

dollars, the forest industry is Canada's most important industrial sector. About 350 communities across Canada 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, accounting for 19 per cent of employment in the forestry sector in 1991. Canada is one of the largest producers of softwood lumber in the world. In 1991, Canada accounted for 16 per cent of total world softwood lumber production, following only the U.S. (at 24 per cent) and the former Soviet Union (at 19 per cent). Within Canada, British Columbia is the principal producer of softwood lumber, accounting for 58 per cent (by volume) of production in 1993. The next largest producer was Quebec, accounting for 19.5 per cent of production by volume.

In 1991, Canada exported more softwood lumber than any other country, accounting for 36 per cent (by value) of total world exports. The principal destination for these exports was 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. In 1993, Canadian exports of softwood lumber to the United States totalled nearly 15 billion board feet, valued at approximately \$6.4 billion. For the first 10 months of 1994, Canada exported more than 11 billion board feet of softwood lumber to the United States, valued at more than \$6 billion dollars.

NORTH AMERICAN LUMBER PRICES AND DEMAND

After peaking at a record US\$475 per thousand board feet (MBF) in mid-March 1993, Western spruce-pine-fir two-by-four prices are now averaging around US\$310 per MBF.

The sharp increase in lumber prices reflected the anticipated timber supply reductions in the U.S. Pacific Northwest, along with a forecast 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 United States 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 February 1994 average price for softwood lumber was US\$411.50 per MBF, an increase of 0.5 per cent over the previous month. This reflects a strengthening in U.S. demand. Housing starts are expected to reach 1.4 million units by the end of 1994. However, the recent rise in interest rates may well curb the demand for housing.

Lumber analysts suggest that high lumber prices have yet to impact significantly on mortgage affordability. In 1993, an increase of \$3000 to \$4000 in new home prices due to lumber was more than offset by declining mortgage rates. However, as a result of lower transportation costs, market demand is expected to shift to cheaper materials, such as