



Canadian Fluid
Power Association

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d'énergie des fluides

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Manufacturing a Prosperous Canada

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About CME

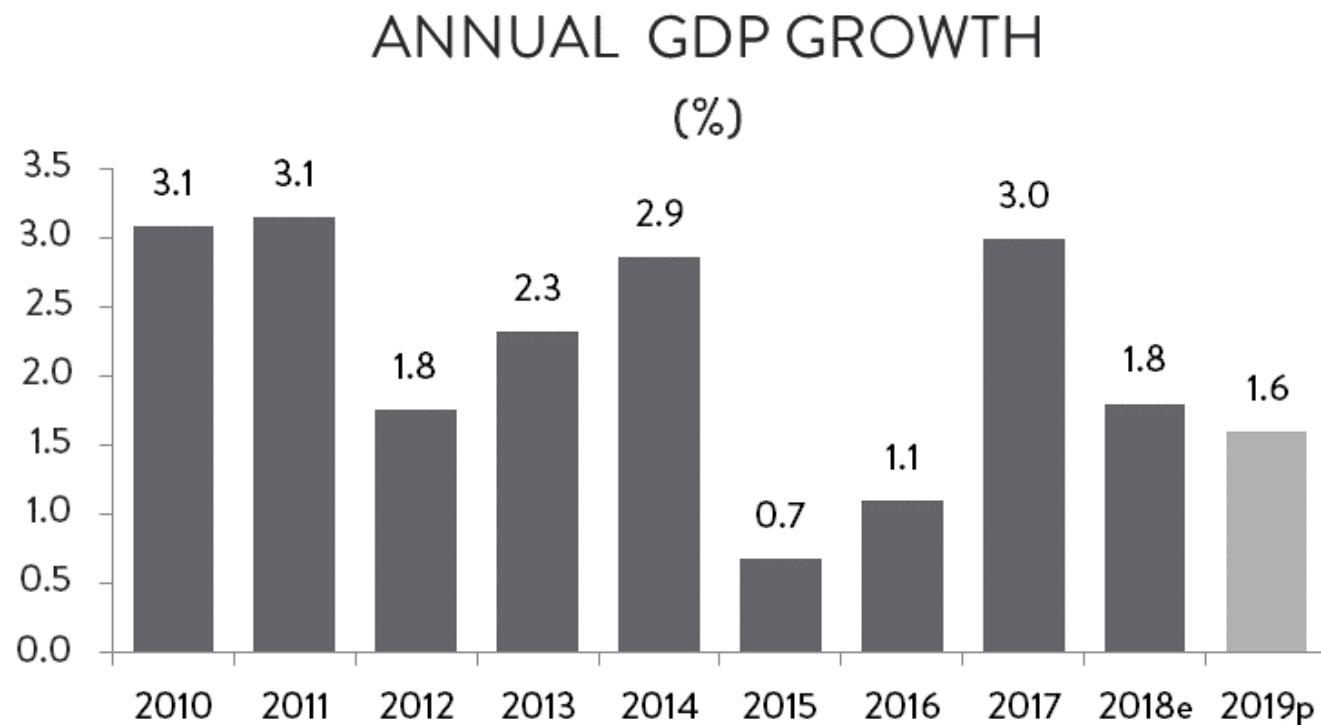
- Canada's leading business network and advocacy organization
- Directly represents more than 2,500 leading companies nationwide
- Through its various initiatives, CME touches more than 100,000 companies across Canada

2019 Global Outlook: Overview

- Business uncertainty will slow global economic growth in 2019
- The US economy will moderate after a strong tax-cut-fuelled performance in 2018
- The Canadian economy will slow from about 1.8% growth last year to 1.6% growth in 2019



Canadian Economic Outlook



- Slower growth in 2019
- Labour markets strong but challenges elsewhere

Source: Statistics Canada, RBC,

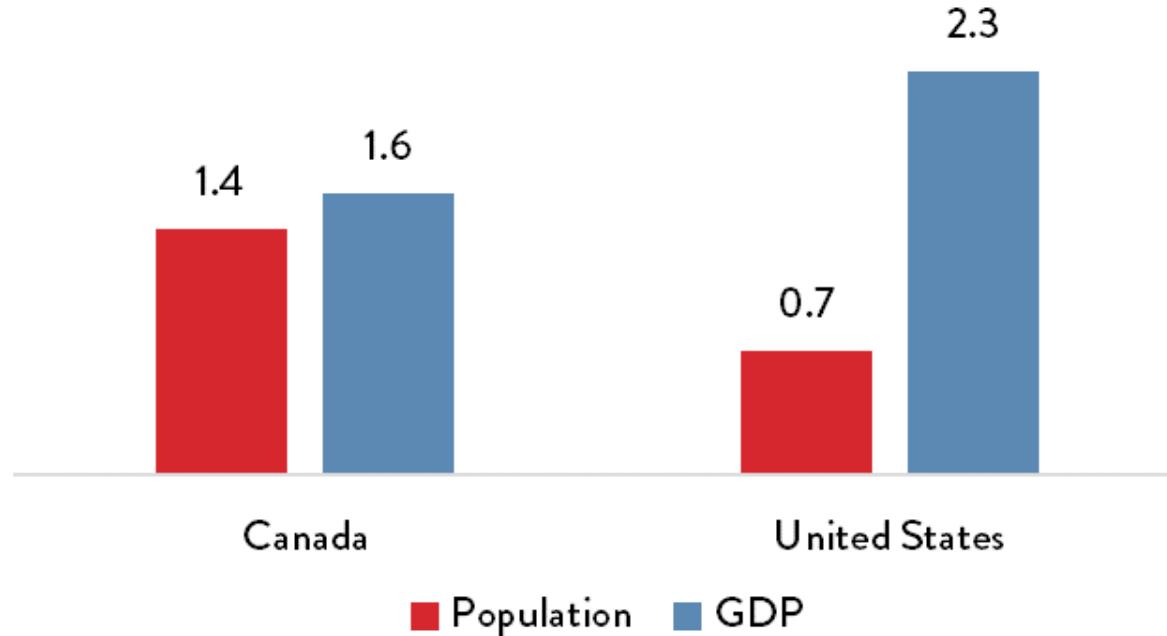


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Real Economic Gains?

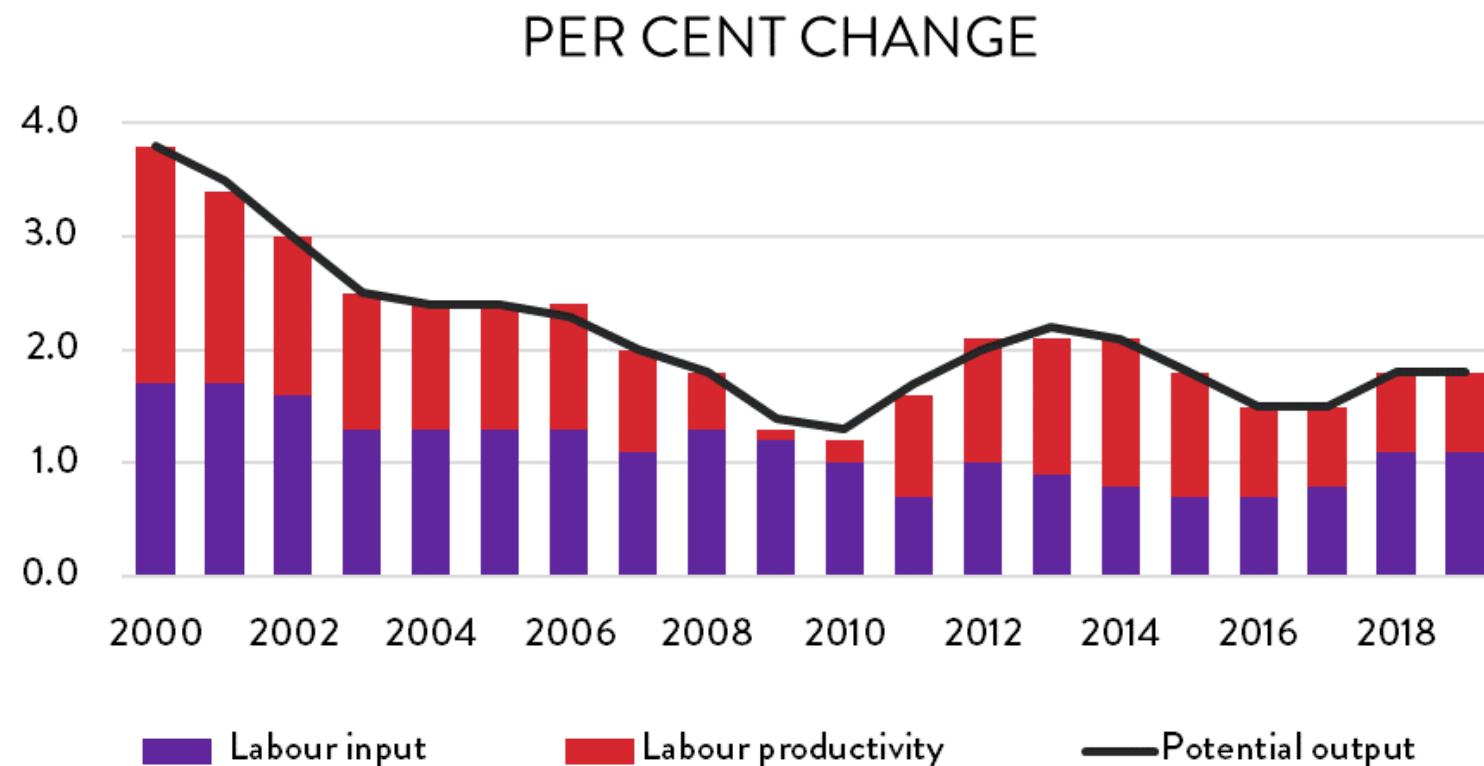
POPULATION AND GDP GROWTH
(%)



Canada has the fastest population growth in the G7

Per capita economic gains are negligible

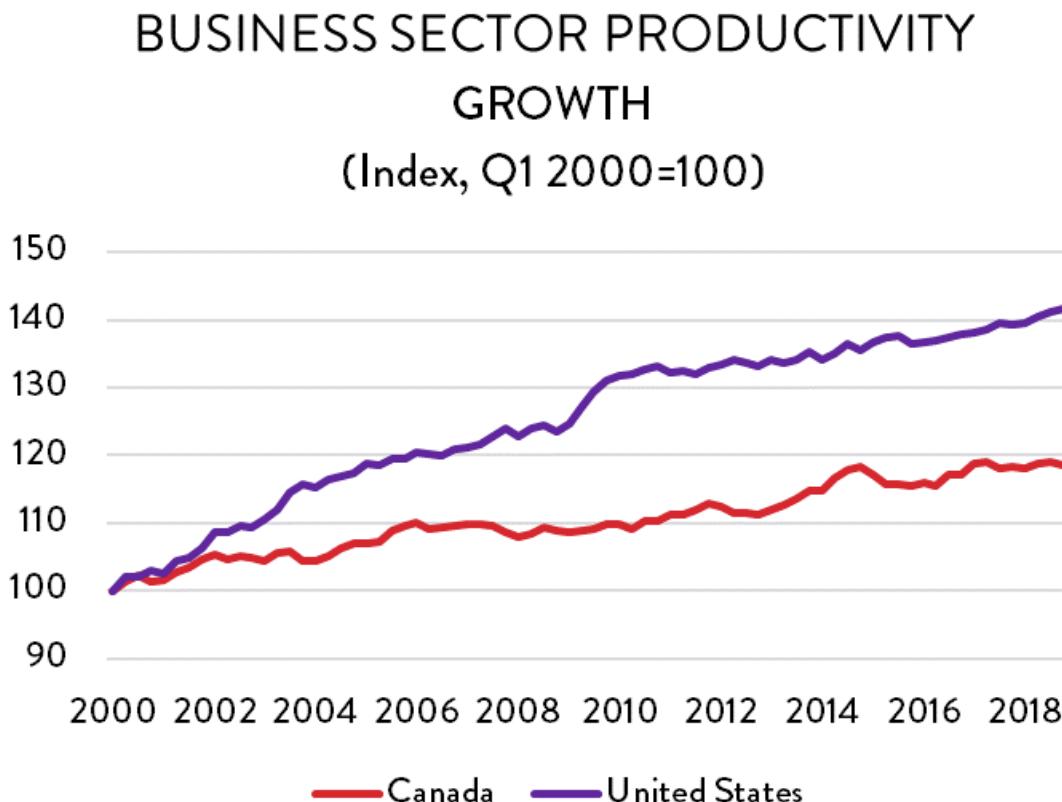
Output Potential of the Canadian Economy



Potential output growth in Canada has fallen to about 1.8%

Demographic pressures and soft productivity numbers

Lagging Productivity in Canada



- Canadian productivity growth since 2000: 19%
- US productivity growth since 2000: 43%

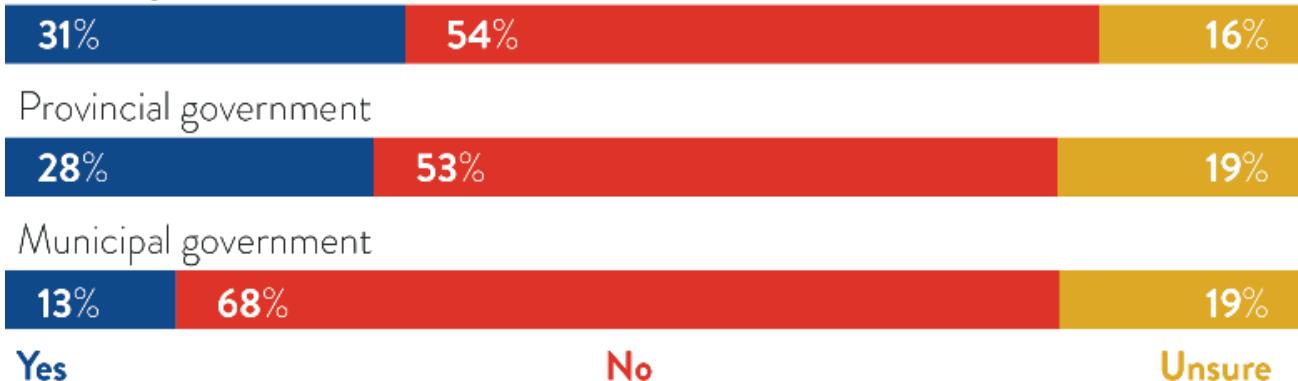
Why is Productivity Growth Slow?

- Business costs/policy environment
- Underinvestment in machinery, equipment and advanced technologies
- Labour and skills shortages
- Business structure

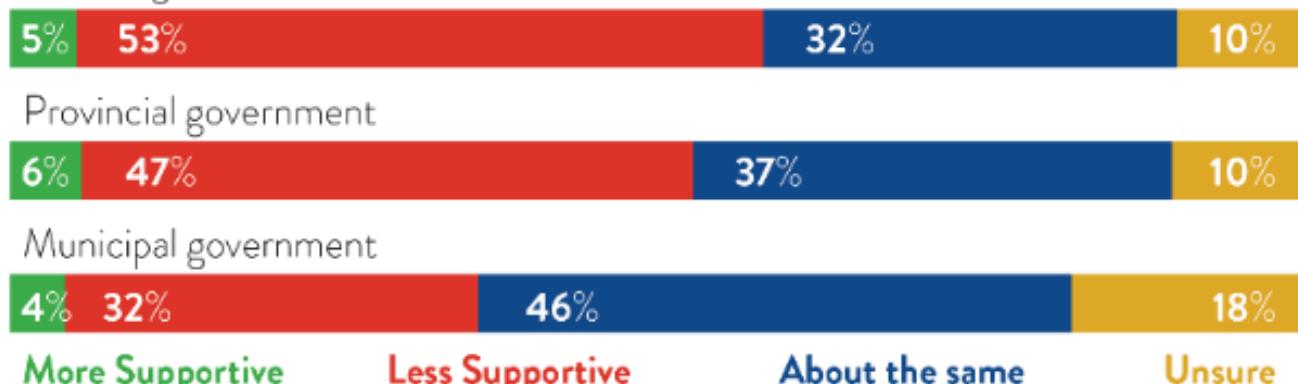


Policy Environment

Federal government



Federal government



Are governments supporting investment and growth in your company?

Is the policy environment improving?



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Tax and Regulatory Policy Priorities

Improving business tax competitiveness

45%

Modernizing NAFTA and resolving Canada-US disputes

38%

Addressing labour shortages (immigration, post-secondary recruitment, etc.)

34%

Introducing targeted tax incentives for capital investment and exports

31%

Lowering energy costs

25%

Reducing the regulatory burden and process timelines

19%

Supporting R&D and product commercialization

16%

Which
government
actions would be
most helpful to
your business?



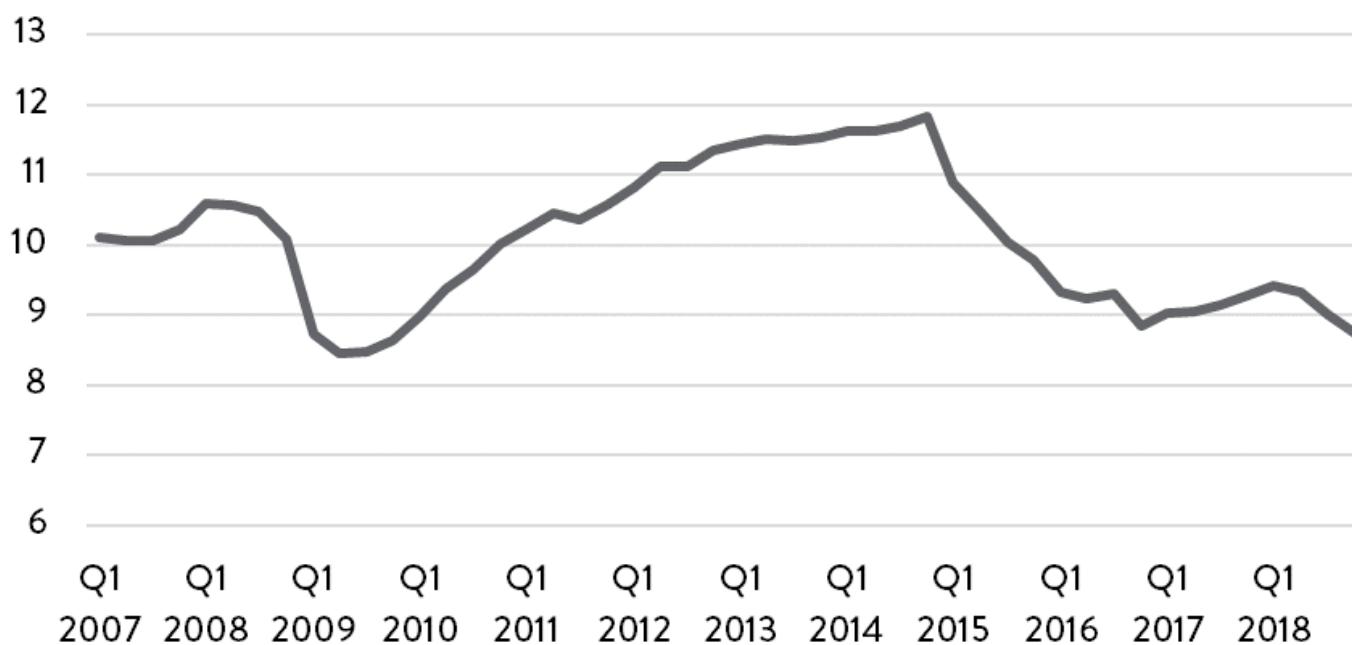
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Underinvestment in Capital

NON-RESIDENTIAL BUSINESS INVESTMENT
(% of GDP)



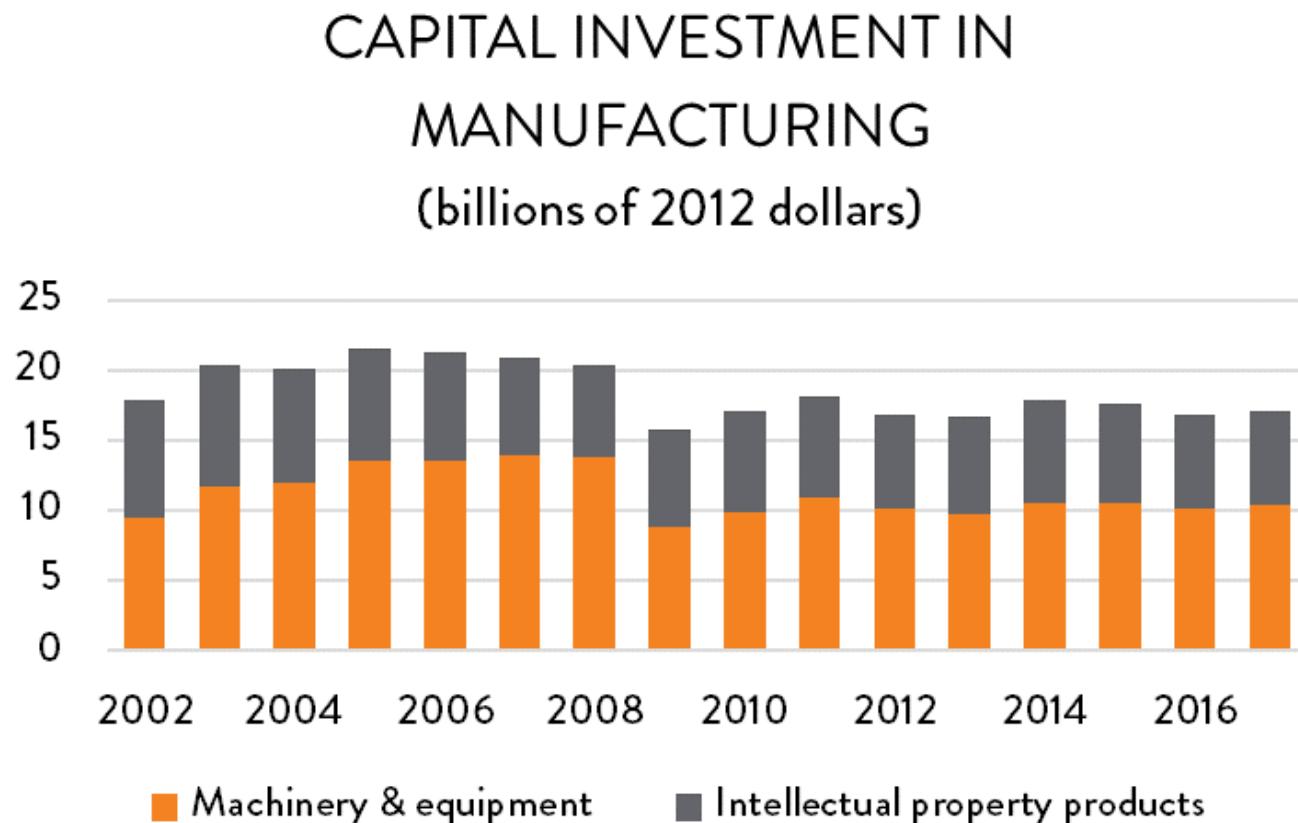
Canada has one of the worst records on capital investment in the entire OECD



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Underinvestment in Capital



- Real manufacturing investment is 21% below its 2005 peak

Barriers to Investment and Tech Adoption

The purchase costs are too high and the economic return is uncertain

42%

The rising cost of doing business in Canada means we have no funds left to invest

34%

It is unclear how new technologies would fit into existing operations

32%

Our business has no immediate need for such technologies

30%

We lack the skilled workers needed to make the most of those technologies

25%

We lack sufficient financial and/or tax incentives

20%

We lack information about the technologies that are available

11%

- What are the main obstacles preventing your company from investing more in advanced technologies?



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Labour and Skills Shortages

TODAY



Do you face labour and skills shortages today?

5 YEARS FROM NOW



Do you anticipate shortages within 5 years?



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Top Business Challenge: Access to Skilled Labour

Availability of skilled labour

47%

NAFTA uncertainty and US trade protectionism

35%

Higher non-tax business costs due to gov't policy changes

26%

Cost of labour

23%

Finding new clients or business partners

22%

Rising tax burden in Canada

18%

Increased competition from foreign countries

17%

What are the most pressing challenges facing your company today?



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How do Labour Shortages Impact Productivity?

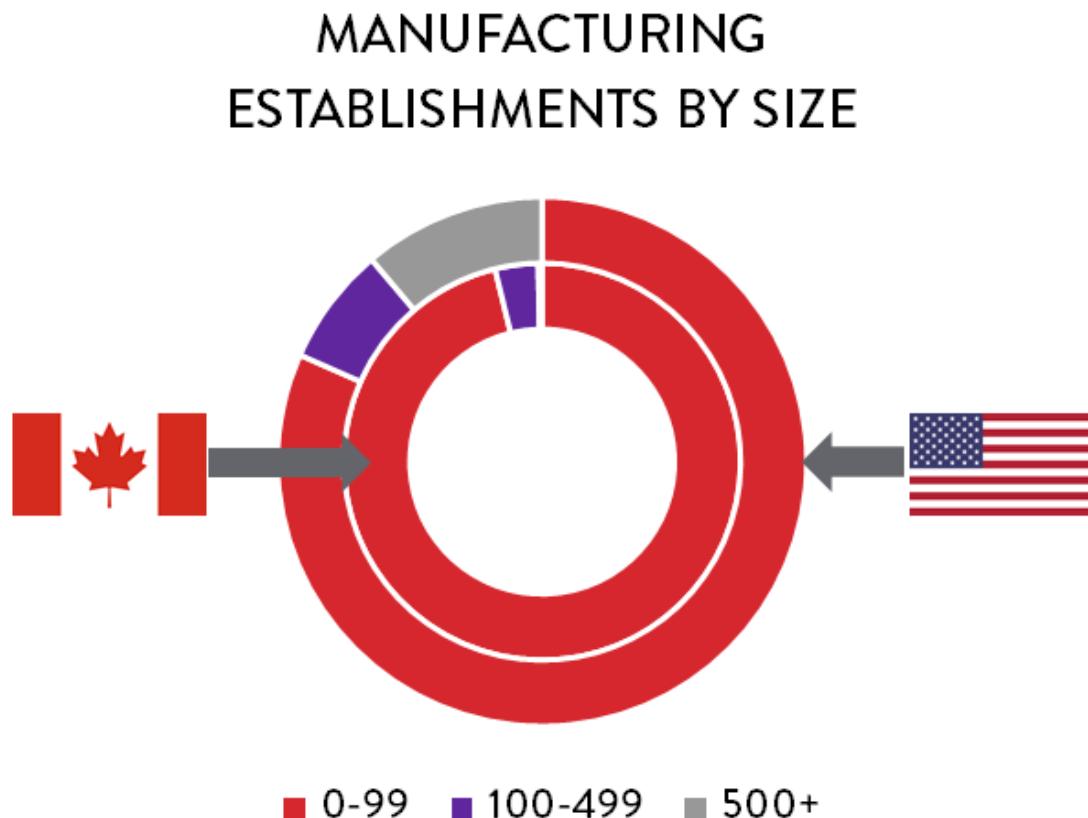
- Prevent companies from operating at optimal efficiency
- Lower profitability
- Barrier to innovation
- Barrier to automation and investment in new technologies

HOW DO LABOUR SHORTAGES IMPACT PRODUCTIVITY?

- Prevent companies from operating at optimal efficiency
- Lower profitability
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- Barrier to automation and investment in new technologies



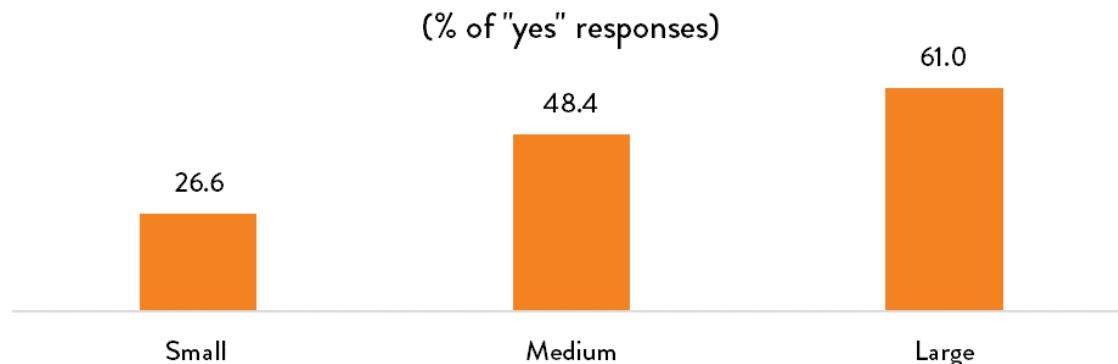
Business Structure and Productivity



Small companies
are, on average, less
productive than
large ones

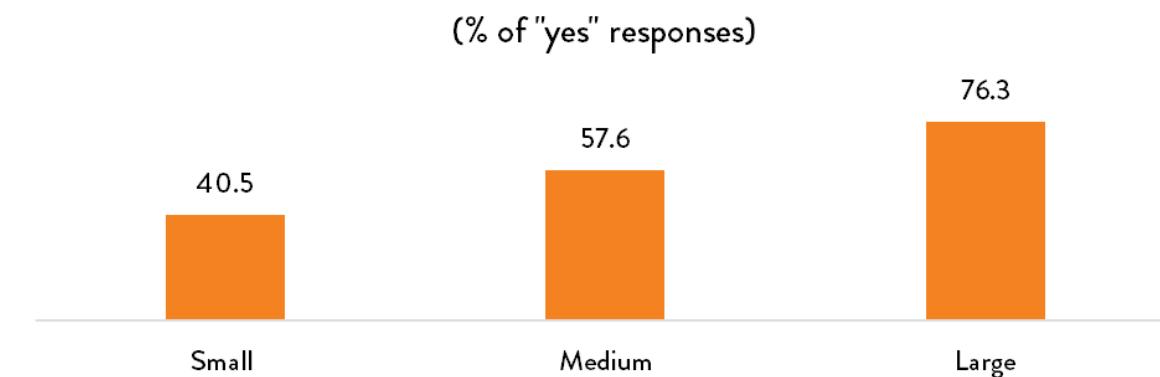
Small Businesses Face Additional Barriers

DOES YOUR COMPANY PRESENTLY USE
ADVANCED MANUFACTURING TECHNOLOGIES?



Source: 2018 Management Issues Survey

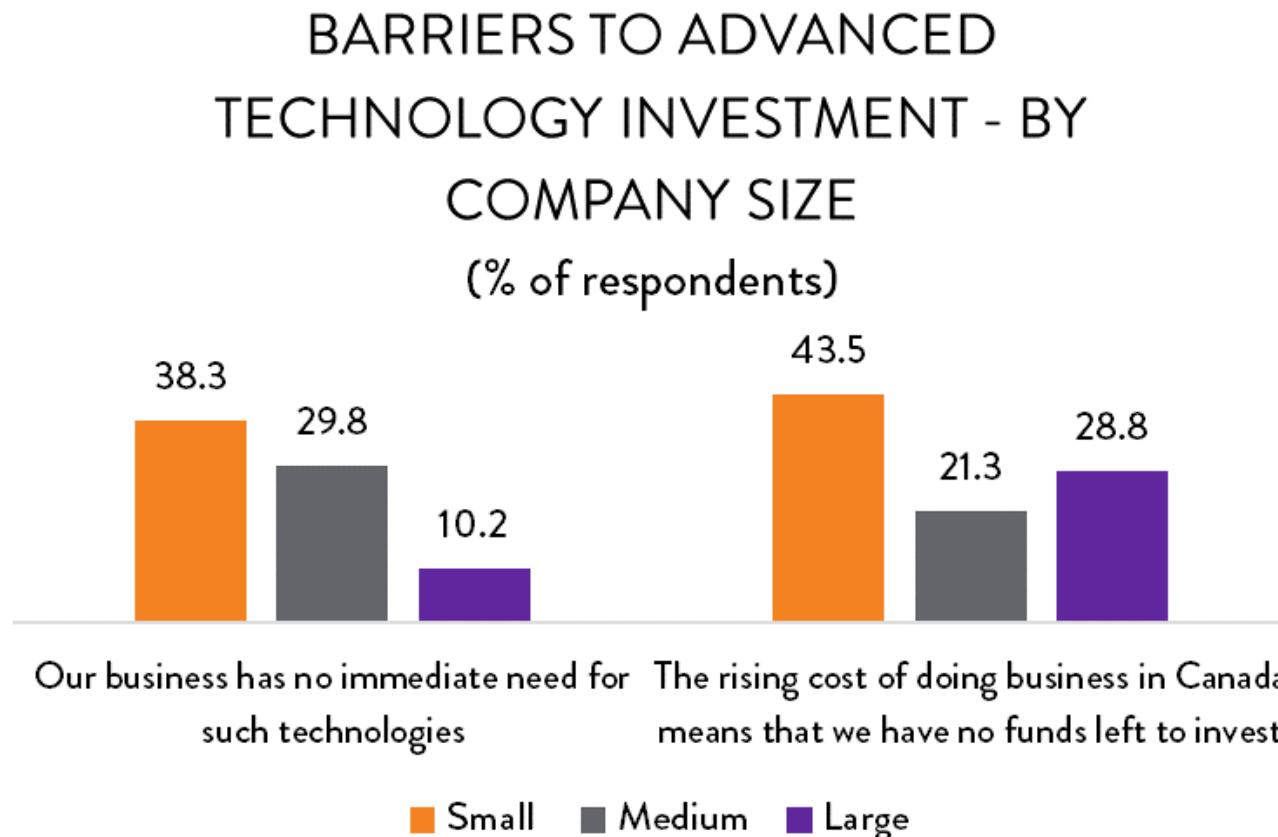
DO YOU PLAN ON INVESTING IN THEM WITHIN
THREE YEARS?



Source: 2018 Management Issues Survey

- SMEs invest less in new technologies and are less likely to report that their investments were successful

Small Businesses Face Additional Barriers



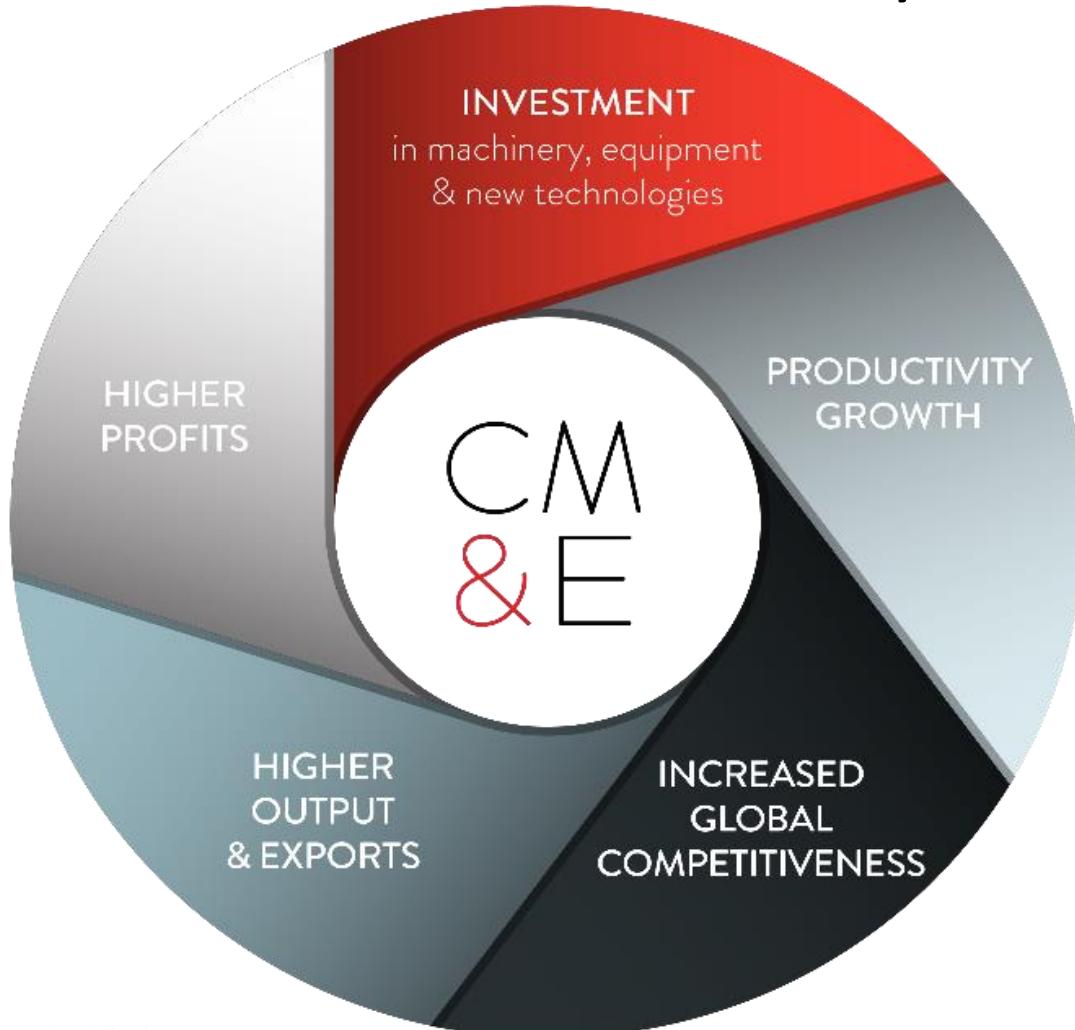
- SMEs are more likely to cite lack of need and high costs as investment barriers

Solutions and Strategic Directions

- Improve awareness of tech
- Help with ROI on investment
- Lower cost of doing business
- Address labour and skills shortages
- Develop tax reform that rewards growth



Virtuous Growth Cycle



CME's strategic objective: double manufacturing output and exports from 2015-2030



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