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The Demand Issue
Grade and Industrial Consumption Trending in Opposite Directions
By Tony Burbeck

So far, 2026 has been a bumpy year for businesses across most sectors of the hardwood industry. Demand warmed early in the year, resulting in good sales months for certain lumber producers. Words like “positivity” slowly started replacing “uncertainty”—by far the most-used word describing market conditions in 2025. Though faint, some light was occurring for an industry that needed it.

Then the US and Israel started bombing Iran on February 28th, taking out its ballistic missile infrastructure, neutering its army, sinking most of its navy, and dismantling much its command-and-control systems. This was the follow-up action to Operation Midnight Hammer in June 2025, when the US bombed three Iranian nuclear facilities, preventing the country from enriching uranium to a weapon-grade level. In a long list of “it’s always something” impacting the hardwood industry, the war with Iran became the newest.

continued page 2

- Real average hourly earnings for all US employees in May fell 0.1% from the prior month and 0.7% from May 2025.
- The ISM® Services PMI® advanced 0.9% in May over April to 53.6%—marking the 23rd straight month of expansion in the services sector.
- US exports totaled $327.1B in April, while imports totaled $383.0B, resulting in a trade deficit of $55.9B for the month.
- US manufacturing capacity utilization was 75.7% in May, unchanged from the revised April estimate and up from 75.5% in May 2025.
- The US Consumer Price Index (CPI-U) increased 0.5% (seasonally adjusted) in May. CPI climbed 4.2% during the 12 months ending in May.
- Chinese investment in real estate development was 16.2% lower during the first five months of 2026 than the same period in 2025.

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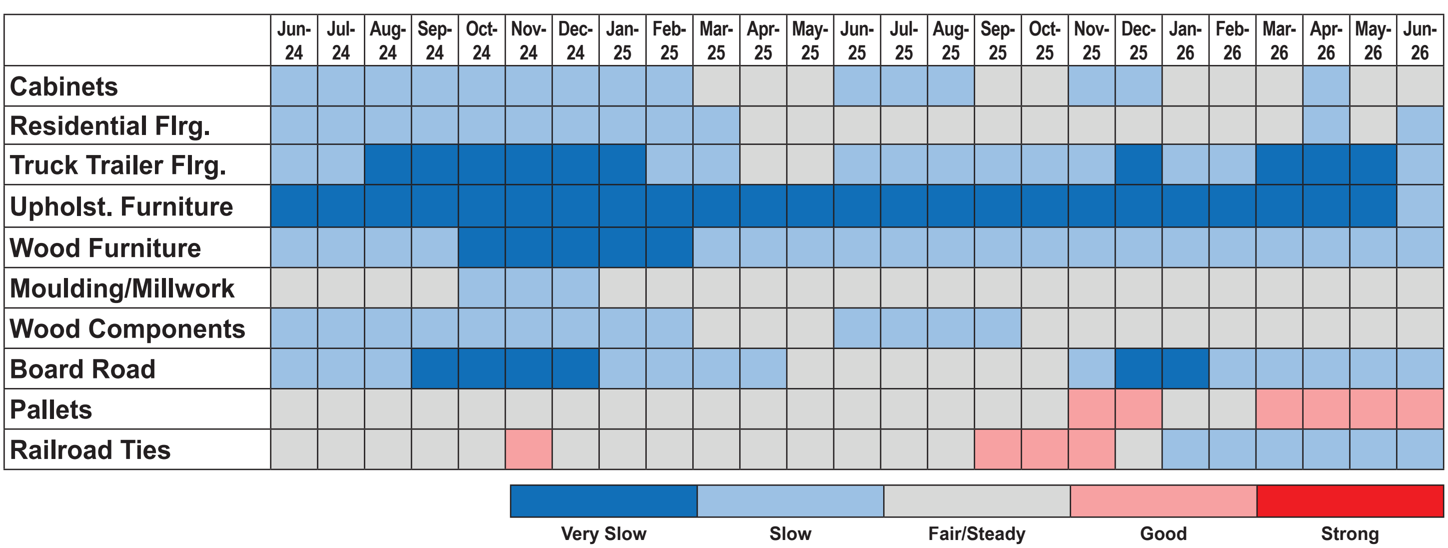
HMR DEMAND INDEX (HDI)



Economy

The economic impacts of the US-Iran conflict on the hardwood industry started immediately, reversing improvements in key categories like energy prices, inflation, and mortgage rates. Oil, gas, and diesel prices spiked (**Figure 1**), as the flow of oil through the Strait of Hormuz stopped. Overland and ocean freight rates soared, forcing some hardwood lumber producers and secondary manufacturers to reduce, delay, or cancel orders that suddenly yielded no profit.

"Americans spent a record $376 billion on home repairs and remodeling last year, and spending will top $400 billion this year if the current pace continues."

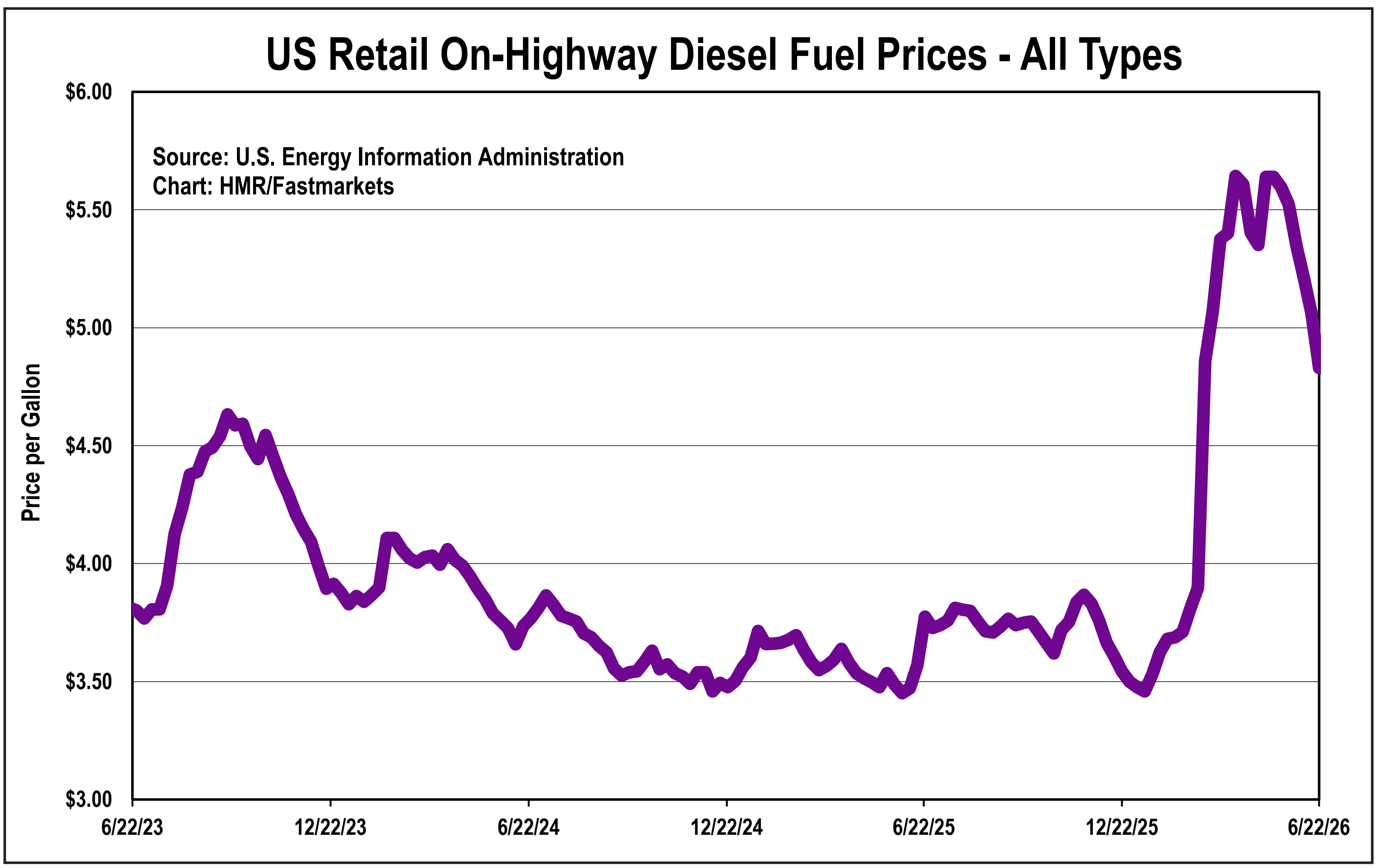
Fast-rising energy prices reignited inflation (**Figure 2**), resulting in inflation outpacing wage growth in March, April, and May (**Figure 3**).

When real wage growth slows or turns negative amid rising inflation, consumers take on more debt. **Figure 4** shows the relationship between revolving consumer credit and inflation, as measured by growth in the consumer price index. Consumer credit rose 40.8% from May 2021 through October 2024, while the Consumer Price Index rose 16.9%.

Consumer credit levels did fall back at the end of 2024, corresponding with reduced inflation. However, both turned higher in early 2026, suggesting consumers again started paying for everyday items like food and fuel with credit. When consumers utilize debt to pay for essentials, spending often falls on non-essentials like furniture and hardwood items.

continued page 3

Figure 1



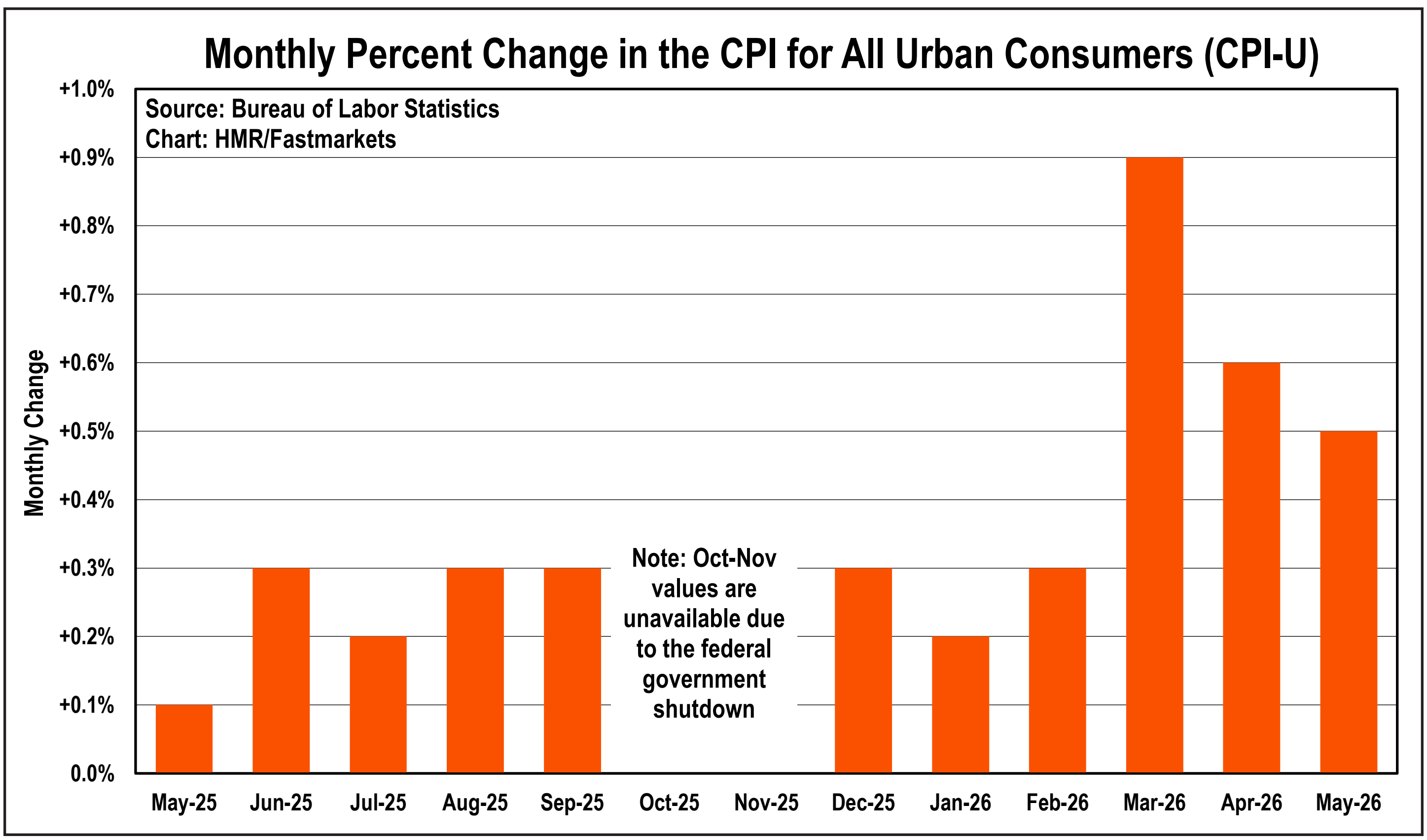
Real wage contraction and fears tied to the US-Iran war prompted three consecutive months of declines in US consumer sentiment, with the May 2026 reading at an all-time low (University of Michigan Survey of Consumers). The reading rose 10.5% in June, as gas prices moderated and consumer worries over long-term consequences of the war eased. Prior to the US and Iran announcing a memorandum of understanding on June 17th, the share of consumers stating their household financial conditions were "about the same" had been shrinking, while those stating they were "much worse off" had been rising (**Figure 5**).

The combination of geopolitical pressures, energy price spikes, and elevated inflation turned mortgage rates abruptly higher, ending what had been a nine-month downward trend (**Figure 6**). Further mortgage rate reductions are what homebuilders and potential buyers said would be necessary to solve the biggest issue impacting the housing market and, in turn, demand for hardwoods: affordability. Builders said it would take rates falling and then holding in the 5.5% to 6.0% range to noticeably ramp up construction and existing home sales. Instead, the average rate hovered near 6.5% at the end of June.

US GDP expanded at healthy rates in Q2 (3.8%) and Q3 (4.4%) 2025, portending strong future growth (**Figure 7**). However, the economy barely expanded in Q4, with a paltry 0.5% growth rate that coincided with a 43-day federal government shutdown, the longest in US history. The economy recovered in Q1 2026, however, notching 2.1% growth despite the impacts of the war. Forecasts for Q2 and full-year 2026 GDP performances shifted lower during the war. For example, the Philadelphia Federal Reserve Survey of Professional Forecasters downgraded its 2026 growth forecast to 2.2% from 2.5%.

continued page 7

Figure 2



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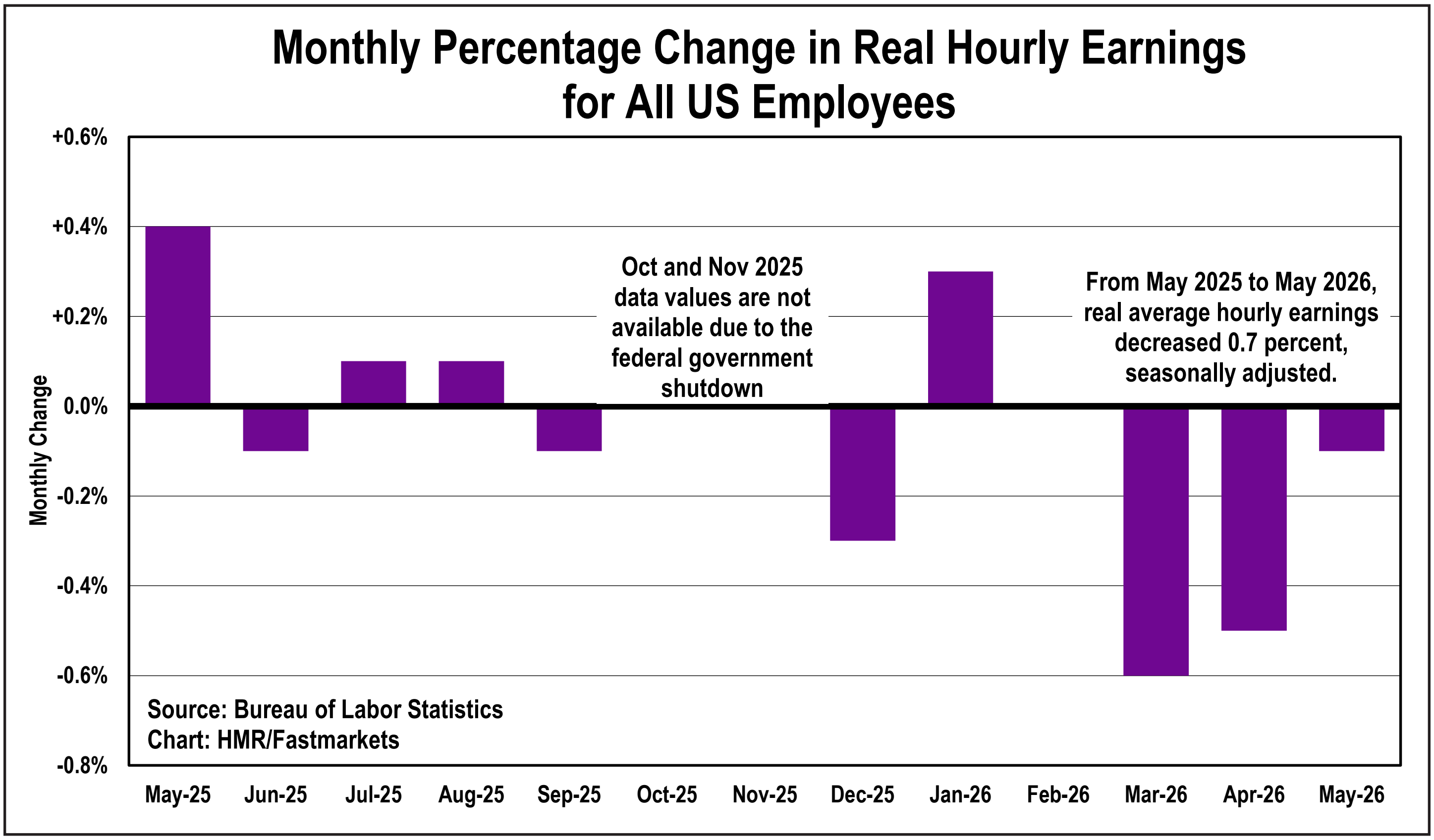

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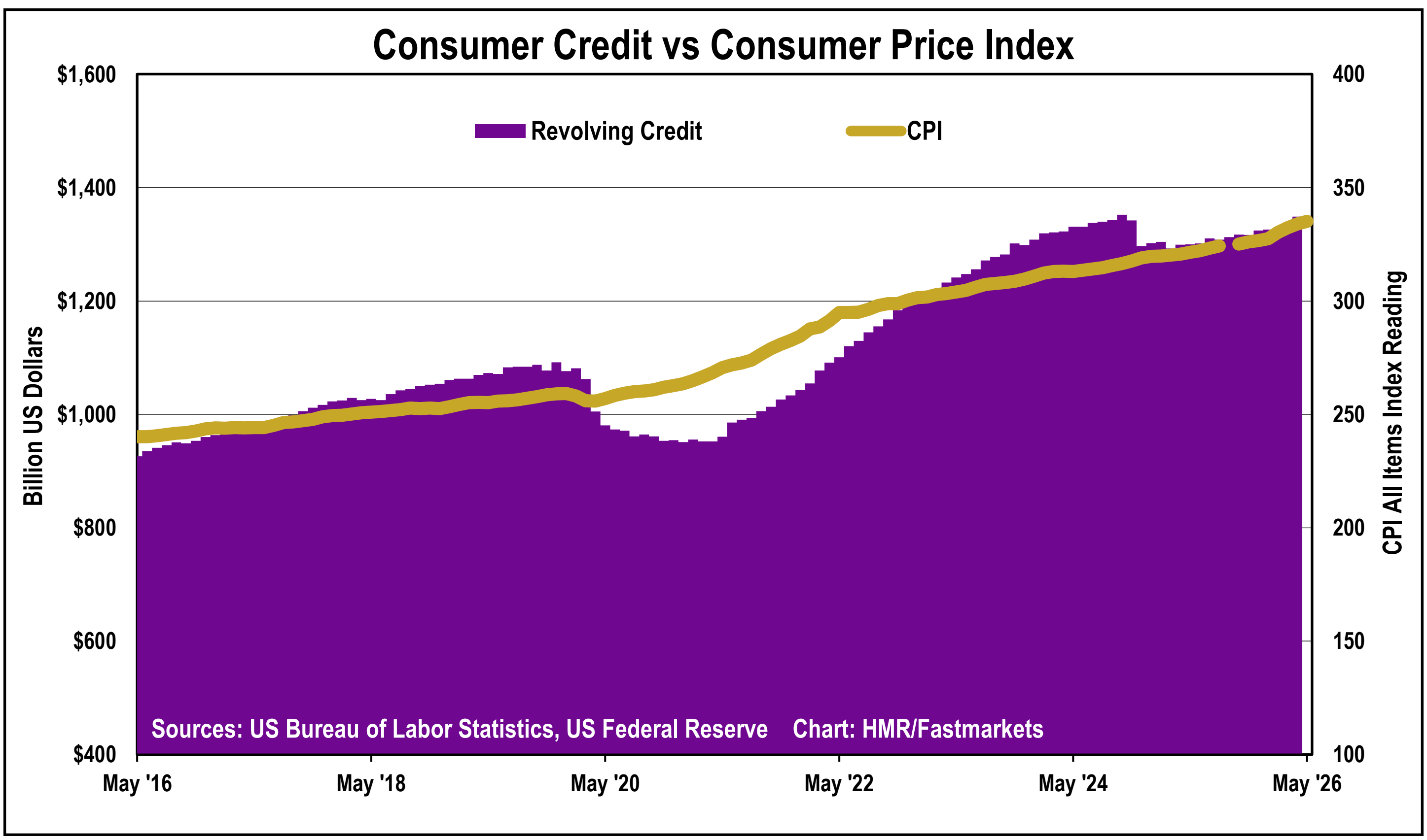

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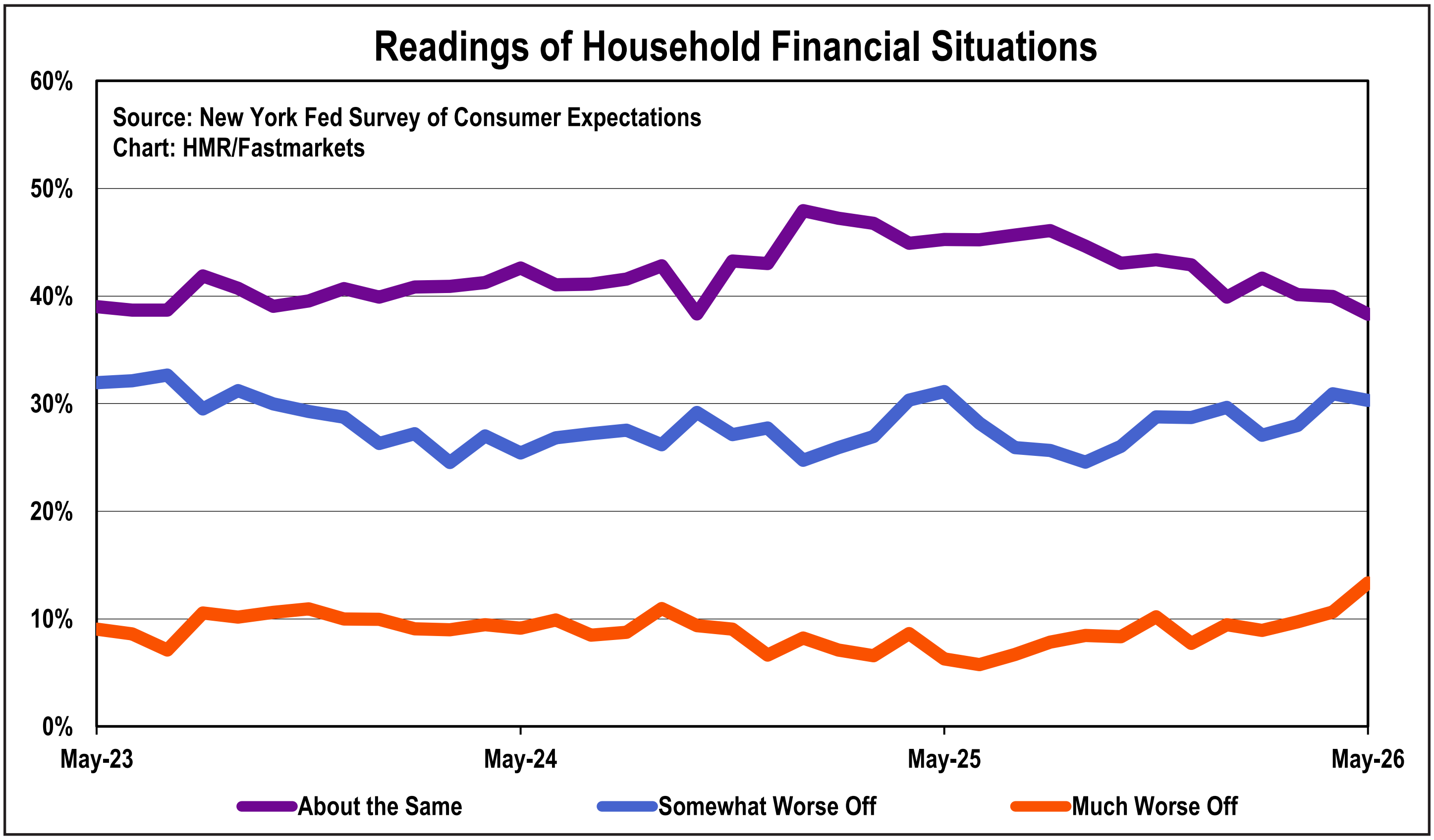

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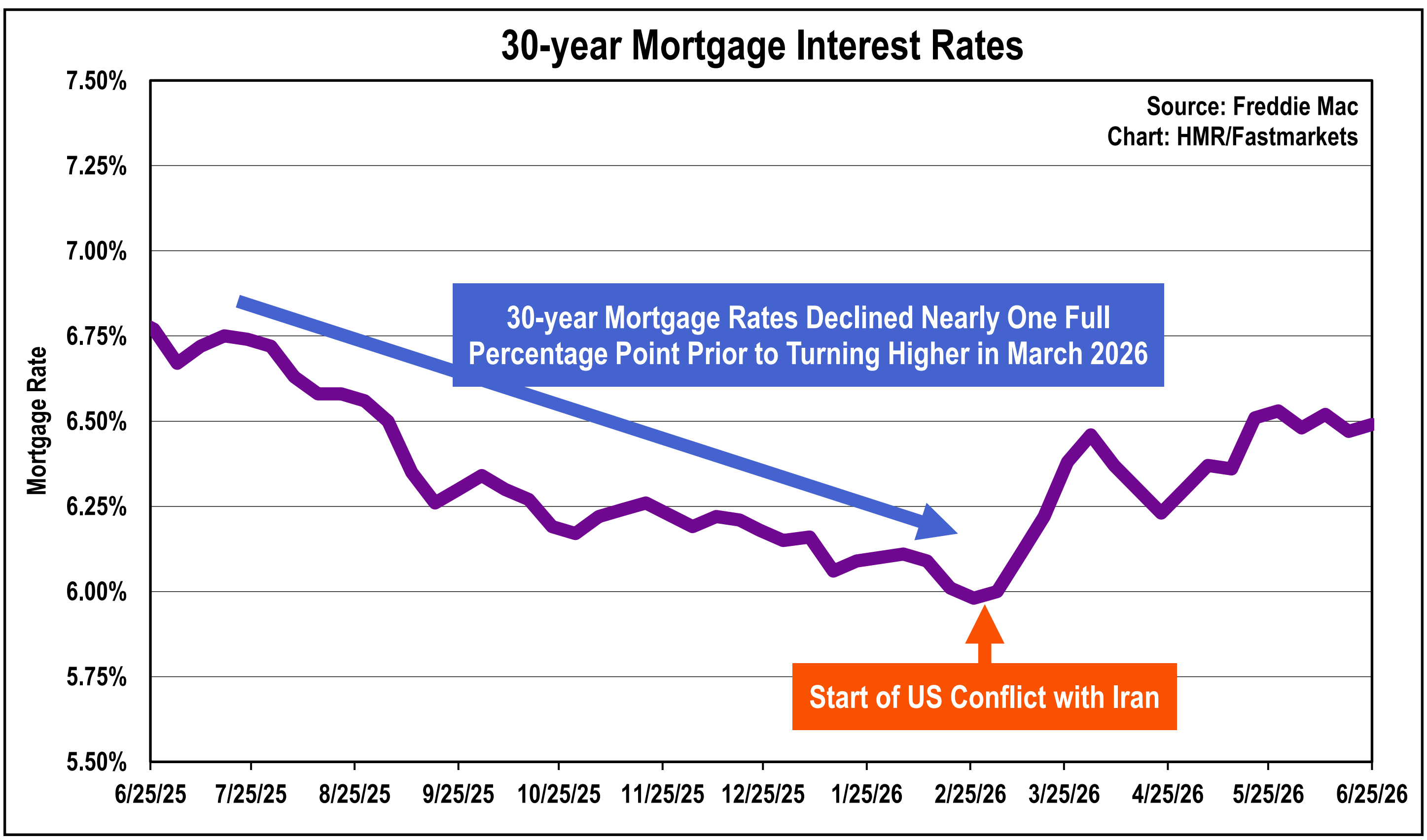

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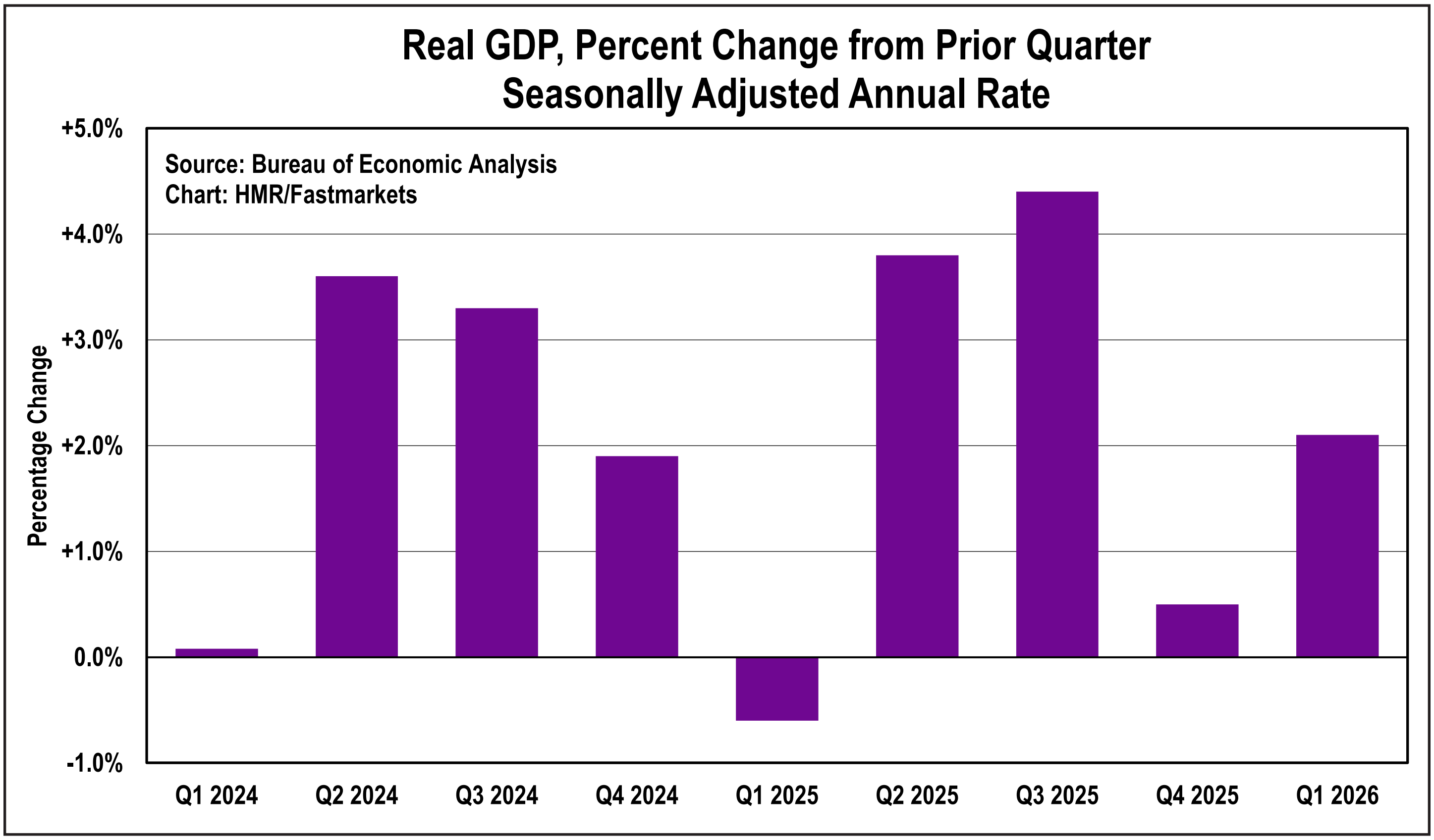

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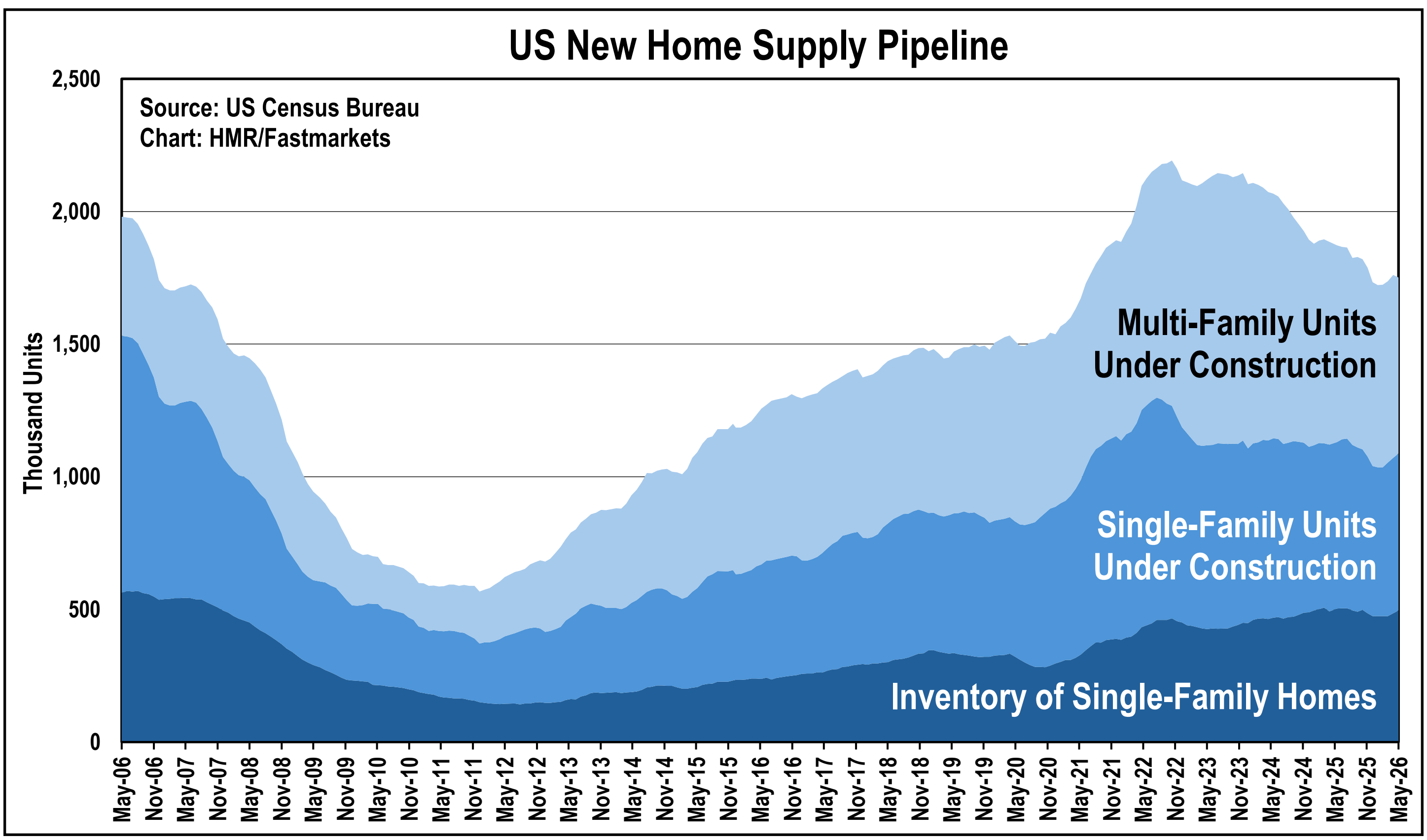


If the ceasefire in Iran holds, energy prices moderate, and inflation starts to trend lower, GDP growth during the second half of the year could accelerate. However, those are big ifs.

Housing

US and Canadian homebuilding markets have historically been large demand drivers for grade hardwood lumber. Hardwood usage usually cycled up and down with construction activity. However, this pattern has become less prevalent due to wider use of substitute products.

Figure 8 shows the number of US homes in the supply pipeline during the last 20 years. There were 1.75 million total units in the pipeline in May, which is 12% below May 2006.

Single-family homes under construction accounted for 34% of the total supply pipeline in May, down from 49% two decades ago. Conversely, the multi-unit share climbed to 38%, up from 23% 20 years ago. Hardwood consumption is more prevalent in single-family than multi-family homes. Decreases in single-family construction—both in absolute numbers and as a percentage of the total—are a major cause of declining hardwood consumption.

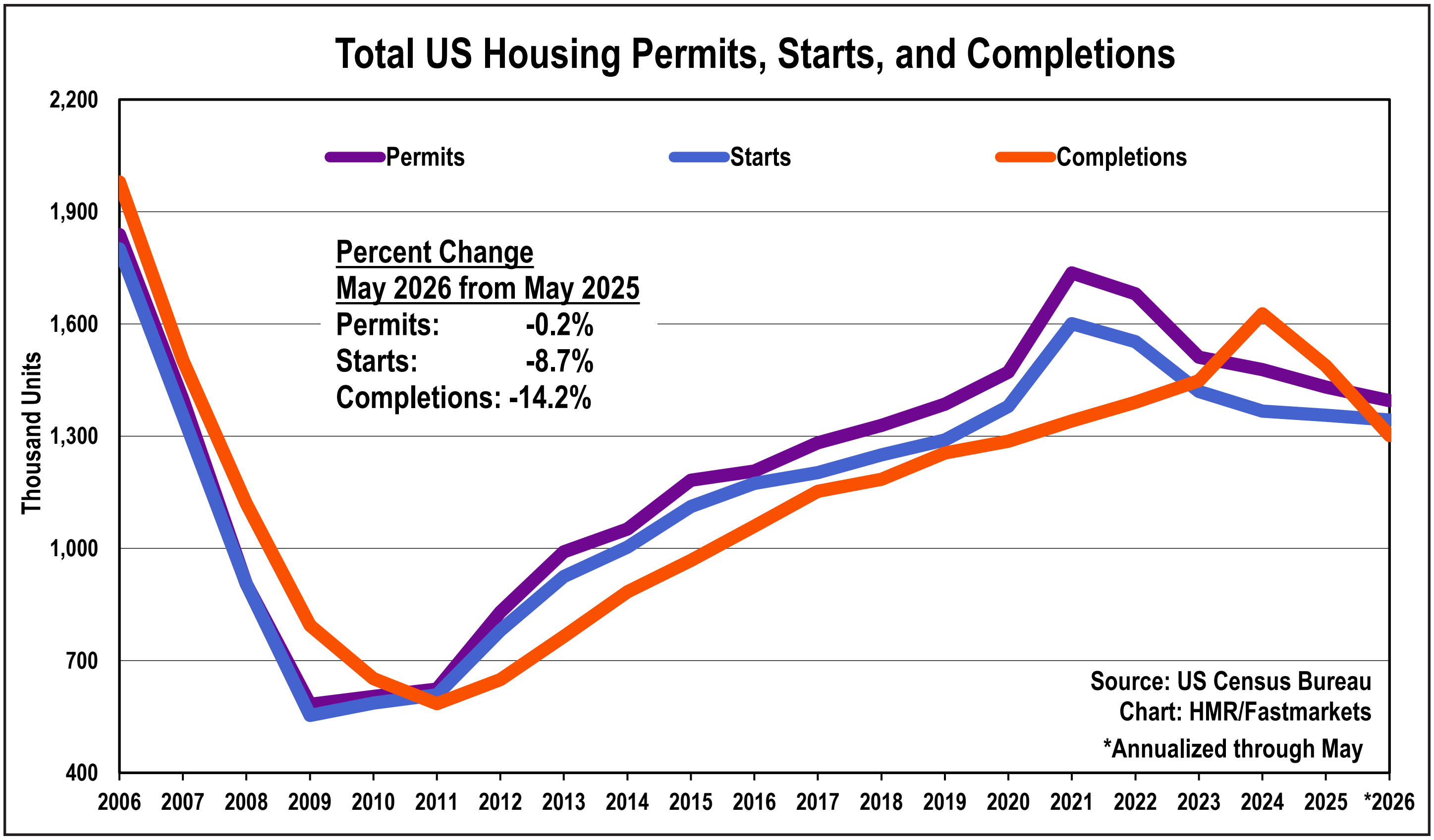
"Domestic grade lumber consumption is down 3.5% in 2026, marking the fifth consecutive decline."

US home building permits and starts peaked most recently in 2021, following more than a decade of expansion (**Figure 9**). Both have since trended lower. Meanwhile, completions topped starts in 2023, 2024, and 2025, but the opposite is true so far in 2026.

When completions outpace permits and starts—

continued page 8

Figure 9



as they did over the last few years—it means the number of homes under construction is shrinking and the supply pipeline is draining. Permitting, which is typically a harbinger of future construction, has continued its downward trend.

Increased completions through 2024 should have benefitted producers of hardwood lumber and finished goods, as interior hardwood upfits typically occur in the last stages of construction. However, residential flooring, cabinet, and furniture manufacturers haven't experienced materially higher demand. In fact, many have experienced the opposite.

Remodeling has a much bigger impact on demand for hardwood products than new home construction, accounting for two-thirds to three-quarters of wood cabinet and flooring installations. Since a high percentage of remodeling projects are not financed but paid for with savings, the relatively high interest rates of the last several years have not slowed remodeling. In fact, Americans spent a record $376 billion on home repairs and remodeling last year, and spending will top $400 billion this year if the current pace continues.

The Fastmarkets Repair and Remodeling Index specifically gauges US demand for wood products resulting from repair and remodeling activity (**Figure 10**). It measures the volume of activity, not spending, so the index is in line with actual consumption of wood products because prices are not factored in. Our economists remain bullish about remodeling, forecasting 4.2% growth in 2026 and 1.3% growth in 2027.

Grade Lumber Consumption

Consumption of US-produced hardwood grade lumber in the cabinet, flooring, furniture, and millwork/wood component sectors has trended sharply lower, almost continuously, since peaking in 1999 (**Figure 11**).

continued page 10

Figure 10

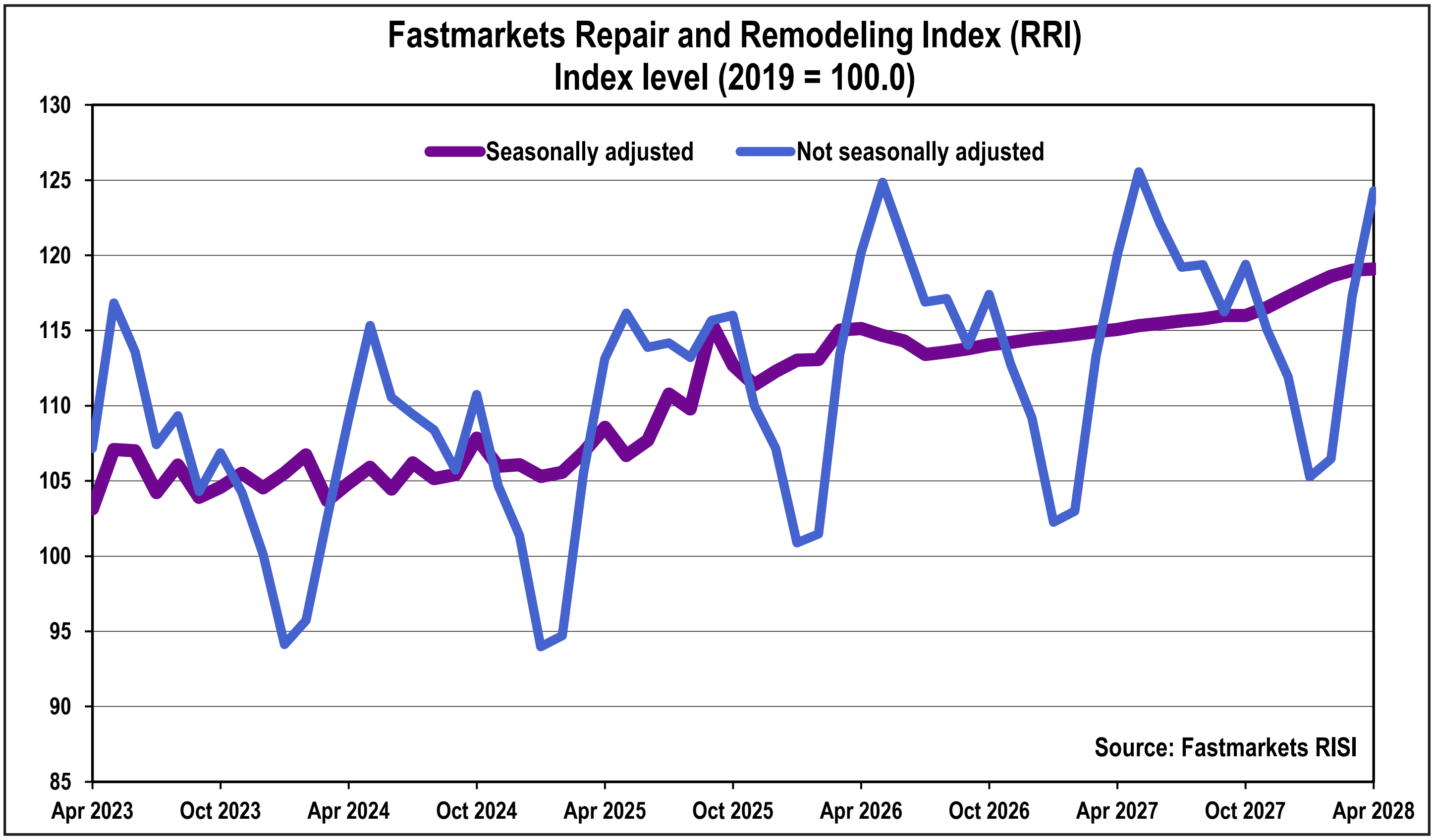
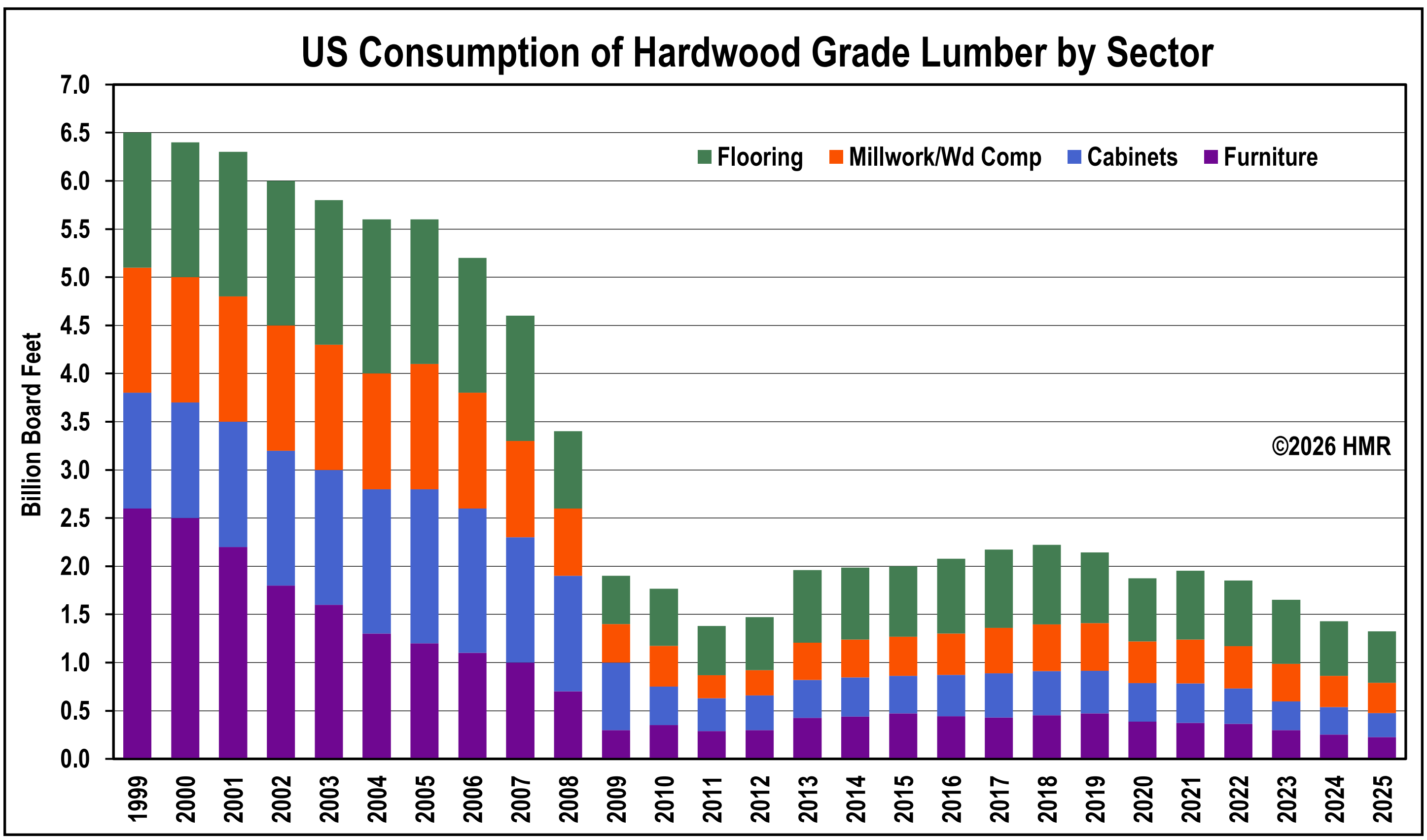


Figure 11



> **"In a notable departure from long-term trends, consumption by the US furniture industry has advanced 6.4% in 2026..."**

The newest HMR/Fastmarkets consumption estimates, which include full-year projections for 2026, are highlighted in **Table 1**. Domestic grade lumber consumption is down 3.5% in 2026, marking the fifth consecutive decline. Three of four sectors registered decreases, with the furniture industry the lone exception. With exports down by about the same percentage, total grade consumption is off 3.4% in 2026.

Cabinets

Hardwood lumber consumption by the cabinet industry fell 11.3% in 2025 and is down another 10.8% year-to-date in 2026 to an annualized pace of 224 million board feet (MMBF).

Lower consumption is occurring alongside tepid new home construction and despite near-record remodeling activity and greatly reduced cabinet imports in 2026, which have resulted largely from the 25% Section 232 tariffs initiated in late 2025. Year-to-date US imports of wood cabinets and countertops were down 42% through April 2026.

The primary reason hardwood consumption continues to contract in cabinet manufacturing—besides lackluster new home building—is widespread use of solid wood alternatives like medium density fiberboard (MDF).

There are some positives, however. Several cabinet and cabinet component manufacturers report a slight shift in customer preferences away from painted finishes toward woodgrain looks. A few are also using less MDF, though that is not a widespread trend at this point.

continued page 11

Table 1

Consumption of Hardwood Lumber by Major Markets

Million Board Feet

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SECTOR	2020	2021	2022	2023	2024	2025	2026	Change 2026 vs. 2025	Change 2026 vs. 2020
Cabinets	401	412	368	299	283	251	224	-10.8% ▼	-44.1% ▼
Flooring	657	716	682	667	567	534	509	-4.7% ▼	-22.5% ▼
Furniture	387	373	364	298	254	225	239	+6.4% ▲	-38.1% ▼
Millwork/Wd Comp	431	453	439	389	325	315	306	-2.8% ▼	-29.0% ▼
Domestic Grade	**1,876**	**1,954**	**1,853**	**1,653**	**1,429**	**1,325**	**1,278**	**-3.5% ▼**	**-31.9% ▼**
Exports	1,300	1,404	1,409	1,152	1,223	1,098	1,061	-3.4% ▼	-12.7% ▼
Total Grade	**3,176**	**3,358**	**3,262**	**2,805**	**2,652**	**2,423**	**2,340**	**-3.4% ▼**	**-26.3% ▼**
Pallets	3,018	3,116	3,365	2,699	2,067	1,819	2,025	+11.3% ▲	-32.9% ▼
Railway Ties	843	844	827	860	980	906	770	-15.0% ▼	-8.6% ▼
Board Road/ Mat Timbers	297	261	279	302	281	295	317	+7.5% ▲	+6.8% ▲
Total Industrial	**4,158**	**4,221**	**4,471**	**3,861**	**3,328**	**3,020**	**3,112**	**+3.0% ▲**	**-25.2% ▼**
Total Consumption	**7,334**	**7,579**	**7,733**	**6,666**	**5,980**	**5,443**	**5,451**	**+0.2% ▲**	**-25.7% ▼**

Hard Maple remains the dominant domestic species used in cabinets, followed by Soft Maple. In 2026, Red Oak and Cherry have gained a bit of ground, though each still comprises well under 10% of consumption for most manufacturers.

Flooring

The flooring industry, collectively, is the largest domestic market for grade hardwood lumber, spread across the solid wood residential, truck trailer, and sports flooring sectors.

Housing market weakness is hurting demand for solid hardwood flooring, and manufacturers continue to battle competition from alternative products, including engineered wood flooring and luxury vinyl tile. Solid hardwood flooring sales did pick up in spring after a slow start to the year. However, a lot of sales were from existing inventories; flooring production has not trended in the same direction. According to HMR/Fastmarkets estimates, consumption in the residential portion of this market is down 4.2% in 2026.

"US exports of hardwood lumber have struggled to find momentum after falling back in 2023..."

The expectation among industry contacts is that, barring any significant positive changes to housing affordability and mortgage rates, the second half of the year will resemble the first: decent but below expectations.

Financial difficulties in the trucking sector, economic uncertainty, and recently elevated fuel costs have led to reduced lumber purchasing by some truck trailer flooring producers, while some others are buying steady to slightly larger volumes. New trailers orders—one indicator of demand—edged higher for a third straight month in May. However, actual trailer builds declined 6% and were down 1% year over year, according to FTR Transportation Intelligence, which says the trailer market doesn't appear to be entering an upcycle. Estimated consumption by this sector is down 7.8% in 2026.

Meanwhile, sports flooring manufacturers report an uptick in hardwood consumption and sales of finished goods.

Combined consumption by the three flooring industry sectors is on pace to total 509 MMBF this year, down 4.7% from 2025.

Furniture

In a notable departure from long-term trends, consumption by the US furniture industry has advanced 6.4% in 2026 to an estimated annual rate of 239 MMBF. While usage among larger casegoods manufacturers showed further contraction, reports indicate the Ohio and Indiana furniture clusters—composed mostly of Amish and Mennonite operations—processed larger quantities. Additionally, a number of upholstered furniture manufacturers have increased solid hardwood framestock purchases due to higher duties on imported plywood.

Millwork/Wood Components

Hardwood lumber usage in the moulding/millwork industry, which also includes wood component manufacturers, is down for the fifth consecutive year. The HMR/Fastmarkets estimate for 2026 shows consumption of 306 MMBF, off 2.8% from last year. Notably, consumption advanced slightly in the moulding/millwork sector but was more than offset by reduced usage in the wood component sector.

Non-residential construction has boosted business for some moulding/millwork producers. At the same time, imports and substitute products continue to pose challenges in price-sensitive segments, according to one longtime manufacturer. Another said that polyvinyl chloride (PVC) and foam products are causing uncertainty about the future.

As with cabinets, painted finishes have allowed non-solid and non-wood products to eat away market share from US-produced components.

Exports
US exports of hardwood lumber have struggled to find momentum after falling back in 2023 (**Figure 12**). Shipments in 2026 are on pace to be the lowest since 2009. A sluggish global economy, the US-Iran war, energy price shocks, stubborn inflation, and ongoing tariff uncertainties have impacted global demand. Additionally, use of alternative products is eroding market share from US hardwood in global markets, just as it is domestically.

China's housing market remains depressed despite myriad "structural change" attempts. From January through May 2026, the amount of floor space of residential buildings under construction was down 13% (National Bureau of Statistics of China), which has contributed to the 18% year-over-year decline in shipments of US hardwood lumber (**Figure 13**).

Exports to Vietnam were up 5% on the year through April, with most of the volume growth in Poplar, while shipments of White Oak were flat.

Exports to the United States' two neighbors have increased so far in 2026. Shipments to Canada climbed 21% for the year through April, led by growth in Red Oak. Despite the increase, volume is pacing at the fourth-slowest rate of the last 20 years. Meanwhile, exports to Mexico edged up 2% on the year.

Europe remains an important trading bloc for the US but has been plagued by slow economic growth, high inflation, and the war between Ukraine and Russia. US exports of hardwood lumber to the region most recently peaked in 2022 before falling sharply in 2023. Shipments have stayed in a narrow range since. Through the first four months of 2026, exports to EU-27+UK markets were 1% below a year-ago.

Shipments had been trending higher to the Middle East and North Africa but fell off sharply in March and April during the US-Iran conflict (**Figure 14**). Disruption in key shipping lanes were largely to blame, along with elevated fuel prices.

"The wood pallet and container industry is absorbing more hardwood raw material in 2026..."

Global consumption of US hardwood lumber is slowing in part because log exports are climbing rapidly (**Figure 15**). Walnut log exports have exploded, far surpassing past levels. White Oak shipments are also on a record pace, and Red Oak exports are pacing at a four-year high. Notably, Vietnamese mills have joined those in China, sawing more and more lumber from US hardwood logs, competing against US-sawn grade lumber.

Industrial Products

Industrial lumber consumption is up 3.0% in 2026, according to HMR/Fastmarkets estimates. This is on the heels of four consecutive annual declines. Gains in the pallet and board road/mat timber sectors are more than compensating for a steep retreat in purchases by railroad tie treating operations.

Pallets
The wood pallet and container industry is absorbing more hardwood raw material in 2026, easing sawmills' concerns that supply would overtake demand as mills cut more pallet material due to weak crosstie markets. While margins are under heavy pressure for pallet producers, many report increased production and sales this year. Tighter supplies and higher prices for softwood raw materials are also boosting hardwood usage. Industry consumption is up 11.3% to 2.025 billion board feet.

Railroad Ties
The railroad tie industry has been a troubling spot for hardwood suppliers in 2026. Demand from this sector has fallen off sharply, and prices for 7x9 crossties have trended lower.

The contraction is largely the result of a pro-

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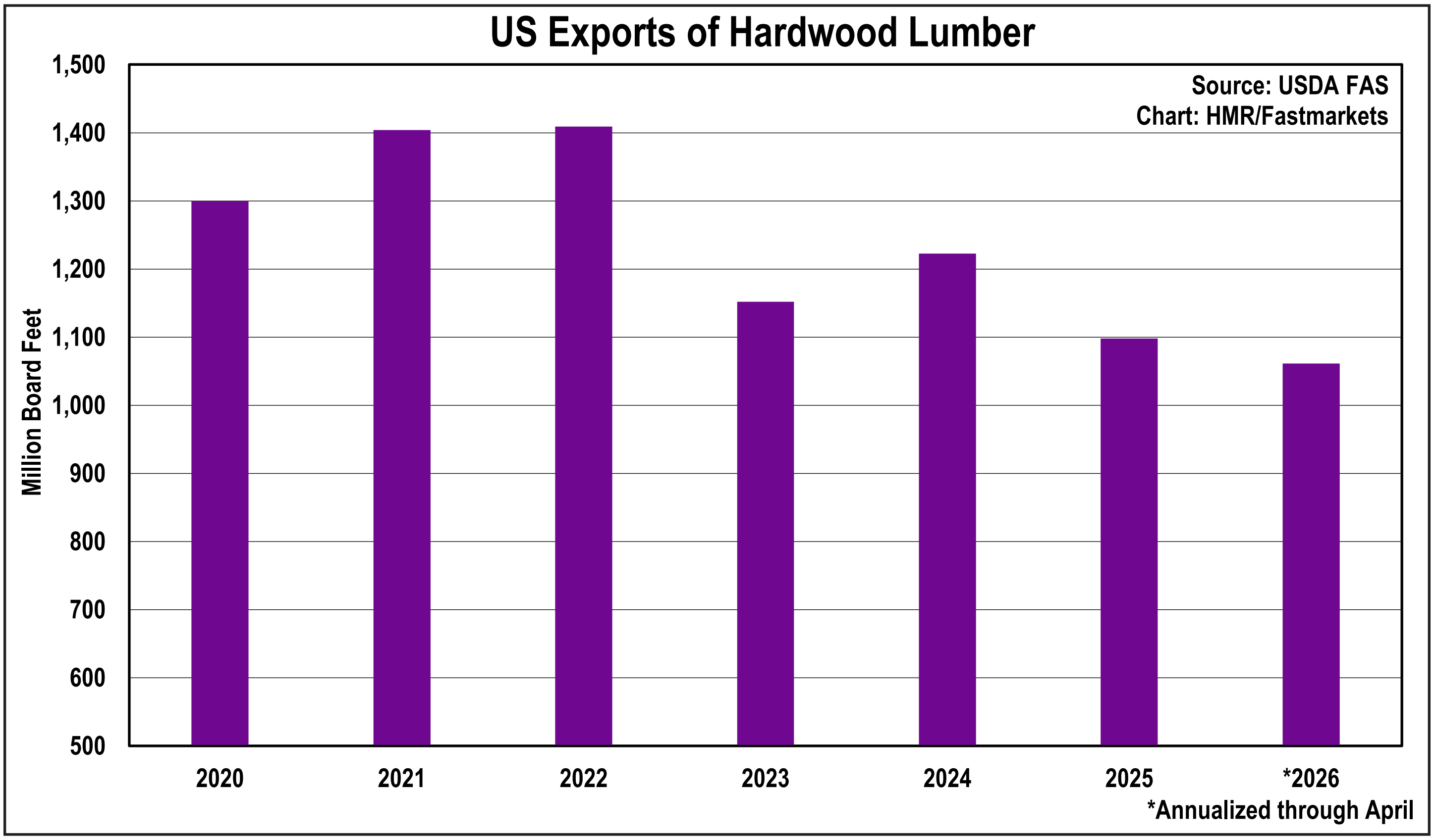
Figure 12



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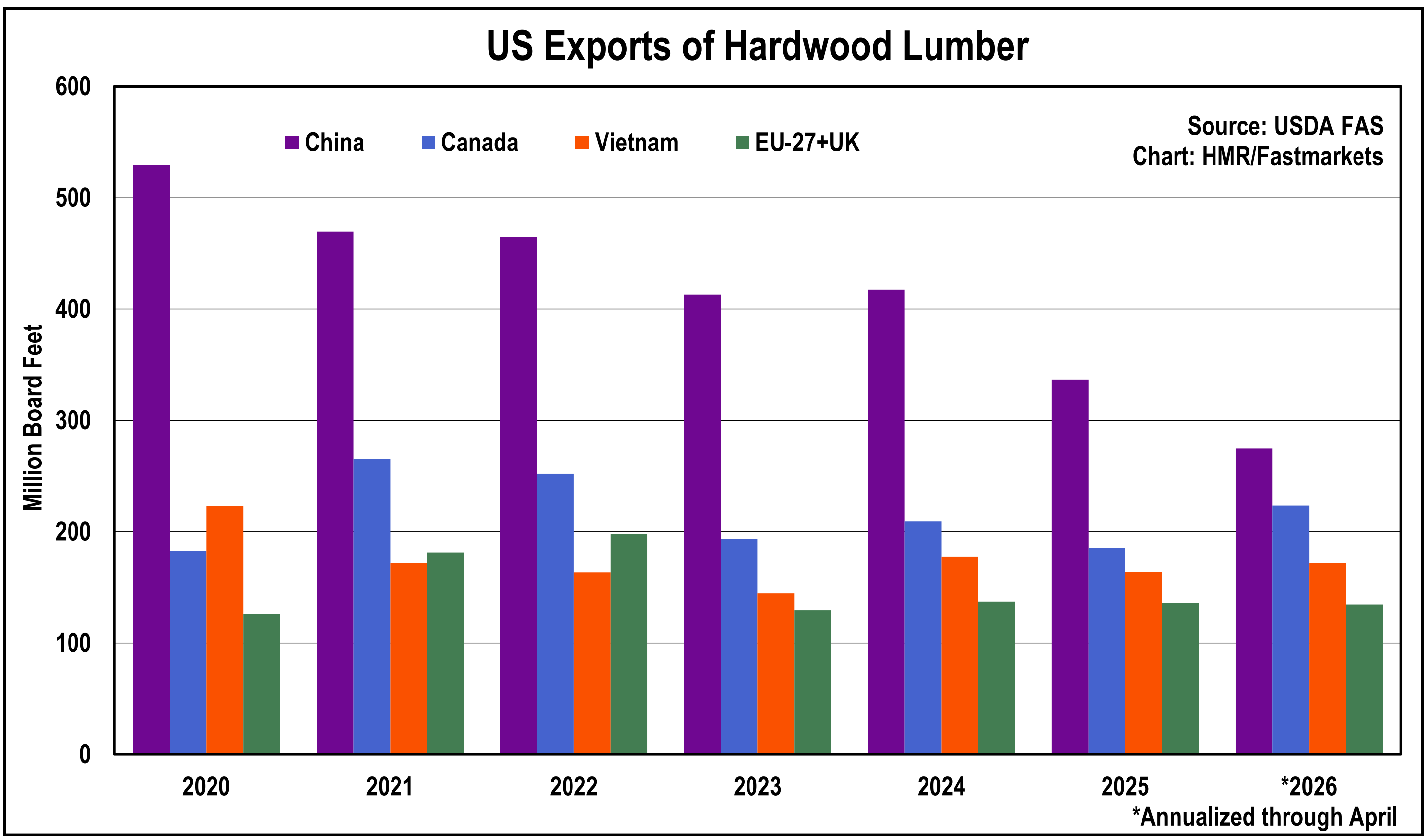


Figure 14

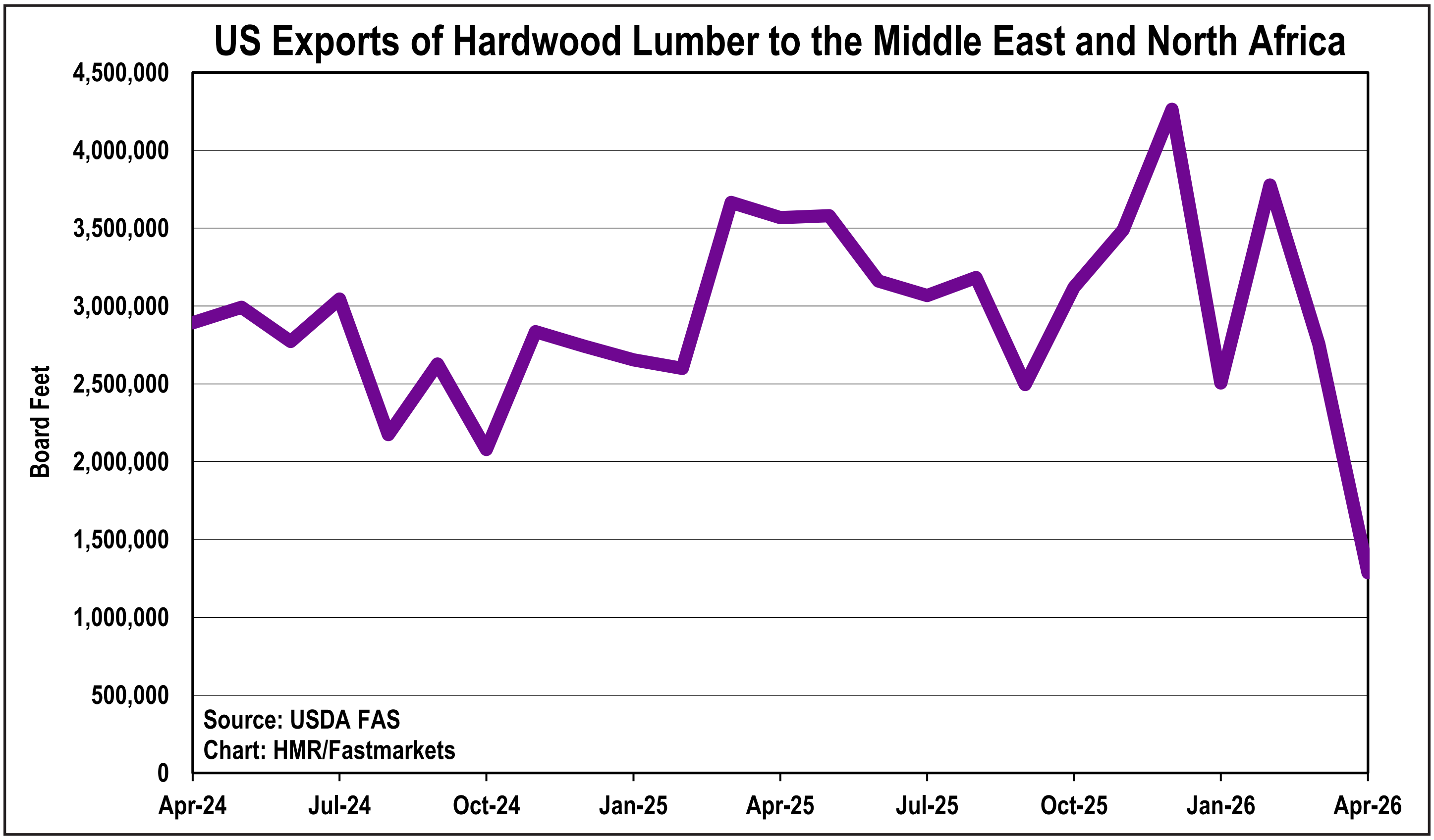
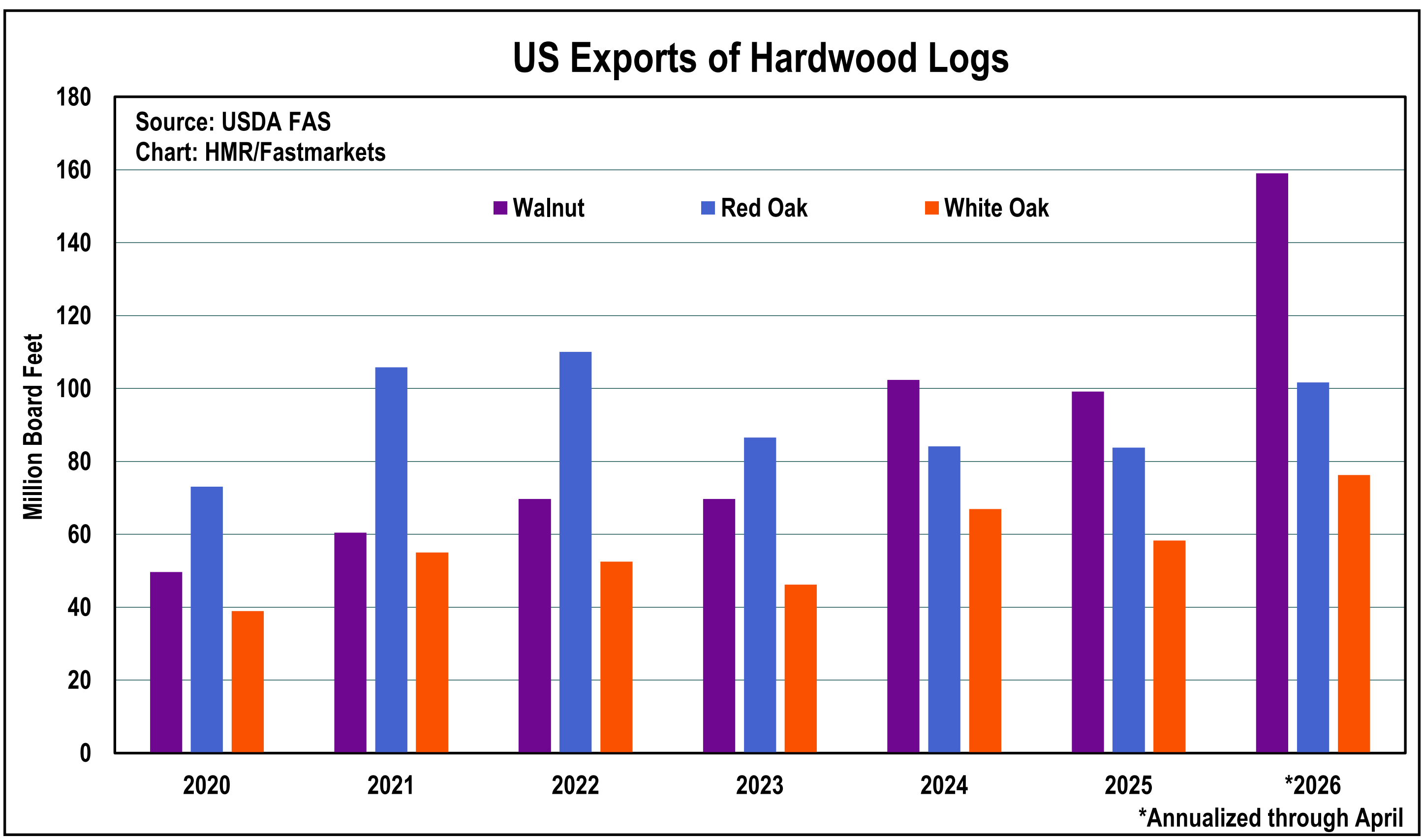


Figure 15



posed merger between Union Pacific and Norfolk Southern, which is still pending approval from federal regulators. In the meantime, those railroads and others that are considering mergers have clamped down on capital expenditures, including tie purchases. In turn, tie treaters have reined in purchases. It did not help that treaters had elevated inventories entering 2026.

Tie production has outpaced purchasing since 2023, supported by several sawmills switching from grade lumber production to industrials because grade markets were unpredictable and, for many, unprofitable. Markets absorbed the additional production for some time because inventories had been quite low. Treaters also kept buying once inventories were rebuilt to support hardwood suppliers they perceived were at risk.

At this point, treaters remain flush with ties. Quotas initially given to non-regular, smaller suppliers have been expanded to regular, larger suppliers. The HMR/Fastmarkets consumption estimate shows a 15% decline in consumption this year to 770 MMBF.

Once railroads eventually need more ties and excess inventories are flushed, they will be seeking replenishment from fewer existing mills. Accordingly, tie treaters are walking a fine line between reacting to the market's lower needs while ensuring adequate future supply.

Mats/Timbers

Consumption by the board road/mat timber sector has been higher in the South than in the Appalachian and Northern regions but has trended up overall. Infrastructure projects, including data center construction, have reportedly driven increased usage, contributing more to growth than energy projects, according to some sources. Sector consumption has advanced 7.5% this year to 317 MMBF.

Conclusion and Outlook

Factors impacting demand for grade lumber were trending positive until the US-Iran war halted momentum. Domestic sales were improving until fuel price shocks, rising inflation, and the sudden about-face in mortgage rates sucked the air out of the room. Global demand for US hardwood lumber has edged lower amid the US-Iran War, the ongoing war between Ukraine and Russia, and sluggish economic growth in key markets, particularly China.

Widespread use of wood lookalike products continues to weigh on market share for hardwoods in flooring and cabinetry. While there is some evidence that trends in raw material choices are changing, favoring woodgrain looks, the magnitude of the reported shift is small overall.

The contraction in consumption by the tie sector is unnerving for sawmills that traditionally have relied on steady tie sales, at stable prices, when grade lumber markets did not perform especially well. That said, most industry experts believe activity will rebound soon after federal regulators issue a decision on the pending railroad industry merger.

The first part of this article focused heavily on the impacts of the US-Iran war on the economy and demand for hardwood lumber. Fittingly, so does the final part. In mid-June, the US revealed an agreement with Iran intended to conclude military operations and open the Strait of Hormuz for oil shipments. If the agreement holds, global economic and political uncertainty would likely ease, giving the hardwood industry hope for a return to the better conditions that existed prior to the war.

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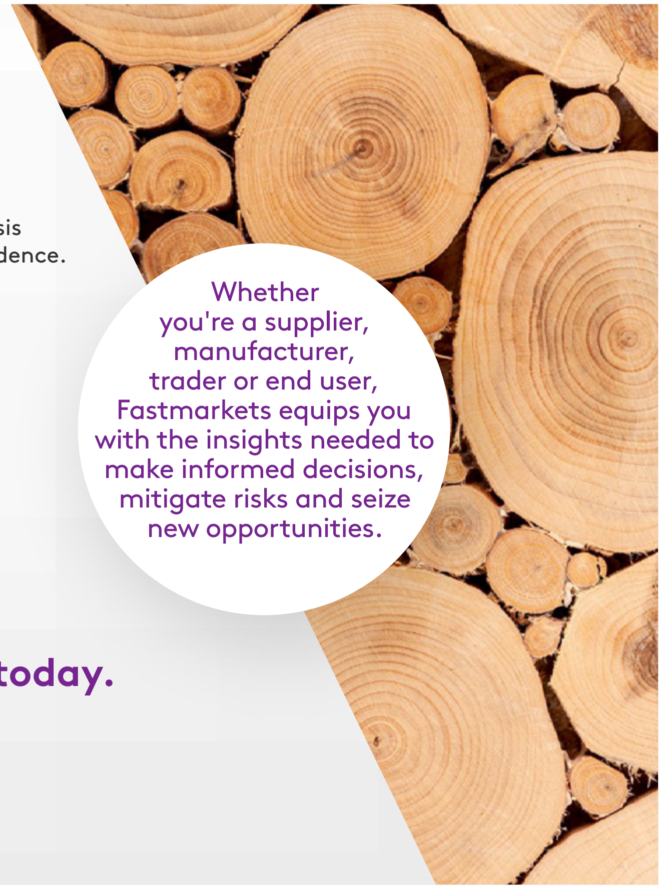

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