

are dependent on the forest sector as their primary source of employment.

The softwood lumber industry is a significant component of the Canadian forest industry. The softwood lumber industry accounted for 19 percent of employment in the forestry sector in 1990. Canada is one of the largest producers of softwood lumber in the world. In 1991, Canada accounted for 16 percent of total world softwood lumber production, following only the United States (at 24 percent) and the former Soviet Union (at 19 percent). Within Canada, British Columbia is the principal producer of softwood lumber, accounting for 61 percent (by volume) of production in 1991. The next largest producer was Quebec, accounting for 17 percent of production by volume.

In 1991, Canada exported more softwood lumber than any other country, accounting for 36 percent (by value) of total world exports. The principal destination for these exports is the United States. In 1992, Canada exported over 13 billion board feet of softwood lumber to the United States, valued at approximately \$4.2 billion. The value of exports in 1993 is expected to approach \$6 billion.

#### NORTH AMERICAN LUMBER PRICES AND DEMAND

Western spruce-pine-fir two-by-four prices peaked at a record US\$475 per thousand board feet (MBF) in mid-March 1993, double the 1992 average price of US\$231 and 80 percent greater than the previous peak of US\$262 per MBF in 1979.

The sharp increase in lumber prices reflected the anticipated timber supply reductions in the U.S. Pacific Northwest, along with a forecasted increase in housing starts in the United States. While the anticipated timber shortage in the Pacific Northwest has become a reality, mills in the southern U.S. and eastern Canada have been able to boost production to make up for losses in production elsewhere.

Between March and June 1993, lumber prices dropped significantly. Since June 1993, however, prices have recovered. The October 1993 average price for softwood lumber was US\$389 per MBF, an increase of 24 percent over the previous month. This reflects a strengthening in U.S. demand. Housing starts seem to have finally responded to relatively low interest rates. Housing starts in the United States increased by 7.8 percent in August and a further 2.7 percent in September. The seasonally adjusted annual rate of new starts in September was the highest it has been since February 1990.

Canadian companies took advantage of the increased demand for lumber. Overall, lumber exports to the United States in 1992 increased by 14 percent over 1991. The market has remained relatively strong for much of 1993, and this trend is expected to continue into 1994. The U.S. Administration's plan to resolve the Pacific Northwest timber supply problems has been announced.