



Lumber Prices Are Soaring: Here's Why

Description

After taking a short breather, lumber prices have resumed their climb. This commodity class has taken off of late, taking investors on a very nice ride.

For those invested in lumber producers such as **West Fraser Timber** ([TSX:WFG](#))([NYSE:WFG](#)), this run has provided a nice portfolio boost. The question many investors have is, how sustainable are lumber prices at these levels? And can the momentum continue?

Let's dive into some of the reasons for this rise to better understand what's going on in this sector.

Supply shortages boosting prices

As with all commodities, lumber prices are a function of supply and demand.

On the supply side of the equation, shortages have been the primary cause of rising lumber prices. The reasons for today's constraints on wood supply can be traced back to the decimation of forests in British Columbia caused by mountain pine beetles between 1999 and 2006. Furthermore, the B.C. wildfires in 2017 and 2018 certainly didn't help. Indeed, this combination has led to a steep decline in the amount of timber available per year for harvest. According to the projections of industry experts, tree harvesting in B.C. will decline in the coming years.

Additionally, the pandemic-related restrictions imposed by the government have substantially decreased production capacity in mills. Furthermore, many of them were closed, as companies expected lower near-term demand for lumber. Nevertheless, such a situation has not materialized as of yet.

Demand remains strong for lumber

In addition to these supply constraints, demand is soaring right now for lumber.

A combination of low rates resulting from the pandemic and excess cash that Canadians and Americans aren't spending on discretionary items has led to skyrocketing housing demand.

Lumber is a key component of homebuilding. Accordingly, red-hot North American housing demand has shifted to extremely bullish levels. Homebuilding activity is skyrocketing, as builders rush to get demand onto the market to meet soaring demand. However, an imbalance on the demand side of the equation is causing an upward spiral in lumber prices.

While there's an ongoing disruption in supply, demand for lumber has been off the charts. Indeed, we have a classic case of demand and supply imbalance right now. And companies that have diversified globally, like West Fraser Timber, are reaping the benefits with lumber prices soaring of late.

Bottom line

This macroeconomic setup is perfect for West Fraser Timber shareholders.

How much longer supply and demand will remain out of whack remains to be seen. However, over the near term, it's difficult to see a catalyst that would result in these catalysts deteriorating.

Over the medium term, I expect lumber prices to [revert toward their longer-term mean](#). Until then, West Fraser appears well positioned to take advantage of these catalysts.

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