



Energy prices raise inflation in April

B.C.'s inflation rate for the year ending April 2004 was 1.7%, according to the latest Consumer Price Index (CPI) from Statistics Canada. The latest month-over-month rise came in at 0.7%, up sharply from March's 0.2% increase. Higher prices for gasoline, electricity and fresh fruit in April outpaced lower prices for fresh vegetables, seafood and clothing.

Excluding energy, B.C.'s inflation rate for the year ending April 2004 was 1.3%, essentially unchanged from March's year-over-year rate. The latest month-over-month change was below 0.3%, as the excluded energy prices climbed at above-average rates.

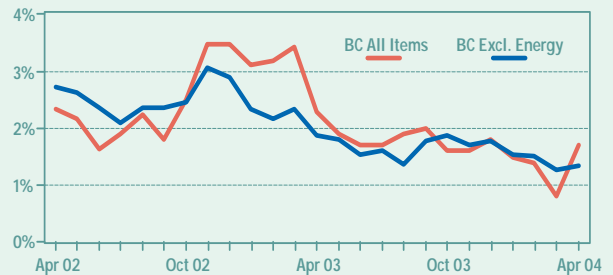
Gasoline prices inflated 4.9% in April, which immediately drove up the cost of public and private transportation. Electricity prices soared 6.5% in April, likely a result of recent decisions by the B.C. Utilities Commission on applications for rate increases by B.C. Hydro.

Near-term inflation remains on a slightly downward trend, although high and rising prices for crude oil could change that. Crude oil prices are near their highest level since February 2003 in Canadian dollars. Low mortgage interest rates and weaker rental markets continue to contain inflation in the cost of shelter. Crude oil prices are expected to remain high through at least 2004.

Our forecast for B.C.'s average CPI inflation rate is 1.8% for this year and 2% next year. The B.C. provincial budget released in April forecasts 1.6% and 1.9%, respectively. CPI increased by 2.1% in 2003.

Energy prices raise inflation

B.C. Consumer Price Index (CPI)
Year-over-Year Per Cent Change



Source: Statistics Canada.

U.S. housing starts high, lumber prices up

The latest U.S. housing starts figure shows high levels of construction activity, particularly for single-family units, and lumber prices are up as a result. April housing starts came in at just below two million units (seasonally adjusted, annual rate) and stayed at the prevailing 15-year highs. Low mortgage rates and a stronger economy are pushing up housing demand.

This is helping to drive up lumber prices from their year-ago lows. The Random Lengths Framing Lumber Composite Price® is up 52% from last April in U.S. dollar terms, while in Canadian dollars it is up a lesser 40%, because of the currency's appreciation. In the past two months, the Canadian dollar has depreciated and Canadian lumber exporters are able to capture more of the lumber price gain. The composite price is up 14% in the latest month. It's a weighted average of 15 key framing lumber prices.

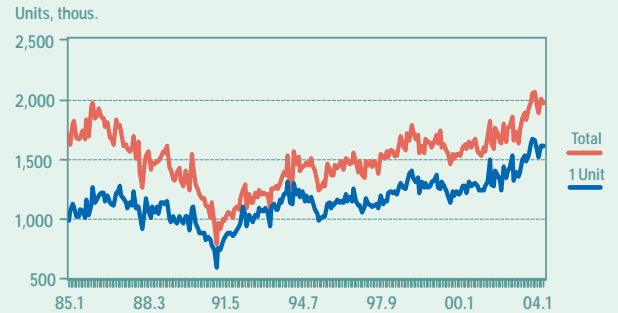
The composition of U.S. housing starts is towards more single-family or one-unit dwellings, which are more lumber intensive per unit than multi-unit structures. This demand shift is probably due to the demographic change in the population as it ages. U.S. single-family construction is at an all-time high.

B.C. lumber exporters are benefiting from these developments, even with the ongoing softwood lumber dispute. Year-to-date (March) softwood lumber exports to the U.S. are up 12% to nearly \$1 billion and at this pace will easily exceed last year's total. Some easing from current high lumber prices should be expected as supply will increase to take advantage of pricing. When U.S. mortgage rates move up in 2005, fewer housing starts are likely.

The key question going forward will be the strength of U.S. lumber demand, with any favourable resolution to the softwood lumber dispute being a bonus. A NAFTA panel has set a May 27 deadline for the U.S. to file its remand determination, since the panel found no substantial basis or evidence that Canadian lumber imports threaten to injure the U.S. industry. Removal of the duties would increase producers' profits and make more producers profitable, and return of the collected duties would be a one-time windfall for companies. However, the dispute is far from settled, since the U.S. could launch new actions or appeal any ruling.

U.S. housing starts at 15 year highs

U.S. Housing Starts by Type



Lumber prices continue rising

Lumber Prices

