



## Why Lumber Stocks Are Doing Well, Despite Recent Price Plunges

### Description

September is upon us. This not only signals the end of summer is near, but also that the beginning of building season is upon us. For investors in lumber stocks such as **West Fraser Timber** ([TSX:WFG](#)), it's certainly an exciting time to stay invested.

Indeed, housing prices remain very strong, owing to record-low mortgage rates. Both domestically and in the U.S., a housing [boom](#) has fueled the recent commodities rally that's taken lumber prices to astronomical levels. While these commodity prices have come down to earth, there's no telling where future volatility could take commodities from here.

Accordingly, lumber stocks appear to be intriguing plays to consider right now. Let's take a look at why this particular commodities group could outperform through the end of this year.

### Homebuilding set to pick up in the fall

As mentioned, homebuilding season is just around the corner. The September-December period is one that real estate aficionados look to as a barometre for how the supply and demand for housing will shape up for the coming year.

Given the previous supply constraints that took lumber prices soaring, it's easy to make the connection that another spike in demand could potentially move lumber prices higher. Accordingly, West Fraser's stock price hasn't dipped as hard as many would have thought. Sure, West Fraser stock is [down more than 10%](#) from its peak. However, it's worthwhile noting that [lumber prices](#) have fallen by nearly 70% from their peak just a few months ago.

This stability in West Fraser stock signals the market belief that increased homebuilding activity will drive prices higher once again. Or, at least, bring prices toward a normalized average which is higher than where it trades today.

## Is it time to own lumber stocks?

According to analysts, lumber's year-end rally is very much expected. Commodities like lumber tend to go through boom-bust cycles. We may be nearing the bottom of this bust cycle, if housing demand shoots higher once again.

However, such a view remains speculative. Indeed, investing in lumber producers has proven to be a stable long-term strategy that has been profitable for investors. However, bears may point to record-low interest rates, and record-high demand as reasons to avoid this sector right now.

Accordingly, lumber stocks such as West Fraser present a hard-to-read opportunity.

## Bottom line

I'm of the view that the previous commodities rally we saw earlier this year was unsustainable. Then again, this recent fall from grace was also quite violent in nature.

While inflation may indeed turn out to be transitory, and expectations were likely a little too bullish earlier this year, there remains the possibility that commodities could go on another run. In such an environment, West Fraser stock could be a great bet.

However, lumber stocks remain too volatile for my liking right now. Accordingly, I'll be watching comfortably from the sidelines to see how things progress.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. TSX:WFG (West Fraser Timber Co. Ltd.)

### PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

### PP NOTIFY USER

1. chrismacdonald
2. kduncombe

**Category**

1. Investing

**Date**

2025/09/09

**Date Created**

2021/09/01

**Author**

chrismacdonald

default watermark

default watermark