



## Look Out Below! Could Lumber Stocks Go “Timber” From Here?

### Description

**West Fraser Timber** ([TSX:WFG](#)) is one of the largest North American lumber producers. Lumber prices continue to surge with increasing uncertainty over wood supplies. West Fraser stands as one of the [key beneficiaries](#) of this current environment.

Thus, there's now a lot of attention being paid to these otherwise “boring” stocks. But has the momentum run out?

Let's discuss.

### What is happening?

West Fraser's stock price appreciation this past year is absolutely incredible. Looking at the company's long-term chart, this view becomes even more pronounced.

Seeing any stock nearly triple year over year is impressive. However, West Fraser is one of those stocks that just seems to be in the right place at the right time.

This isn't a high-growth tech stock we're talking about here. West Fraser is a lumber producer in what's normally a low-margin, high-volume business. Lumber prices have absolutely skyrocketed of late due to a variety of supply/demand factors outside West Fraser's control. Accordingly, this stock has taken off in rampant fashion.

The supply of lumber remains depressed due to shuttered capacity, largely tied to the pandemic. Pandemic-related restrictions have furthered the production capacity declines seen in existing mills. Furthermore, many mills were closed and companies planned for lower near-term demand. Anything but has materialized of late.

Record-low interest rates have caused a red-hot North American housing market to drive lumber demand through the roof. The economy is rebounding much faster than expected, and homes are being built at record levels, though not fast enough to keep up with demand. Additionally, bringing on

additional supply has proven difficult, as companies aren't able to flip a switch and add new mills or refurbish shuttered ones.

This paints a very rosy picture for this sector indeed.

## Can timber prices correct?

As with all commodities, eventually prices rise to a level where new supply is forced into the market. Bringing on new mills may take time, but companies will invest if they see the profit motive to do so.

It appears the existing conditions for lumber prices are transitory. That is, unless one believes the housing market will remain this hot over the long term, or new supply won't come onto the market, prices will have to drop. I see this situation as more likely than not.

For now, West Fraser stock remains in the limelight for investors. This company's recent results show just how much lumber prices have bolstered the company's bottom line.

I'm of the view that this particular bull market in lumber is likely reaching the point at which prices will have difficulty moving higher. That's not to say they can't. I just think it's less likely than seeing a reversion to the mean.

Until that happens, West Fraser is a stock to be in. For now, I'm happy on the sidelines.

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