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## **Demand, not Iraq sales, caused OSB, plywood surge**

EUGENE, ORE. -- Historically high demand in the U.S. is driving the surge in structural panel markets. Sales of panels headed for military outposts in Iraq were a contributing factor -- albeit a minor one -- in the summer of 2003. In some circles, they have gotten far too much credit for spurring domestic prices of plywood and oriented strand board, according to Random Lengths Publications Inc.

After structural panel prices in the U.S. began a climb upward in April that eventually reached record levels, the public incorrectly tied the trend to a panel purchase by the military for facilities in Iraq made in August. With prices again on the rise early this year, the same misconception has emerged. The Random Lengths Structural Panel Composite Price has averaged \$545 so far in February, compared with \$263 in February 2003.

In reality, simple supply and demand factors are at work. Demand rose sharply and supplies failed to keep pace. The strongest U.S. housing market since the late 1970s is fueling the skyrocketing prices. Single-family home building, which represents more than 80% of new housing construction, set a record in 2003 at 1.498 million starts. The robust rate of building has continued in early 2004, and most analysts agree that without a notable rise in interest rates, homebuilding in 2004 could surpass 2003. Furthermore, U.S. expenditures on repair and remodeling are at record levels.

The brisk demand for wood products in the U.S. has also been evident in framing lumber markets since late 2003. Prices of some heavily traded items are hovering about \$100 per thousand board feet higher than at

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this time last year. Strong demand and first-quarter inventory replacement is also a key driver in current lumber markets. Tight supplies of logs and a shortage of railcars to haul wood products have also contributed to higher prices in both lumber and panels.

Against this backdrop of record demand for lumber and panels have been relatively flat production trends in North America. Production cutbacks helped set off last year's record-breaking run in structural panels. OSB manufacturers curtailed output after two years of historically low prices in 2001 and 2002. In addition, weak prices led to the closure of four U.S. plywood mills, adding to the reduction in first-half 2003 panel supplies.

As structural panel prices shattered records last year, mills responded by increasing production sharply in the second half. North American structural panel output reached a record 40.86 billion square feet (3/8-inch basis), but still fell short of estimated consumption. Demand then eased in the winter and prices plummeted back into their normal historical ranges. Retail lumber yards largely stayed out of the market as prices fell, fearful of owning inventory at prices above market levels. The latest price surge in early 2004 left buyers with thin inventories, and unprepared when demand picked up.

Last year, lumber production in the U.S. rose a modest 1.5%. Production in Canada, by far the largest lumber exporter to the U.S., was unchanged in 2003 compared to 2002.

The U.S. government purchased plywood last summer for use by troops stationed in the Middle East. However, the roughly 24 million square feet sold last year for shipment to the Middle East is just .06% of the more than 40 billion square feet of structural panels produced last year. Random Lengths Publications, Inc. is an Oregon-based publisher of newsletters, market analyses, price histories, and reference books for the forest products industry. Its weekly newsletter, Random Lengths, tracks current prices and market trends for North American lumber and panel markets.

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