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A (kind of) Hot Industrial Lumber Summer

By Michael Connolly

The importance of industrial lumber to hardwood sawmills has grown significantly over the course of the 21st century as demand for grade lumber has declined, largely because of the increased popularity of lower-cost substitute products.

Industrial products accounted for 70% of domestic hardwood consumption in 2025, up sharply from 44% in 2000, according to *HMR*/Fastmarkets estimates. Domestic consumption of industrial lumber first overtook grade lumber in 2008, and the former has remained the larger sector every year since (**Figure 1**). Even with exports included—almost all of which are grade lumber—industrial products still accounted for 56% of total consumption last year.

Dr. Matthew Bumgardner, research forest products technologist with the US Department of Agriculture, explained that

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- Real average hourly earnings for all US employees in July edged down 0.1% from June and were 0.2% below July 2025.
- While the ISM® Manufacturing PMI® slid 1.0% in August from July to 54.6%, it marked the eighth consecutive month of expansion in the manufacturing sector.
- US exports totaled $199.4B in July, while imports totaled $318.2B, resulting in a trade deficit of $118.8B for the month.
- US manufacturing capacity utilization registered 76.0% in July, slightly higher than the 75.9% readings in both June 2026 and July 2025.
- The US Consumer Price Index (CPI-U) increased 0.1% (seasonally adjusted) in July and was up 3.4% during the 12 months ending in July.
- China's Purchasing Managers' Index for manufacturing rose 0.6% to 49.8% in August but was in the contraction range for the second straight month.

HMR DEMAND INDEX (HDI)

	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Cabinets	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Fair/Steady	Fair/Steady	Fair/Steady	Slow	Slow	Slow	Fair/Steady	Fair/Steady	Slow	Slow	Fair/Steady	Fair/Steady	Fair/Steady	Slow	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady
Residential Flrg.	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Slow	Fair/Steady	Slow	Slow	Fair/Steady
Truck Trailer Flrg.	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Slow	Slow	Fair/Steady	Fair/Steady	Slow	Slow	Slow	Slow	Slow	Slow	Very Slow	Slow	Slow	Very Slow	Very Slow	Very Slow	Slow	Slow	Slow
Upholst. Furniture	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Slow	Slow	Slow
Wood Furniture	Slow	Slow	Very Slow	Very Slow	Very Slow	Very Slow	Very Slow	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Slow
Moulding/Millwork	Fair/Steady	Fair/Steady	Slow	Slow	Slow	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady
Wood Components	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Fair/Steady	Fair/Steady	Fair/Steady	Slow	Slow	Slow	Slow	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Slow	Slow
Board Road	Slow	Very Slow	Very Slow	Very Slow	Very Slow	Slow	Slow	Slow	Slow	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Slow	Very Slow	Very Slow	Slow	Slow	Slow	Slow	Slow	Slow	Fair/Steady
Pallets	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Good	Good	Fair/Steady	Fair/Steady	Good	Good	Good	Good	Good	Strong
Railroad Ties	Fair/Steady	Fair/Steady	Fair/Steady	Good	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Fair/Steady	Good	Good	Good	Fair/Steady	Slow	Slow	Slow	Slow	Slow	Slow	Slow	Fair/Steady

Very Slow | Slow | Fair/Steady | Good | Strong industrial hardwood demand is more resilient than grade lumber demand because industrial hardwoods continue to offer “good performance for the price.” “And there's a little bit less focus on fashion in the industrial side,” Bumgardner said. “So you don't get some of the fluctuations in markets as much as, say, for cabinets or furniture.”

In the current times of weak market conditions for many hardwood producers, green sawmills, in particular, are increasingly relying on manufacturing industrial products to stay afloat. One major green sawmill operator in the Upper Midwest recently described the state of the market in dire terms: “Green sawmills need pricing to increase drastically if any of us are going to survive. It is truly survival of the fittest, and that is absolutely no fun.”

Having solid markets for pallet material, railroad ties, or board road is vital for green sawmills struggling with thin margins on grade lumber. Another sawmiller in the Upper Midwest, who primarily produces green lumber, recently told *HMR*/Fastmarkets that they’re “producing as much [board road] as we can” amid a summer-

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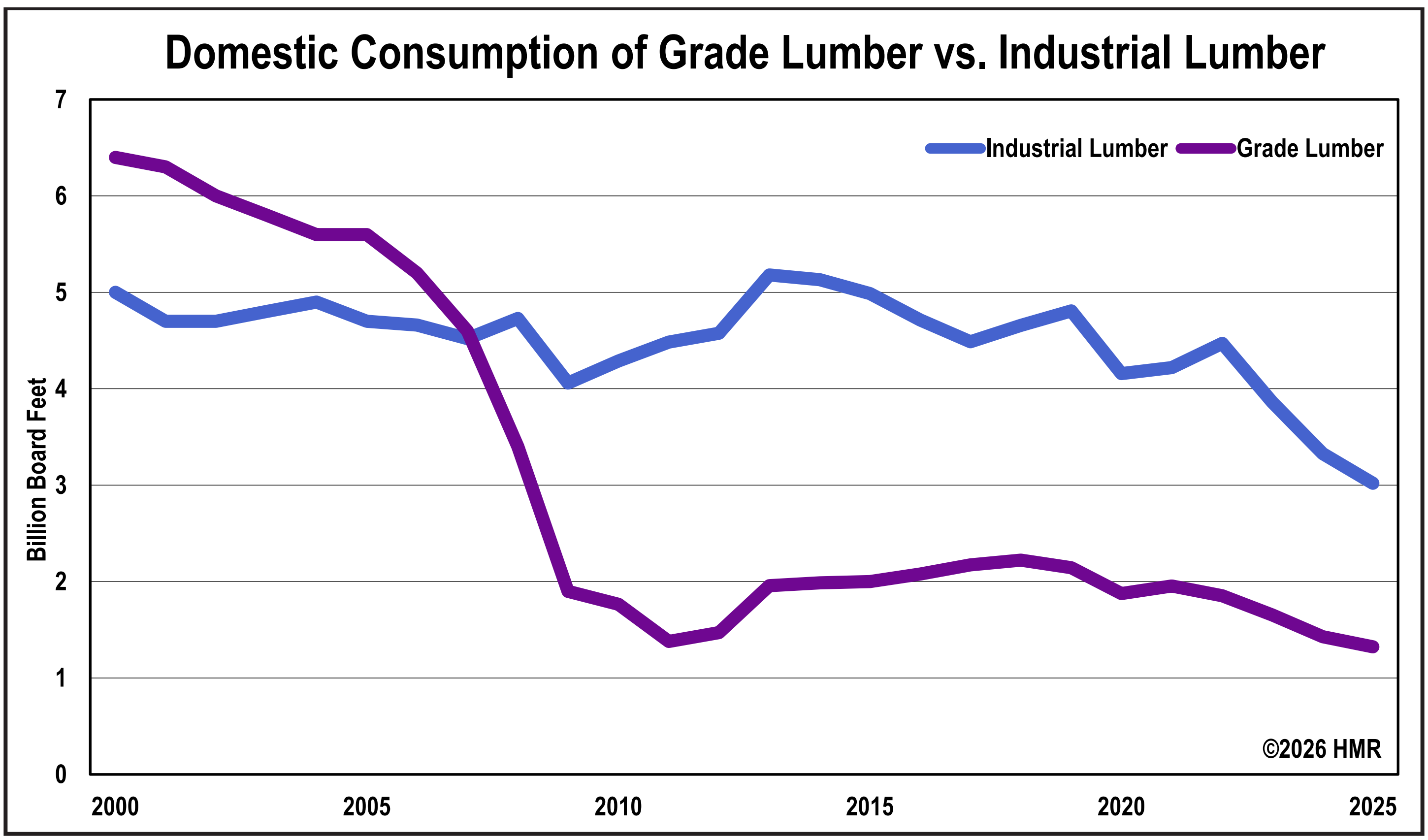
"Producers in the Southern region are more reliant on the rail tie business than their counterparts in the Northern and Appalachian regions. Consequently, the slowdown in rail tie purchasing has had a disproportionate impact on Southern mills and led to excess inventories of industrial lumber in the region."

Figure 1



time slump in green Maple and Oak lumber prices.

But even those increasingly important industrial sectors have faced headwinds in recent years. Hardwood utilization by the pallet sector has declined over the past decade, partly because of falling hardwood production, but mainly because of increased use of softwood lumber, which is typically less expensive even though it is almost always kiln dried or heat treated. Despite rising pallet demand in general, just 1.82 billion board feet (BBF) of hardwood raw material was used to make pallets in 2025—half the volume of the 3.64 BBF consumed just 12 years earlier, in 2013 (**Figure 2**). And hardwood's share of total pallet consumption was only 18% in 2025, down from 64% in 2002 (**Figure 3**).

"Many sawmills in the North and northern tier of the Appalachian region indicate tie treaters lifted or eased purchasing quotas in July, though it's unclear how long this will last since the actions are not because of new demand but operational logistics."

Fastmarkets economist Antonio Gallotta expects that this decline will eventually stop, however, because of hardwood's durability compared with softwood. "Unmanned warehouses that don't have people overseeing the assembly line will covet pallets that don't break over cheaper pallets that are more likely to break," Gallotta said. "For that reason, we forecast that hardwood's decline plateaus due to its strength qualities."

Meanwhile, the rail tie industry has been especially slow for roughly the past year because tie

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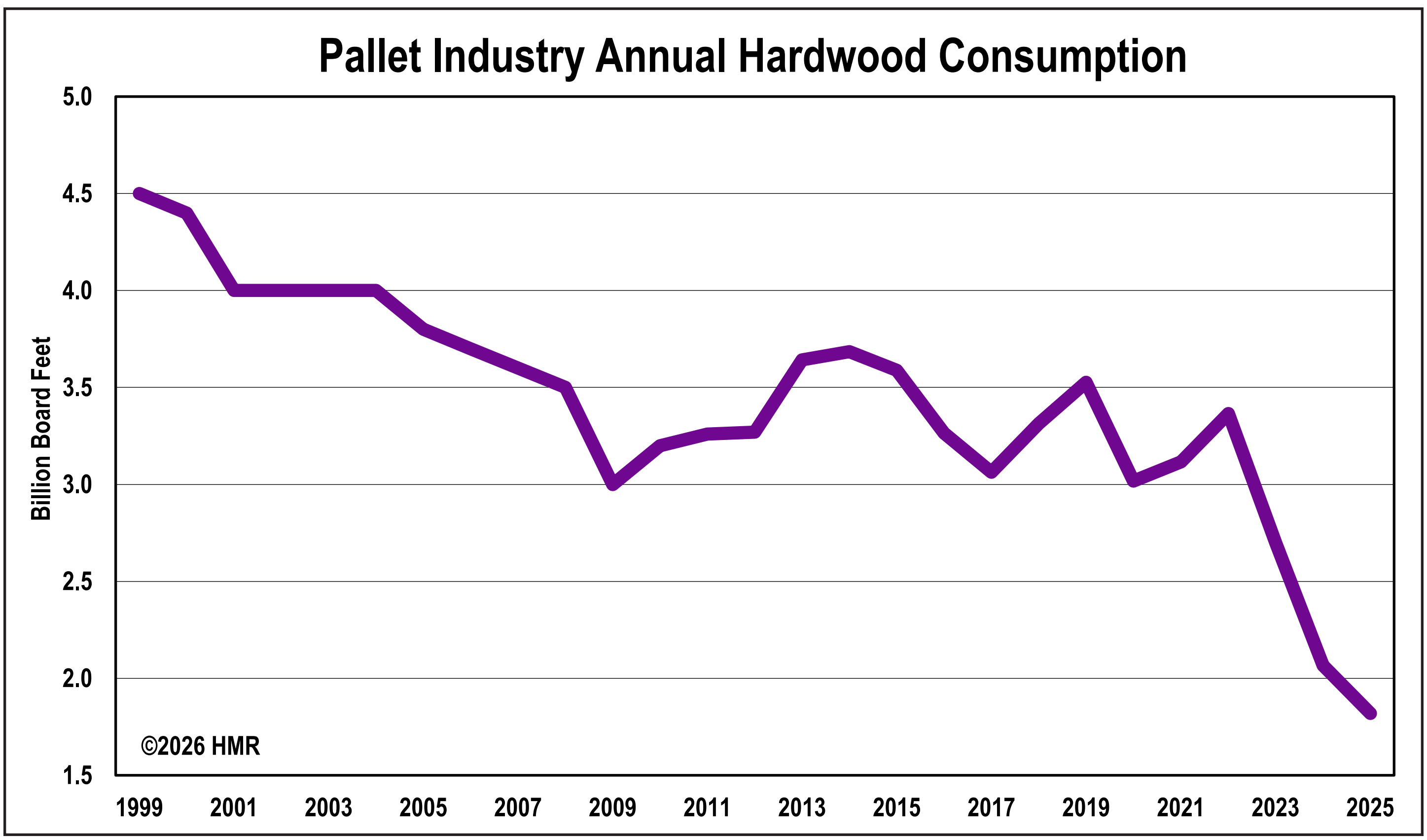
Figure 2



treatment plants have reduced purchasing amid ongoing merger efforts between major railway companies Union Pacific and Norfolk Southern. Consequently, many sawmills have been under strict production quotas, hampering what has been one of the most crucial and consistent markets for hardwood producers.

This summer, however, there have been a few positive developments in industrial lumber markets from producers' perspectives. Sawmills in the Northern and Appalachian regions have benefitted from rising pallet lumber and cant prices, and the relaxation of purchasing quotas by treaters has aided sawmills in some states, such as Wisconsin. Meanwhile, business for board road has been decent at steady-to-firmer prices.

Strong Summer for Pallet

The market for pallet lumber and cants has been a much-needed bright spot this summer for hardwood producers in most sections of the Eastern US and Canada. Market participants' comments about demand from that sector have been almost entirely positive since the start of June. This is not unusual during summertime because heightened construction activity and increased shipments of agricultural and retail goods create additional needs for pallets.

One green sawmill operator in Minnesota recently told *HMR*/Fastmarkets that one of his customers offered upwards of $600 per thousand board feet ($/MBF) for a truckload of pallet cants. "I couldn't give it to him, because I didn't have enough," the operator said. "I make better money cutting rail ties at the moment." Though prices like that for cants are not the rule in most areas, neither is this an isolated case.

This uptick in demand has led to price gains for pallet cants in the Appalachian and Northern regions. Since the start of June, the Appalachian

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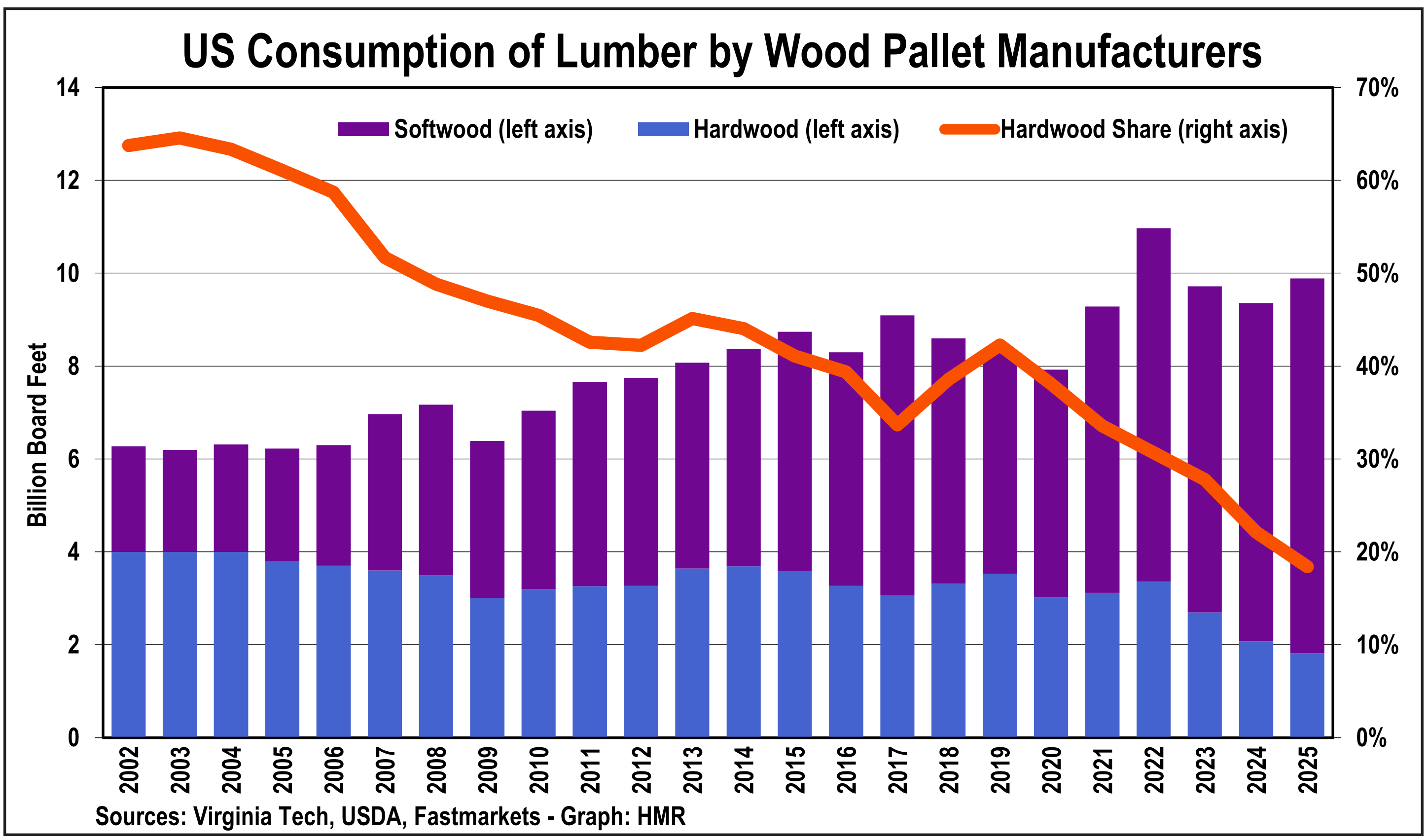
Figure 3



pallet cant listing has risen by $35/MBF to $535/MBF, while the Northern listing has jumped by $55/MBF to $570/MBF, both the highest since the spring of 2023 (**Figure 4**). The Northern gains are especially pronounced: The listing has climbed $105/MBF over the past 14 months.

These price gains are driven in part by supply-side tightness caused by sawmill closures. Eastern US Hardwood production totaled 2.37 BBF in the first seven months of 2026, down from 2.43 BBF during the same period in 2025 and 4.86 BBF during that period in 2016, according to *HMR*/Fastmarkets estimates.

"Unlike other market segments, in the board road sector, hardwoods are less likely to face encroachment from softwoods or other replacement materials because of their strength and durability."

In contrast to the Appalachian and Northern markets, pallet cant prices in the Southern region have actually fallen this summer. The Southern pallet cant listing has declined by $15/MBF to $485/MBF since the start of June.

Producers in the Southern region are more reliant on rail tie business than their counterparts in the Northern and Appalachian regions. Consequently, the slowdown in rail tie purchasing has had a disproportionate impact on Southern mills, resulting in excess supplies of industrial lumber in the region. This glut has been limiting price upside for pallet cants in the South, as mills there have been shifting production away from ties toward cants. While more pallet cants have been entering Southern markets, most area pallet producers can readily access softwood raw

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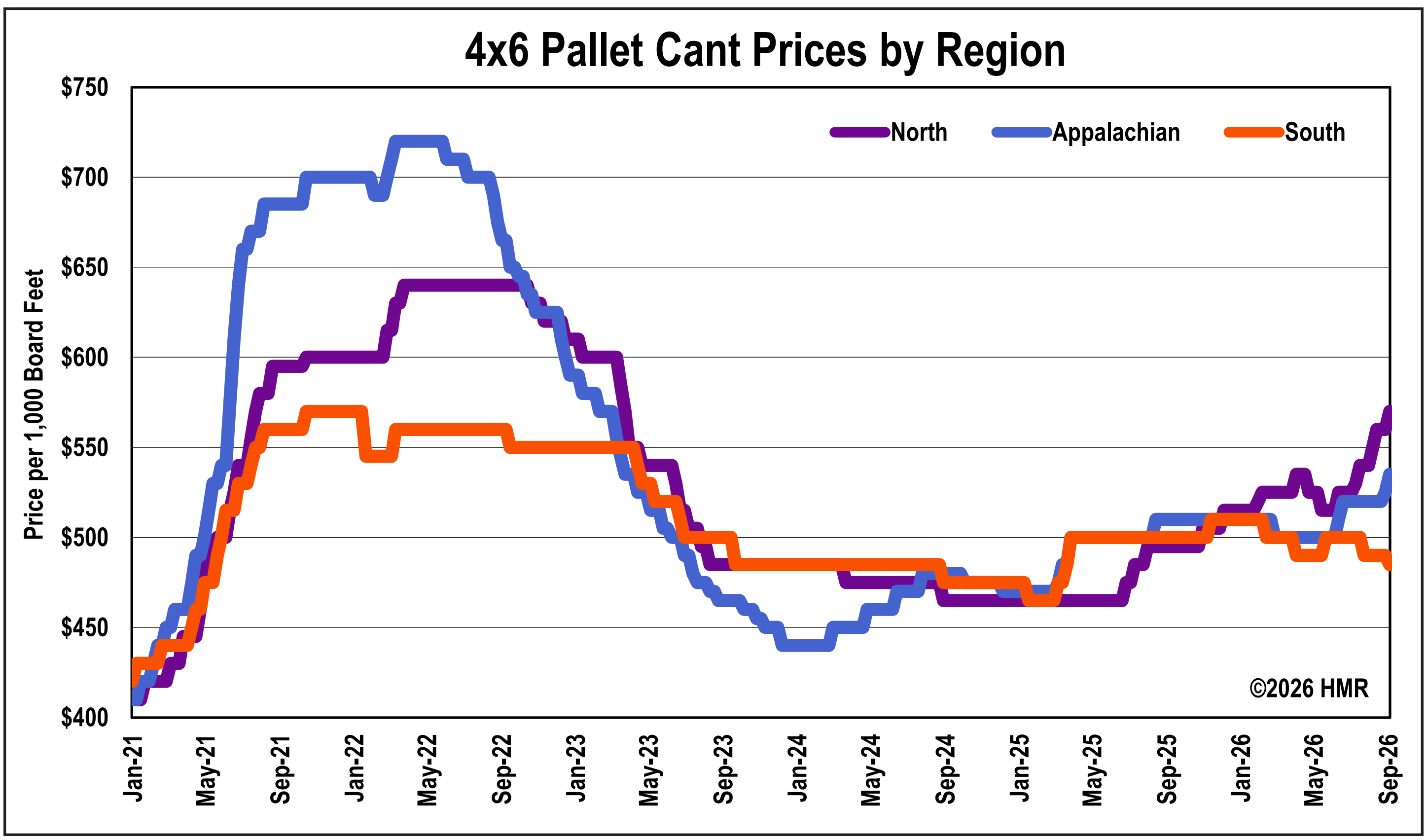
Figure 4



materials, which is not necessarily the case for many Appalachian and Northern pallet manufacturers.

The higher cost of fuel caused by the US-Iran war is another factor contributing to regional disparities in performance by industrial market sectors. The US on-highway diesel price averaged $5.60 per gallon on August 31, 2026, up from $3.73 per gallon one year earlier, according to the US EIA (**Figure 5**). Higher transportation costs narrow opportunities for sourcing from long distances, making each region less reactive to price changes in distant locations. If cant prices spike in the Upper Midwest, then buyers there aren't able to bring in cheaper cants from the South because freight costs are prohibitive.

Northern Tie Producers Get a Boost

Broadly speaking, market conditions in the rail tie sector are worse than a year ago. Treating plants have had most tie producing mills on quotas for much of the year, though some have been relaxed the last couple of months. The slowdown has been driven almost entirely by merger efforts between Union Pacific and Norfolk Southern, both of which have reined in capital expenditures as they await a merger decision from federal regulators.

This has been a big problem for struggling sawmills because rail ties have been one of the most reliable sectors as grade lumber markets deteriorated. The rail tie sector consumed 906 million board feet (MMBF) of hardwood lumber in 2025 and averaged 951 MMBF annually from 2005 through 2025 (**Figure 6**). During that period, even amid the COVID-19 pandemic, consumption never dipped below 827 MMBF (2022). However, consumption is down 15% this year to an annualized rate of 770 MMBF, according to *HMR/*Fastmarkets estimates.

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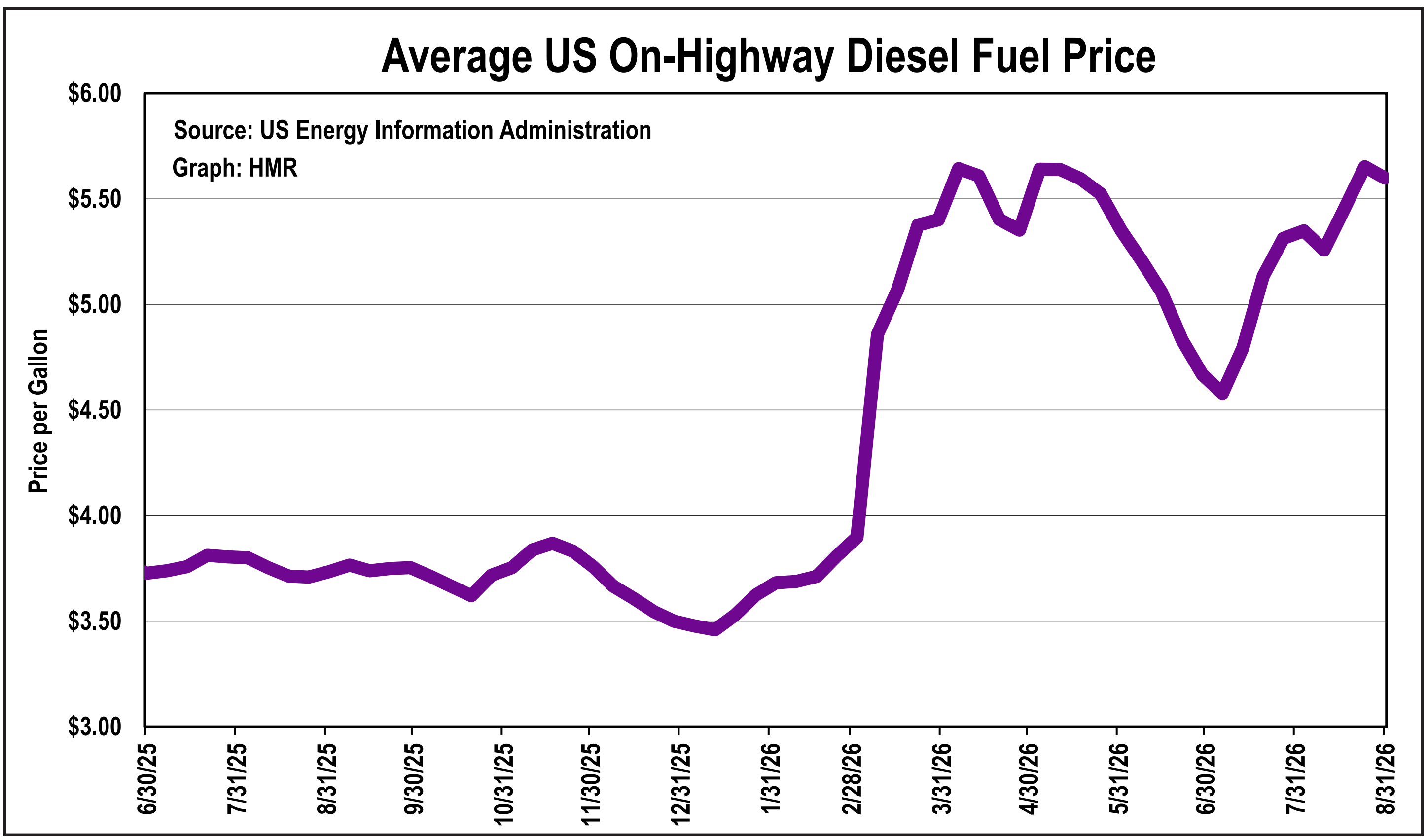
Figure 5



A relatively recent development in the rail tie market has been a reshuffling of business by a major tie treater. The company is in the process of closing a plant in Kentucky and has diverted that business to another plant in Wisconsin, according to market participants. This has benefited tie producers in the Upper Midwest.

One Northern sawmiller who does business with the treater says he was told the company chose to move more of its business to the North because tie prices are generally cheaper there than in the South. At the start of 2026—around the time the current tie downturn started—the midpoint of the *HMR* Northern crosstie price range was $35.50 per tie, compared with an average of $39.19 for the two Southern subregions.

Many sawmills in the North and northern tier of the Appalachian region indicate tie treaters lifted or eased purchasing quotas in July, though it's unclear how long this will last since the actions are not because of new demand but operational logistics. Most treating plants still have tie producers on quotas, which indicates that demand is still fundamentally sluggish.

A resolution to the proposed railway merger will be needed before any broad increase in demand can occur. Until then, treating plants will likely remain cautious with purchases.

Some recent progress was made in the merger efforts. In August, the Surface Transportation Board (STB) ended the suspension of the proceedings and set a schedule to have final briefs submitted by the interested parties on May 28, 2027. This marks the first step forward in these efforts in recent months, though the date of the STB's final decision on the merger is still to be determined. The merger proceedings had been suspended since May, when the STB requested additional information from Union Pacific

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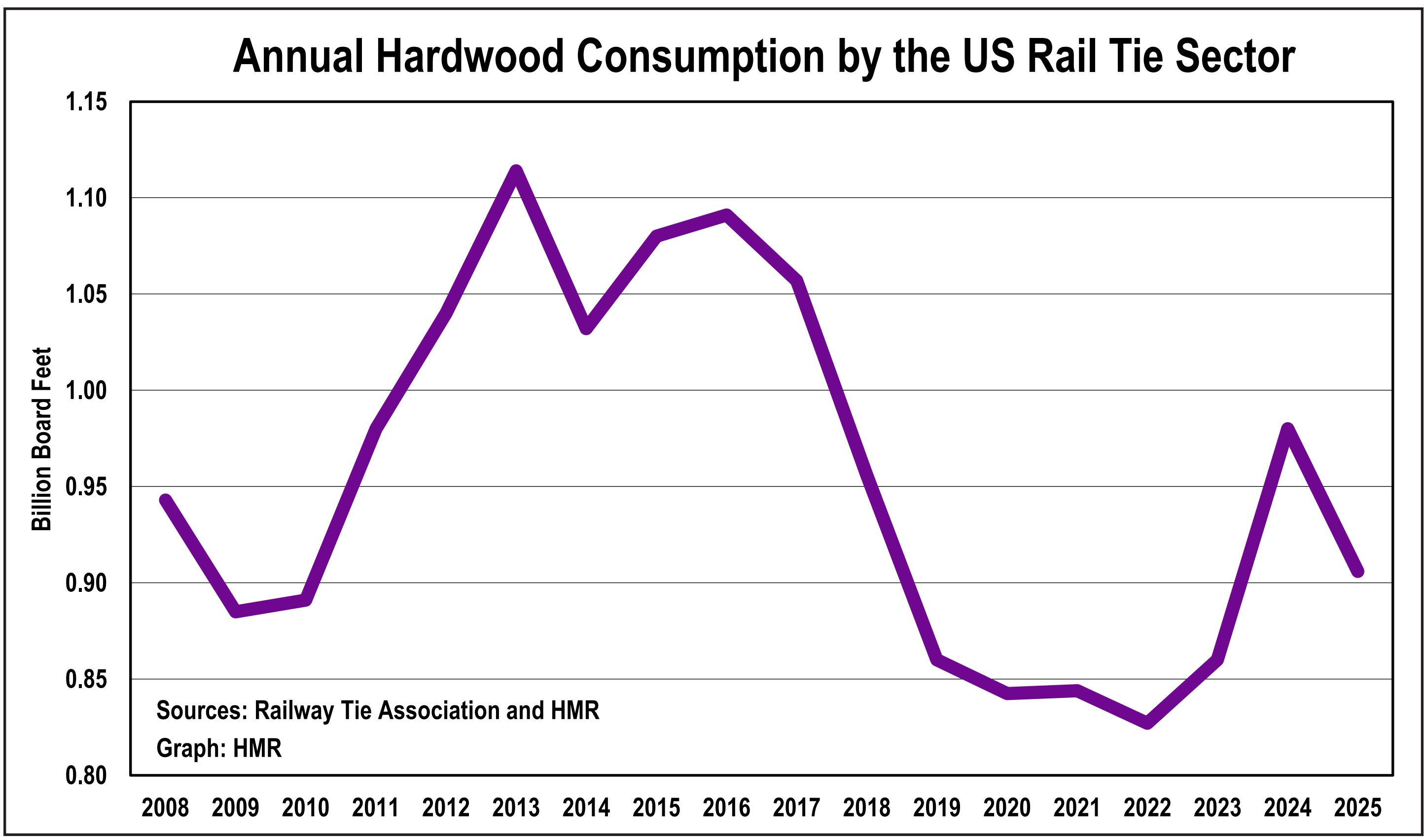
Figure 6



and Norfolk Southern following the filing of their amended merger application.

Board Road Steady as She Goes

Consumption of board road/mat timbers totaled 295 MMBF in 2025, up 5% from the prior year, according to *HMR/*Fastmarkets estimates (**Figure 8**). It was the only market segment, for either grade lumber or industrials, that didn't shrink over that time. And consumption surveys conducted earlier this summer show an 8% gain in 2026 to an annualized rate of 317 MMBF.

The strength of the board road market is evident when you speak with participants. For example, a producer in the Midwest—who started his company in 2018—hired additional employees post-COVID and acquired a "good-sized" sawmill last year to cut lumber that they use to make board road. This sort of expansion is a rarity in most segments of the hardwood industry.

Market conditions for board road producers have been solid throughout this year, and prices are up slightly across regions. The Appalachian board road listing is currently $580/MBF, up by $10/MBF since the start of the year; the Northern listing is $500/MBF, up by $15/MBF; and the Southern listing is $575/MBF, up by $25/MBF (**Figure 9**).

Demand for board road continues to be driven by traditional sources such as power-line maintenance and upgrades, and pipeline construction projects. Other sources of demand include wind farm construction, and in the past few years, the construction of AI data centers.

A board road producer recently told *HMR*/Fastmarkets that one of the biggest current trends in the market is increased demand for solid-top mats, which have smaller gaps between boards compared with standard board road. Buyers value the increased durability and reusability

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Figure 7

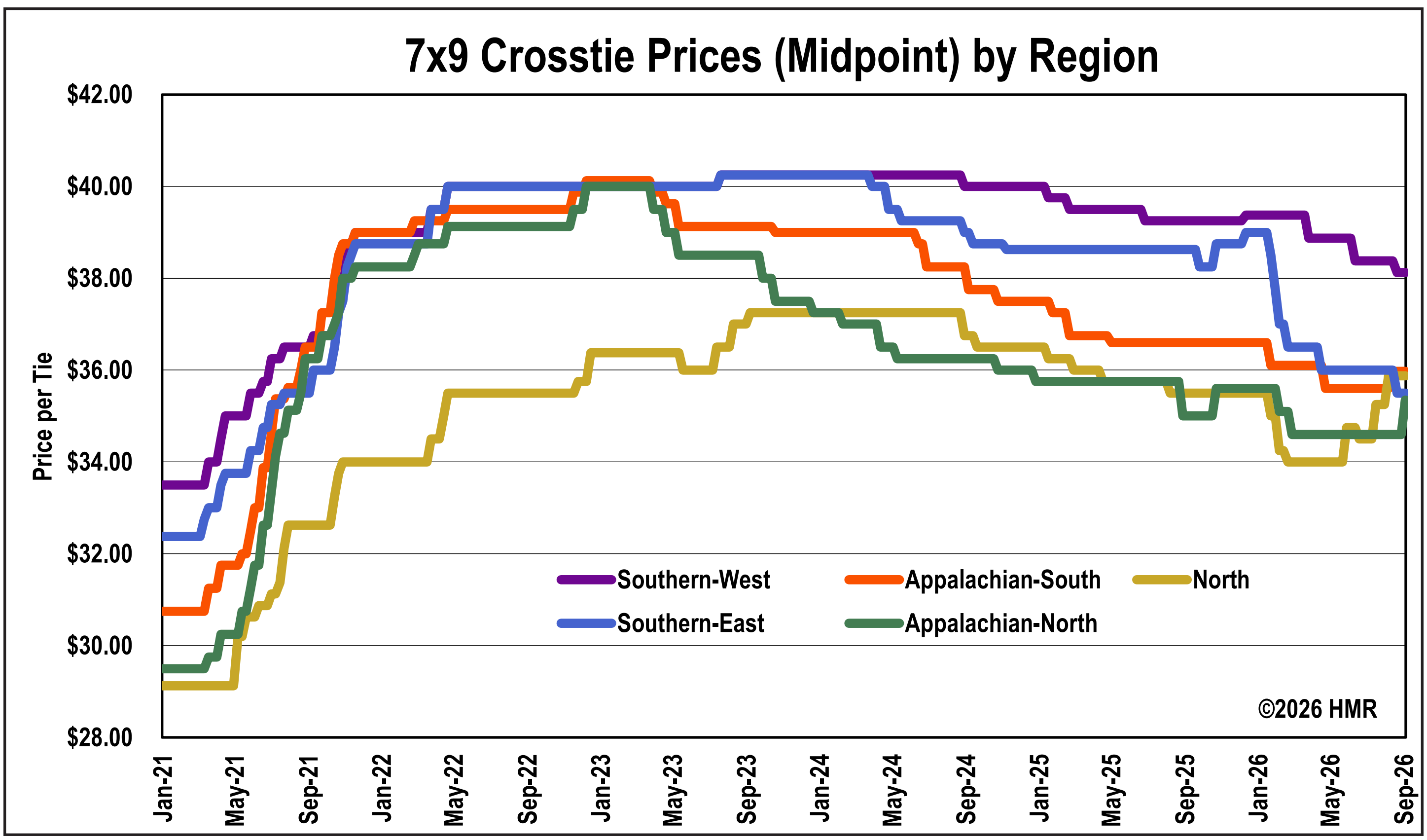


Figure 8

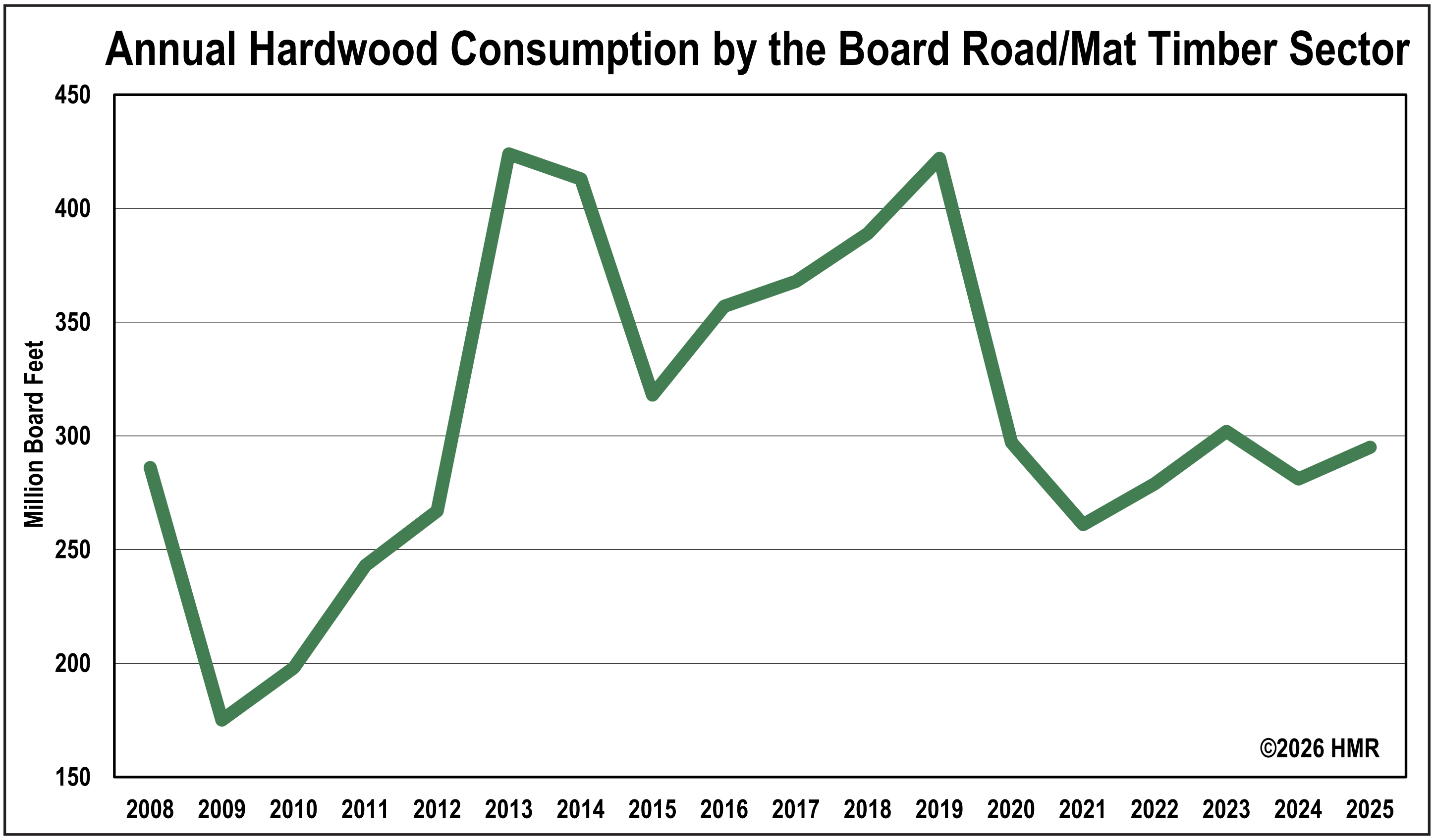


Figure 9

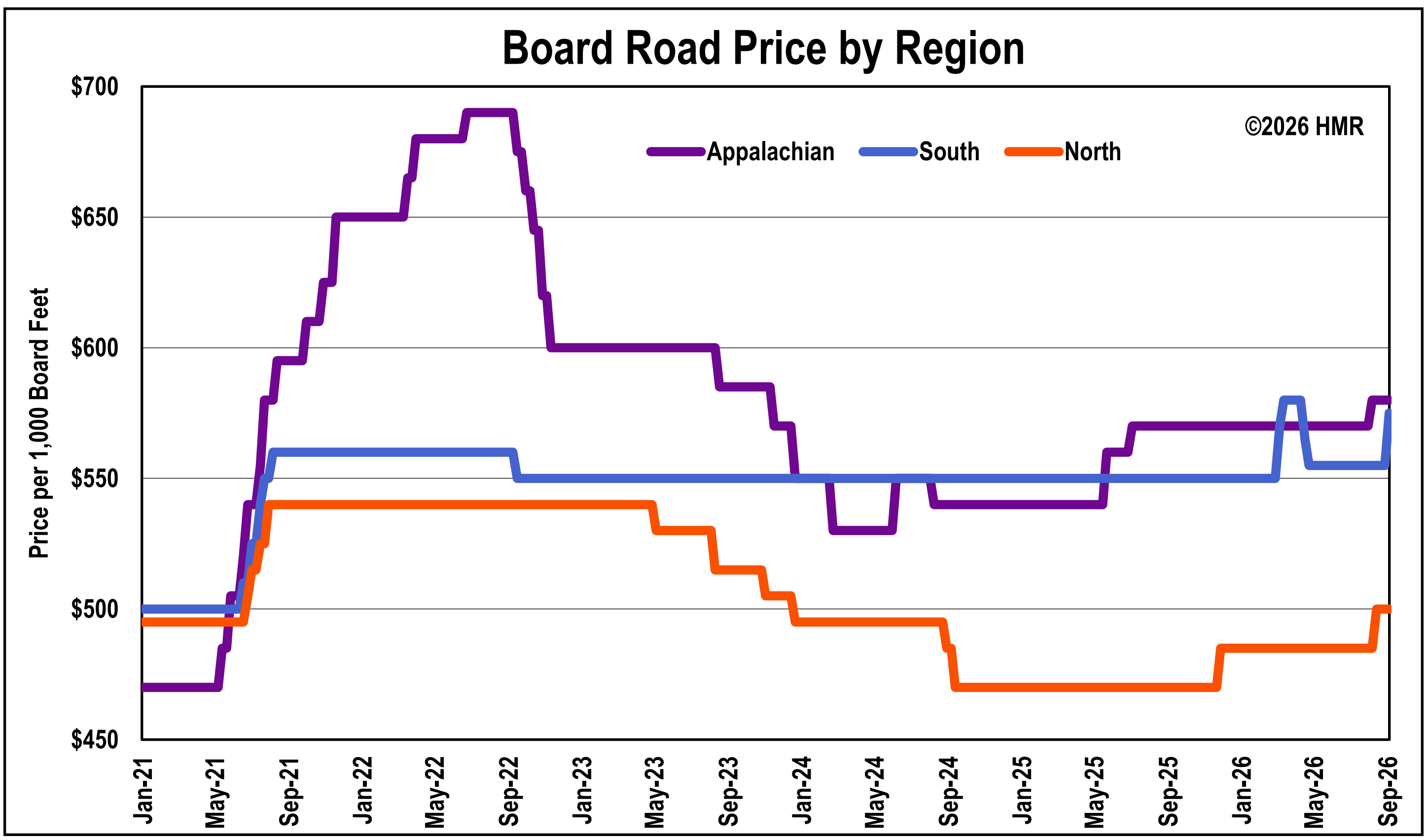


Figure 10

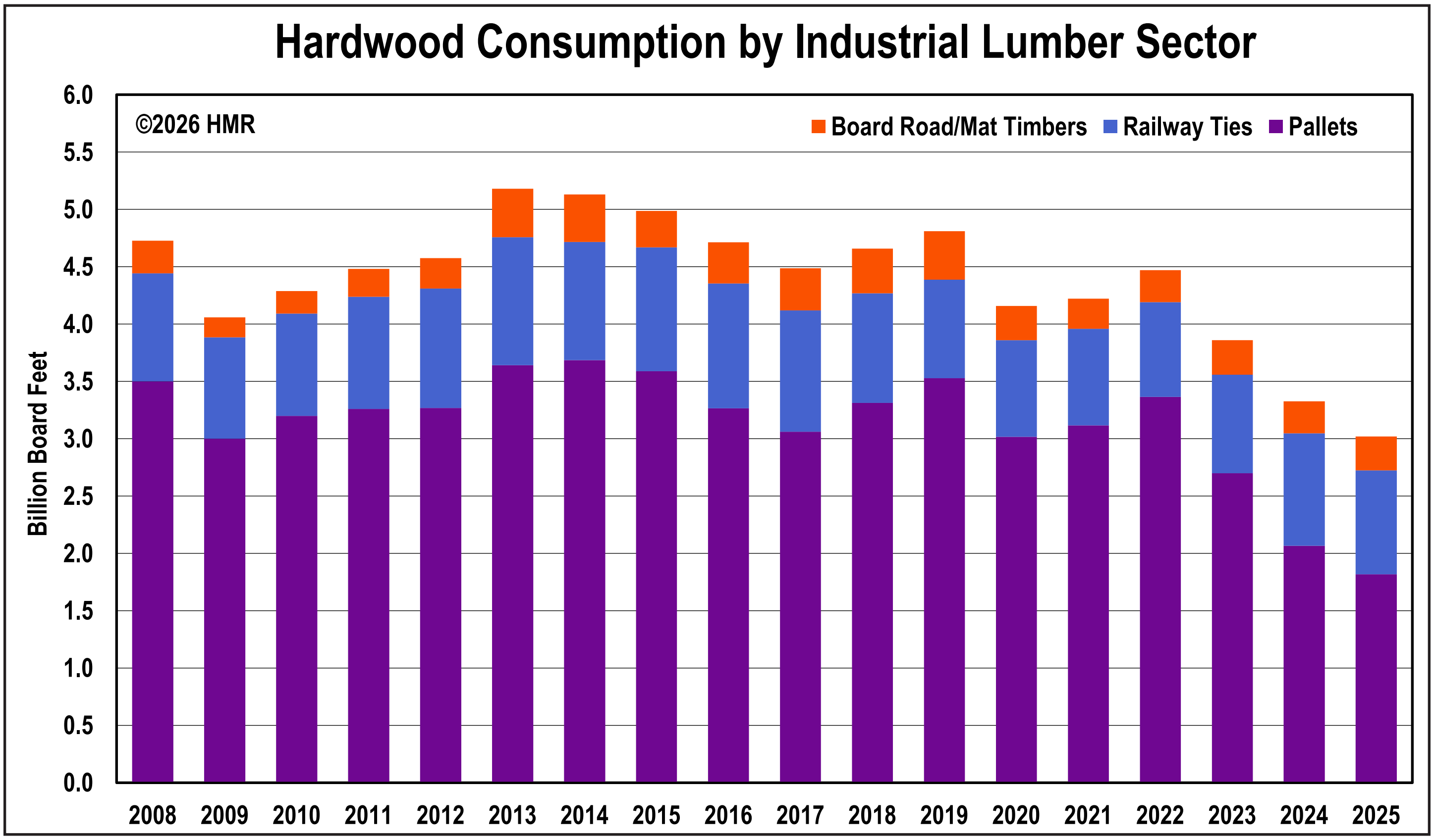
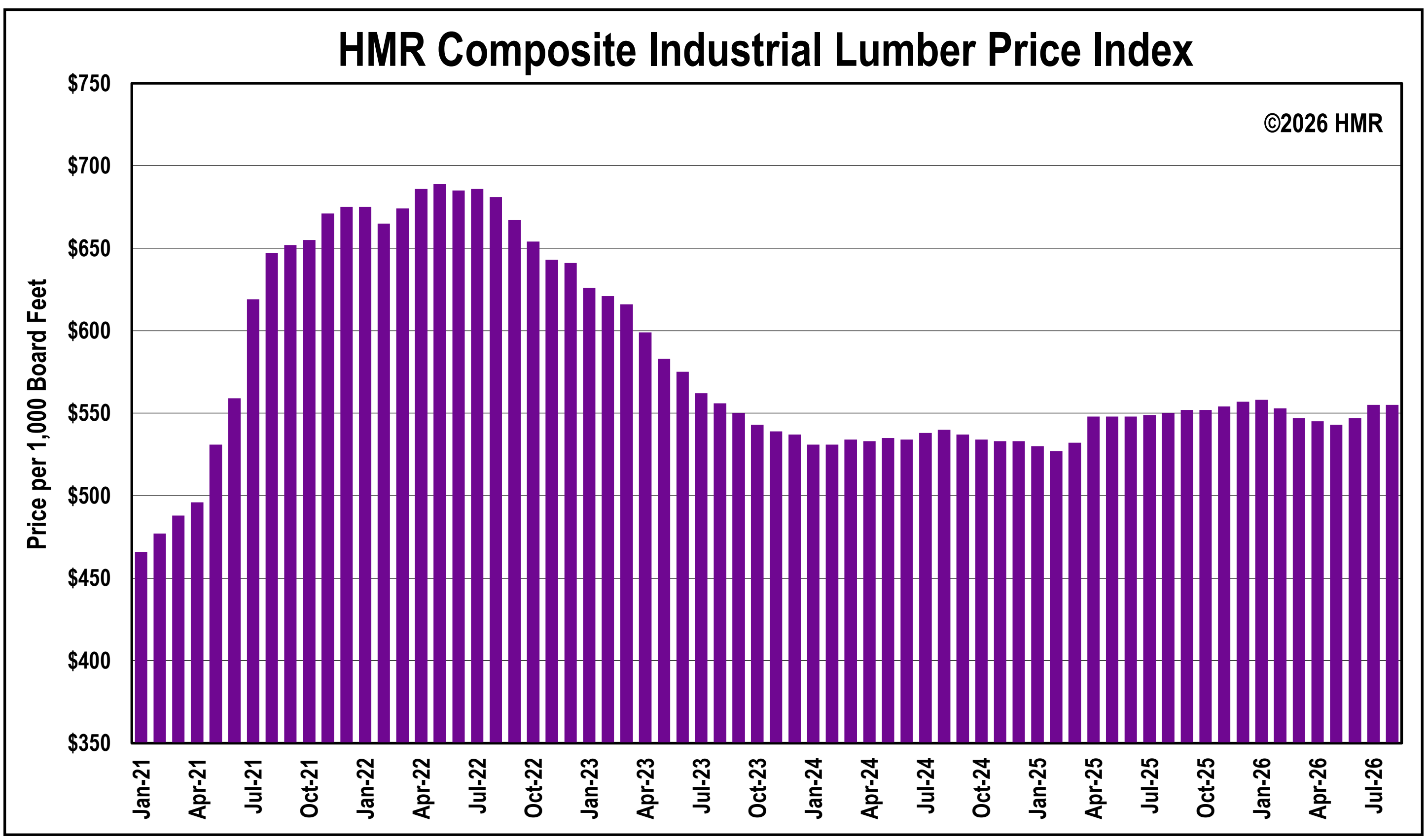


Figure 11



that these solid-top mats provide. This can be a bit of a double-edged sword for hardwood producers, because on the one hand, solid-top mats consume more hardwood than traditional mats, but on the other hand, they don't need to be replaced as frequently.

In the board road sector, unlike other market segments, hardwoods are less likely to face encroachment from softwoods or other replacement materials because of their strength and durability. Some hybrid mats are produced, but softwood is a relatively minor part of total board road consumption.

During the spring, a board road producer told *HMR*/Fastmarkets that they were using a mix of about 15% pine to manufacture hybrid mats, one of the reasons being that these mats were lighter than 100% hardwood mats, which helped relieve some of the pressures of increased freight costs. However, this same producer in August said they were back to using 100% hardwood—nearly all Oak—to produce their mats.

Board road buyers have also said that they've seen a marked change over the past year-and-a-half: More and more sawmills are pivoting to producing their own mats. This trend is unsurprising when you consider the amount of competition in the pallet sector as well as the sustained slowdown in rail tie purchasing over the past year. It's truly survival of the fittest for sawmills right now, especially green mills, and they are looking for any edge they can find to stay in business. It's a fair argument that board road is the most buoyant life raft out there in the struggling hardwood industry.

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