hardwood logs) that accounts for 45% to 55% of total costs on lumber production. In many Canadian regions, stumpage and fiber expenses have climbed due to factors such as wildfires, beetle infestations, and shifting regulations; Interior BC coniferous sawlog stumpage, for instance, has climbed about 35 % since 2019. The southern US remains comparatively stable, widening cost disparities across North America.

Fragmented market structure

The North American lumber industry is fragmented and in aggregate lacks responsiveness to demand. Over 475 mill operators across North America – most relatively small – and

1. **Source:** RBC Capital Markets "Paper & Forest Products Q125 Preview" (Apr 24 2025), BMO Capital Markets "Canadian Housing Monitor" (May 2025), Harvard JCHS LIRA, Apr 2025, TD Securities US Housing–Starts Data Commentary (May 16, 2025), Fastmarkets Lumber Outlook (Feb 2025); FEA

the top 10 players account for less than 50% of capacity. Fragmentation of the market often leads to a lack of discipline. While some large and sophisticated players are implementing curtailments, many operators are not responding to market signals and unprofitable capacity remains in operations. We estimate that about 20–30% of operational industry capacity might not cover all–in production costs with the lower market prices experienced in 2024.

Cautious optimism warranted

While challenges persist, and 2025 outlook is likely subdued given near–term uncertainty, there are signs of recovery that provide reasons for cautious optimism. These include recovering lumber prices and anticipated growth in residential construction demand.

Rise in demand

While spring–2025 housing and remodeling demand remained quite soft, the macro housing shortage sets conditions for mid–term sustained demand growth in residential construction. New residential construction activities in the US – which account for 33% of the lumber end market – are expected to see ~5% p.a. growth between 2025–2028.

Industry forecasts suggest that overall, North American lumber demand could grow from about 59 BBF[2] in 2024 to 63 BBF by 2030 (CAGR 1.1%), driven predominantly by residential construction and home improvements (70% of total demand:

- **Multi–Family Housing:** Continues to benefit from strong rental demand linked to urbanization, changing household preferences, and millennial demographics.

- **Single–Family Homes:** Persisting housing shortages and potential policies to open federal land for new developments could support single–family construction, which is particularly lumber–intensive.

- **Renovation Demand:** More than 50% of US homes are 40+ years old, ensuring an ongoing need for repair and remodeling. Softwood and treated lumber remain staples in renovation projects.

Potential for price recovery

With an expected steady uptick in overall demand, many observers anticipate a gradual rebound in lumber pricing through 2026–2028. Spot benchmarks already reflect early momentum: As of May 2025, Western SPF has climbed over 10 % off its late–2024 low and Southern Yellow Pine is up ~25 % YTD.

Overall, analysts at several brokerages project benchmark price band for the random length framing lumber composite of US$520–650/mbf in 2026–2028, still below the pandemic peak but well above current spot quotes of approximately US$440/mbf.

Uncertainty and potential headwinds

While the demand narrative is improving, significant uncertainties remain:

Trade tariffs. The US Department of Commerce's 6th administrative review indicates that the average anti–dumping/countervailing duty on Canadian softwood may rise to ~9–15 % later this year. In parallel, a Section 232 probe is examining whether to impose an additional ~25 % tariff on Canadian (and potentially Mexican/EU) lumber. While both measures remain uncertain, if they are ultimately implemented the combined duty would land in the 35–40 % range. The ongoing uncertainty around tariffs is also weighing on builder confidence: the NAHB/Wells Fargo Housing Market Index fell to the lowest since early 2024 and builders warn that tariffs may add about US$9,000 per home in material costs.

1. Billion board feet

Macro factors. Mortgage rates near 6.7 %, slower housing starts (–11 % m/m in March) and lingering labor/lot shortages continue to cap near–term demand. On the supply side, estimates suggest that 15–20% of the construction workforce may be undocumented. Should efforts to curb illegal workers intensify, this would put pressure on construction labor, creating uncertainty for project timelines and potentially curb the expected rate of housing builds.

Considering those factors, the price recovery which is underway is likely to hinge on the resolution (or escalation) of tariff policy and the trajectory of US housing demand.

A Path Forward: Shifting to a Margin–Focused Approach

Despite the cyclicality, lumber players have generated returns comparable to others in the Forestry, Pulp, Paper, and Packaging sector, with approximately 7% 10–year TSR.

Nevertheless, the industry remains vulnerable to downturns. To break free, companies must move away from chasing volume and instead focus on protecting margins, building resilience to deliver superior shareholder returns.

Specifically, to protect returns through the cycles and capitalize on a potential recovery, integrated players may consider the following moves: diversify and channel growth capex into higher–margin Engineered Wood Products, gain exposure to the southern US, embrace diversified revenue streams such as carbon credits and by–products, and digitize operations.

1: Diversify into Engineered Wood Products (EWPs)

Expanding into Engineered Wood Products (EWPs) has proven to deliver better returns and more stable margins. EWPs, such as OSB, LVL, and CLT, offer 2x the margins of commodity lumber and benefit from growing demand across residential and commercial construction. Leading players are already capturing this opportunity:

- **West Fraser's** $3.1B acquisition of Norbord solidified its position as North America's largest OSB producer, stabilizing returns and boosting its portfolio.
- **Mercer Mass Timber** expanded into CLT with $133M in acquisitions, leveraging its sawmill capabilities to move downstream.
- **Louisiana–Pacific's** shift to OSB has delivered consistent investor confidence and resilient shareholder returns.

Further, the EWP market outlook is strong, with **OSB projected to grow at 4% CAGR, LVL at 5%, and CLT at 17%** through 2028.

2: Gain exposure to the southern US

Companies can drive profitable growth through efforts to boost their exposure to the southern lumber regions of the United States. The area has **abundant fiber availability**, bolstered by fast–growing trees (25 years vs. 70 in British Columbia) and year–round logging, ensuring a reliable and efficient fiber supply.

The area offers cost **and margin benefits**. With lower log costs (36% below 2005 levels) and reduced freight expenses due to proximity to major housing markets, the area offers opportunities to enhance profitability and sustain long–term competitiveness. The area has **proven success**, due in part to existing infrastructure and distribution networks that provide a predictable, low–risk environment for operations and investment.

It is important to note that while this exposure can be beneficial, recent oversupplies had the effect of depressing SYP prices in 2024. Nonetheless, it is anticipated that this will resolve itself; all in all, the market remains attractive despite being lower value in use than SPF.

3: Embrace Diversified Revenue Streams

Companies need to think beyond traditional sources of revenue and explore diversified revenue streams. Securing fiber supply through strategic timberland acquisitions opens these avenues; meanwhile, it provides a hedge against fiber cost volatility and stabilizes supply. Diversification opportunities include carbon credit sales, real estate and natural resource management, and by–products for bioenergy.

Timberland owners have the unique opportunity to engage in nature–based solutions by generating and selling high–quality **carbon credits**. This involves sequestering carbon through biomass energy, which not only contributes to environmental sustainability but also offers an additional revenue stream.

Expanding the sale of **by–products with bioenergy value**, such as wood pellets and chips for power and heat generation, taps into the growing demand for renewable energy sources. In addition to diversifying the revenue base, these sales maximize the value extracted from timber resources.

4: Digitize operations

The past decade has made clear the potential for impact of digitization across every sector and industry. Lumber, however, has not yet embraced the digital wave to its full potential. AI–driven digitization has the potential to improve efficiency across supply chains, production, and sales operations. Because the industry is lagging in terms of digitization, there are ripe opportunities for early adopters to gain a competitive edge through cost reductions and data–driven decision–making. Opportunities exist in several areas:

- **Production network design** enables determination of optimal locations, production capabilities, and capacities.
- **Logistics design** powers strategic decision–making around placement of terminals, modalities, and nodes to increase efficiency and reduce cost.
- **Supply optimization** can determine optimal bucking matrices based on forest & mill; likewise, remote sensing along with AI powered condition–based weeding and thinning. Clonal allocation models present other optimization opportunities.
- **Production optimization** can be achieved through improved sawing pattern mixes across all mills, along with predictive maintenance for harvesting and plantation equipment.
- **Pricing & demand forecasting** can identify optimal price points and product demand given market conditions; likewise dynamic pricing tools provide powerful insights.

Despite a confluence of pressures—from price declines and high production costs to new tariff threats and labor uncertainty—the North American lumber sector still holds the potential for recovery and profitable growth. Residential construction and remodeling, which represent about 70% of total lumber demand, are set to grow over the near term, driven by fundamentals (housing shortages, multi–family rental demand, and the ongoing need to upgrade an aging housing stock). This has the potential to tighten supply–demand and provide continued lumber–price support.

If mills adapt effectively by focusing on margin discipline, product diversification, and strategic operational improvements, they will be well positioned to capture the benefits of a potential rebound and continue to generate strong returns even amid the industry's historically cyclical markets. These cycles can, however, be moderated through disciplined supply management.