SMARTER PERSPECTIVE: FORESTRY

Softwood Lumber Tariffs and Market Dynamics: What Asset-Based Lenders Need to Know in 2026

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In mid 2025, the long-running U.S.–Canada softwood lumber trade dispute escalated with a marked increase in anti-dumping and countervailing duties—taking the combined duty rate on Canadian softwood lumber from 14.4 to above 35.19 percent. Conventional wisdom would suggest that these duties should raise domestic prices. Yet, in the latter half of 2025, following the increase in duties, lumber prices actually fell, reflecting both extreme weakness in housing demand and complex cost absorption across the supply chain. This article examines this counter-intuitive market response, which carries significant implications for asset-based lenders supporting lumber producers, traders, and downstream participants.

Historical Context: U.S. / Canada Softwood Lumber Trade Disputes

The softwood lumber trade dispute between the U.S. and Canada extends back to the 1980s. The United States has repeatedly imposed anti-dumping (AD) and countervailing (CVD) duties on Canadian lumber, alleging that Canadian governments subsidize timber supply by selling logs from public lands at below-market rates—thereby giving Canadian mills an unfair competitive advantage. These duties have been reviewed and adjusted periodically by the U.S. Department of Commerce through annual administrative reviews.

Expected Tariff Impact Versus Market Reality

While tariffs have most typically been shown to increase domestic prices by raising the cost of imported goods, a confluence of unique factors resulted in actual lumber outcome in 2025 that diverged sharply from this expectation. These include:

<u>Housing Market Weakness Suppressed Price Pass-Through</u>
Lumber demand is highly correlated with residential construction activity. In 2025, persistently high mortgage rates (between 6 and 7 percent) continued to suppress new home construction and remodeling activity, keeping lumber demand subdued. According to the Global Wood Trade Network, as a result, even after duties rose sharply, producers were unable to raise prices without losing volumes, revealing that demand conditions override tariff effects when underlying consumption is weak.

In mid-August, after duties increased, U.S. lumber prices slumped by as much as 10 to 20 percent, depending on species, and continued to trend lower in the face of soft demand. This collapse underscores that duties alone do not ensure higher prices if buyers are inactive, particularly in a housing market struggling with affordability and low starts.

<u>Tariff Absorption Across the Supply Chain</u>
According to Fastmarkets, market participants are absorbing tariff costs at multiple points rather than passing them fully to end users. Canadian mills selling to the U.S. have in some instances lowered bid prices to maintain competitiveness, despite higher duties. Importers and distributors have also absorbed portions

of added costs to sustain sales, and exchange rate dynamics have cushioned some price effects. This fragmented cost absorption also helps to explain why tariffs have not translated into a one-for-one increase in consumer pricing.

Procurement Rigidities and Strategic Responses

Dealers and builders note that certain Canadian species, particularly SPF (spruce-pine-fir), are difficult to substitute due to grading specifications, according to the Global Wood Trade Network. Even with higher duties, buyers may still procure Canadian product because U.S. alternatives do not meet the same design values or grading requirements. This structural demand reduces the passthrough of tariff costs directly into end prices.

Broader Global Lumber Trade Trends in 2025

In parallel with tariff developments, Supply-Build Canada reports that global softwood lumber trade flows reflect a shifting landscape:

- U.S. softwood lumber imports from offshore suppliers (Europe, Latin America, New Zealand) grew significantly in the first half of 2025, partially offsetting declines in Canadian volumes. Shipments from Europe and plantation pine exporters such as Brazil, Chile, Argentina, and New Zealand increased, indicating a diversification of supply sources.
- Canadian shipments to the U.S. fell in the first half of 2025, diminishing by approximately 8 percent compared with the prior year period—as Canadian mills faced margin pressure.
- Domestic North American panel production (OSB, plywood) saw mixed trends, with OSB output rising modestly but plywood production declining, illustrating structural constraints on substitution and supply elasticity in related wood segments.

These global dynamics underscore that tariffs are only one of many forces shaping supply, prices, and trade flows. Market participants are reallocating sourcing strategies, and suppliers in Europe and Southern Hemisphere markets are stepping into niches created by Canadian volume contractions.

Housing Market Forecast

The trajectory of the U.S. housing market in 2026 will be a central influence on lumber demand and pricing dynamics. Multiple reputable forecasts indicate a modest recovery in housing activity next year, supported by somewhat lower mortgage rates and improving affordability, albeit from a base of entrenched weakness. Mortgage rates are expected to remain elevated relative to the pre-pandemic era but trend modestly lower through 2026. Average 30-year fixed mortgage rates are projected to hover near 6.2 to 6.3 percent, down somewhat from the higher levels seen through much of 2025, which should slightly ease affordability constraints for buyers. This range is consistent with recent Freddie Mac data reporting 30-year mortgage rates around 6.22 percent toward the end of 2025 and forecasts that rates will stay slightly above 6 percent in 2026.

Home price growth is also forecast to be muted but positive. Zillow economists project that home values will rise by about 1.2 percent in 2026, reversing the more widespread price declines observed in 2025 across many major markets. National Association of Realtors (NAR) Chief Economist Lawrence Yun projects existing home sales increasing by double digits (around 11 to 14 percent) in 2026 with mortgage rates averaging close to 6 percent and modest price appreciation. Other market forecasts from Realtor.com and Redfin reinforce a narrative of incremental improvement rather than rapid rebound in the year ahead.

Implications for Lumber Demand & Pricing in 2026

For the lumber market, a soft but broad-based increase in housing activity in 2026 would likely translate into moderate uplift in lumber demand, particularly for structural lumber used in new construction and remodeling. However, the following factors temper expectations for a strong price rebound:

1. Persistent weak demand may keep lumber prices subdued until structural improvements in housing starts occur. Current inventory and production adjustments suggest that meaningful price recovery may not materialize until mid-2026 or later, assuming favorable interest rate shifts and housing market improvement.
2. Mortgage-rate dynamics matter. Although downward pressure on mortgage rates supports affordability, the persistence of rates above long-term historical averages limits the pool of marginal buyers and slows broad demand normalization. If the Federal Reserve pursues additional rate cuts in late 2025 or early 2026, this could relieve some pressure on mortgage rates (although there is not a direct correlation between Fed Funds rate and mortgage rates), potentially rekindling housing demand and supporting lumber prices.
3. Inventory and supply chain dynamics continue to evolve. With imports from Europe and plantation forests supplementing North American supply and tariffs exerting nuanced cost absorption effects, price signals in lumber markets may reflect a complex interplay of global supply and modest U.S. demand recovery.

In aggregate, lumber price recovery in early to mid-2026 is more likely to be gradual and contingent on sustained housing demand growth, rather than abrupt or tariff-driven, supporting a scenario in which lumber prices may stabilize and normalize but not necessarily spike absent meaningful acceleration in homebuilding activity. These housing forecasts should be incorporated into lender scenarios for borrower cash flow, collateral valuation and stress testing strategies.

Guidance for Asset-Based Lenders With Exposure

For asset based lenders supporting businesses across the lumber supply chain, a nuanced risk assessment is essential:

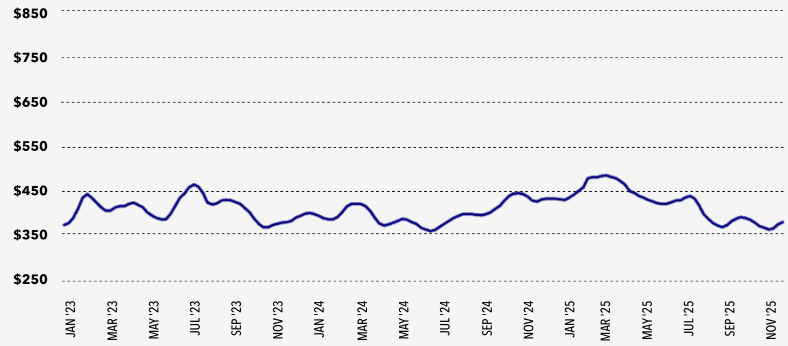
- Collateral Valuation Under Weak Demand: Timberland, log inventories,

unfinished lumber, and receivables should be valued with sensitivity to demand weakness. Declining lumber prices, despite tariffs, suggest that market appetite remains the primary price determinant. Stress scenarios should incorporate prolonged housing softness and inventory devaluation.
- Debtor Liquidity Strains: Canadian sawmills and exporters are experiencing margin compression and duty-related cash drains. For instance, Interfor reported a substantial net loss in Q3 2025 associated with increased duty expenses, indicating that even larger players are squeezed.
- Diversification and Market Access Risks: Borrowers dependent on U.S. exports may face uncertain access and pricing power; lenders should evaluate strategies for diversification into other markets or species to mitigate tariff exposure.
- Supply Chain Interdependencies: Consider cross-collateral arrangements across upstream timber suppliers and downstream distributors. The inability of production curtailments to lift prices suggests that excess capacity or inventories can impair working capital cycles.

Market developments in 2025 underscores that tariff escalation is not a reliable mechanism to elevate product prices when underlying demand is weak. Housing market stagnation has overridden tariff effects, with lumber prices sluggish even after duties climbed above 35 percent. Lenders should prioritize borrower liquidity, collateral stress testing, and supply chain resilience over assumptions of tariff-induced price support.

Strategic borrower engagement, proactive monitoring of inventory and receivables, and scenario planning tied to housing and interest rate trends will be crucial to insulating portfolios from downside risk while positioning for eventual market recovery in 2026.

Random Lengths Framing Lumber Composite Pricing Last 36 Months ($ per thousand board feet)



Source: Random Lengths

If you have borrowers operating in the lumber market, we urge you to maintain a firm grasp of those businesses and the distinct operational challenges they are facing. These may include business performance, competitive threats, or forecasting accuracy that could contribute to potential distress in 2026. We continue to advise frequent intervals of valuation monitoring in the year ahead and welcome the opportunity to assist in those efforts or answer any questions you may have pertaining to exposure within your portfolio. We are here to help.

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