THE LUMBER DAILY

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Mill Residuals Edition
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MARKET PULSE | Lumber $618 | WTI $69 | S&P 7,354 | 10yr 4.38%

TOP STORIES

U.S. Sawmill Capacity Fell 6% Over the Past Year as Output Slipped Again

U.S. sawmill capacity stood about 6% below its year-earlier level in the first quarter, according to a National Association of Home Builders analysis of federal data released this week. Output fell 0.4% on a four-quarter moving average, the second straight quarterly decline. Employment in sawmills and wood preservation slipped to roughly 82,800, the lowest since 2010 and a twelfth consecutive quarterly drop. Capacity utilization edged up to about 71.8% from 71.2% at the end of 2025, but the gain reflects capacity shrinking faster than output rather than mills running harder. The builders' group attributed steady production on a thinner payroll to automation and new plant investment. Softwood lumber prices rose 6.1% in the quarter while sitting 3.8% below a year earlier. The figures land as federal officials press to expand timber harvest on public land, even as the milling base that turns logs into lumber keeps contracting.

Construction Hiring Held Up in May Even as Homebuilding Cooled

Construction payrolls held up in May even as homebuilding cooled. The sector added a net 17,000 jobs for the month, with 23 states and the District of Columbia adding construction workers, 22 states losing them and five unchanged, based on Bureau of Labor Statistics data compiled by the National Association of Home Builders. Texas led the monthly gain at 3,600 jobs and Massachusetts recorded the largest loss at 4,200. Idaho posted the strongest percentage increase at 2.6%. Over the year, construction employment rose 68,000, or 0.8%, led by Texas at 18,700 while California shed 13,100. The resilience contrasts with a 15.4% drop in May housing starts to a 1.18 million annual rate, suggesting crews are staying busy on remodeling and nonresidential work as new single-family demand softens.

England Moves to Cap Timber in Mid-Rise Buildings

England moved closer to limiting structural timber in mid-rise buildings. Proposed changes to Approved Document B, the country's fire-safety guidance, would require every load-bearing element in a building with an occupied floor above 11 meters to meet a reaction-to-fire rating that most timber products cannot achieve, effectively capping timber-framed structures at about four storeys. Buildings between 4.5 and 11 meters would face new limits on exposed combustible surfaces, curbing visible wood finishes. Current post-Grenfell rules restrict combustible materials only on the external walls of residential buildings above 18 meters, so extending the limit into the structural frame at 11 meters marks a sharp tightening. The public consultation closes July 1. The guidance is advisory, but building-control teams and lenders treat it as the benchmark, so a firmer line would reach across the mid-rise market and the cross-laminated timber (CLT) used to build it.

■ DEEP DIVE: MILL RESIDUALS AND THE CHIP SQUEEZE

The Other Half of the Log

Only about half of every log entering a sawmill leaves as lumber. The rest becomes chips, sawdust, shavings and bark, and mills sell those residuals to pulp and paper plants, oriented strand board (OSB) producers, pellet makers and animal-bedding suppliers. That byproduct stream is not a rounding error. Residual sales are a meaningful contributor to a mill's revenue and can be the difference between running and idling when lumber margins are thin. The implication of a shrinking sawmill base is therefore double: each curtailed shift cuts lumber supply, and it also cuts the flow of chips and fiber that downstream plants depend on.

Pulp Mills Feel It First

Most pulp capacity in BC and the Pacific Northwest was built to run on sawmill residuals rather than purpose-cut logs. As curtailments thin the chip supply, pulp mills backfill with more expensive whole-log chips and pulp logs, and one operator reports chipped logs now cover roughly a quarter of its furnish. Analysts flag scarce residual chips as a leading indicator for northern bleached softwood kraft (NBSK) pulp prices, since furnish cost climbs even when paper demand is flat. A forecast that Canadian lumber output will fall by about a billion board feet would tighten the chip pool further. The cost pressure on these buyers originates on the sawmill side, not in their own order books.

What It Means on the Log Deck

When residual and chip markets tighten and pay more, the calculus on the log deck shifts. Stronger chip values cushion sawmill economics and can make whole-log chipping compete with sawing for marginal logs, while pulp and panel buyers bid up pulpwood and chip logs to secure furnish. West Coast mills already paying up for scarce logs face another input cost to track, and any operator weighing a curtailment now has to set lost residual income against lost lumber sales. For specialty and hardwood buyers, residual markets are worth watching as a read on which mills can stay open and how hard the competition for fiber will run into the back half of the year.

WHAT YOU MISSED YESTERDAY

Friday, June 26 - business, markets, and the broader economy.

- U.S. stocks were mixed to close the week. The S&P 500 was little changed at 7,354.02 and the Dow Jones Industrial Average eased 0.09% to 51,876.11, while the Nasdaq Composite fell 0.24% to 25,297.62, its fifth straight decline.
- The 10-year Treasury yield held near 4.38% as easing Middle East tension pulled energy prices and inflation expectations lower.
- WTI crude settled around $68.86 a barrel, its lowest since February, with shipping through the Strait of Hormuz flowing normally.
- The personal consumption expenditures (PCE) price index, the Federal Reserve's preferred inflation gauge, rose 4.1% in May from a year earlier, a three-year high and up from 3.8% in April.
- Technology shares led the week's drag as investors rotated out of large-cap chip and software names into more defensive sectors.

■ MARKETS & DEMAND

INDICATOR	LEVEL	TREND
Lumber futures (Jun 26)	**$618/MBF**	Off the late-June high near $630
Cash lumber benchmark (wk ended Jun 19)	**$533/MBF**	Up $9, or 2%, week over week
Softwood lumber prices (Q1)	**+6.1% q/q**	Down 3.8% from a year earlier
10-year Treasury (Jun 26)	**4.38%**	Eased as Middle East risk faded
PCE inflation (May, year over year)	**+4.1%**	A three-year high, up from 3.8% in April
Construction employment (May)	**+17,000 jobs**	23 states and DC added jobs; Texas led

■ THE BOTTOM LINE

Three things for your Monday. The country's milling base keeps thinning, with sawmill capacity down about 6% over the past year and the fewest workers since 2010, even as federal officials push to expand the harvest on public land, leaving fewer mills to turn those logs into lumber. Every idled shift also stops making chips, so the residual squeeze quietly raises costs for the pulp and panel plants that run on sawmill leftovers, a pressure moving independently of their own demand. And the demand signal stays split, with construction payrolls holding up in May while housing starts fell and inflation reached a three-year high, leaving lumber rangebound in its recent corridor even as the supply side keeps contracting.
