



CANADIAN  
MANUFACTURERS  
& EXPORTERS

Canadian Fluid Power Association

November 2020

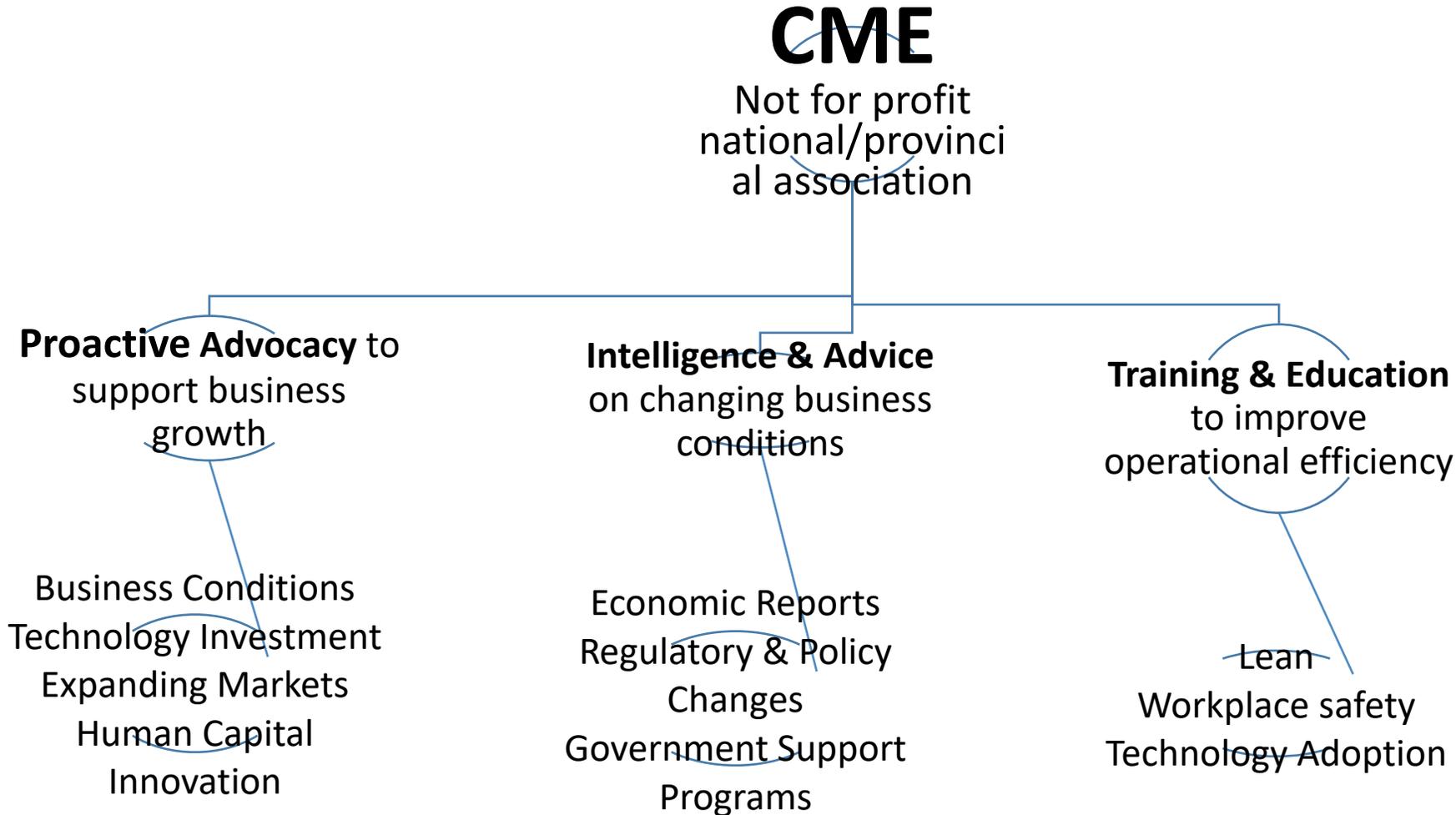


# OVERVIEW

- About Canadian Manufacturers & Exporters
- Current State of Affairs
- Economic Update and Forecast
- Government Actions and Expectations



# CME: HELPING MANUFACTURERS GROW SINCE 1871



# CME'S FOCUS

- Prior to COVID-19: Primarily focus on working with governments to implementing a long-term manufacturing strategy that would double manufacturing output by 2030
  - Priority was on technology adoption to overcome competitiveness and labour challenges
- Through COVID-19: Working with governments on short-term relief measures for industry including CEWS and tax relief programs
- Post COVID-19: Implementing prosperity and growth strategies with governments that centre on a strong, vibrant and growing manufacturing sector:
  - Technology adoption
  - Leverage natural advantages and resources
  - Improve business conditions to drive investment



Manufacturing growth strategies that will lessen the impact of COVID-19 on Canada and set the country up for long-term prosperity

# CURRENT REALITIES WITH GOV'T

Economy

Health



## Provinces:

- Very concerned about the health implications but trying to balance potential massive economic impact of a second shut down
- Several provinces taking action for short term shut downs
- Have limited room for direct financial support

## Feds:

- Same concerns as provinces but have more fiscal capacity
- Remained focused on delivering economic supports including wage and rent subsidies

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# WHILE STILL DEALING WITH

## **US Election and transition of government**

- Outcome now seem clear but implications are unknown yet
- New administration is expected to be more interested in international cooperation
- Implementing the new CUSMA

## **Weak economic realities that pre-date COVID-19**

- GDP growth dependant on population growth – not increased prosperity
- Declining investment, output, exports
- Rising debt levels of government and households

## **Environmental priorities**

- GHG reductions
- Banning plastics



Governments must  
create economic  
strategies to lift  
Canada out of current  
situation



# ECONOMIC REALITIES

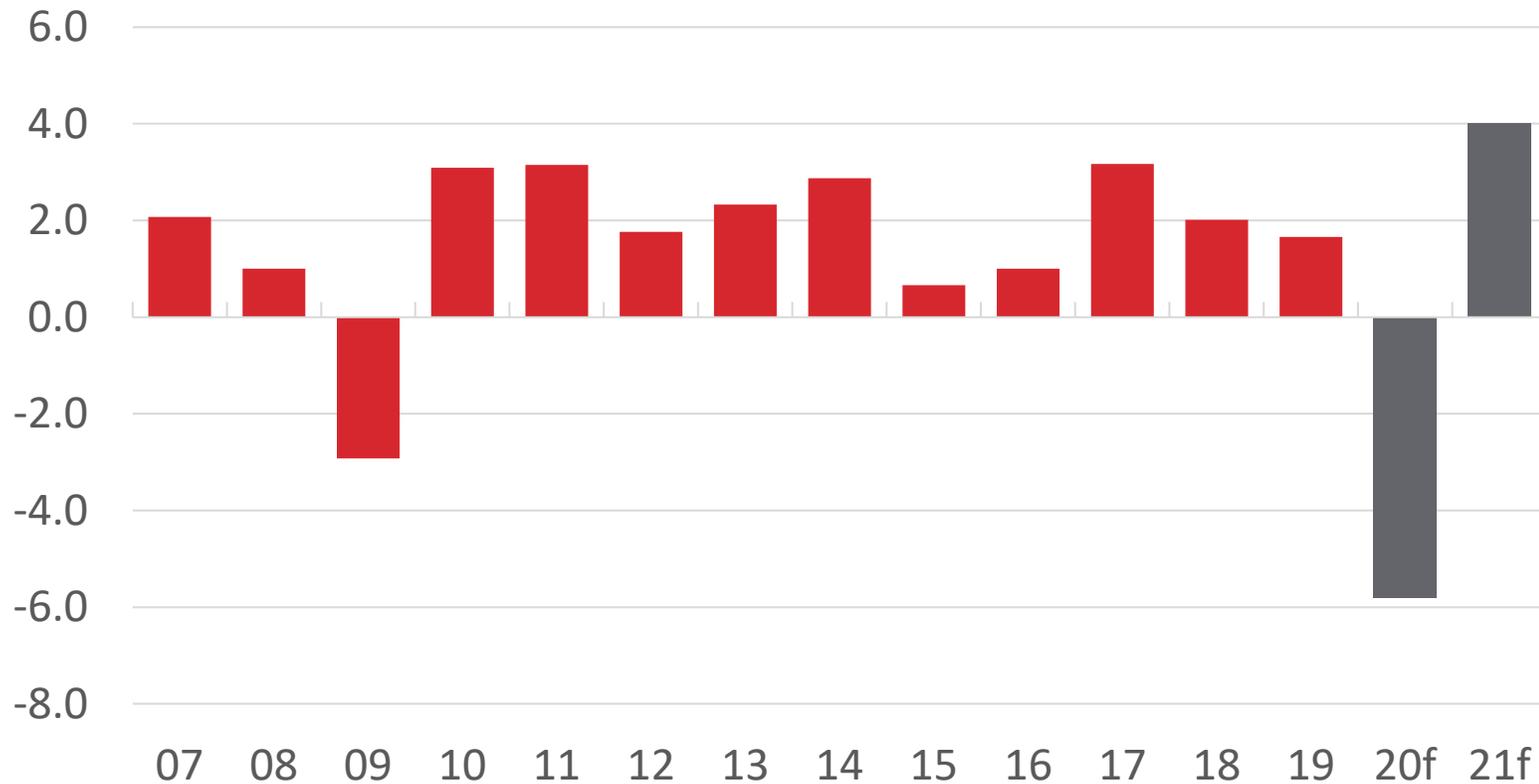
# GLOBAL ECONOMIC OUTLOOK

Real GDP growth (per cent)

	2020	2021
World	-4.5	5.0
Canada	-5.8	4.0
Euro area	-7.9	5.1
Japan	-5.8	1.5
Mexico	-10.2	3.0
United Kingdom	-10.1	7.6
United States	-3.8	4.0
China	1.8	8.0
India	-10.2	10.7

# HISTORIC ECONOMIC DROP

Canada (real GDP growth, per cent)



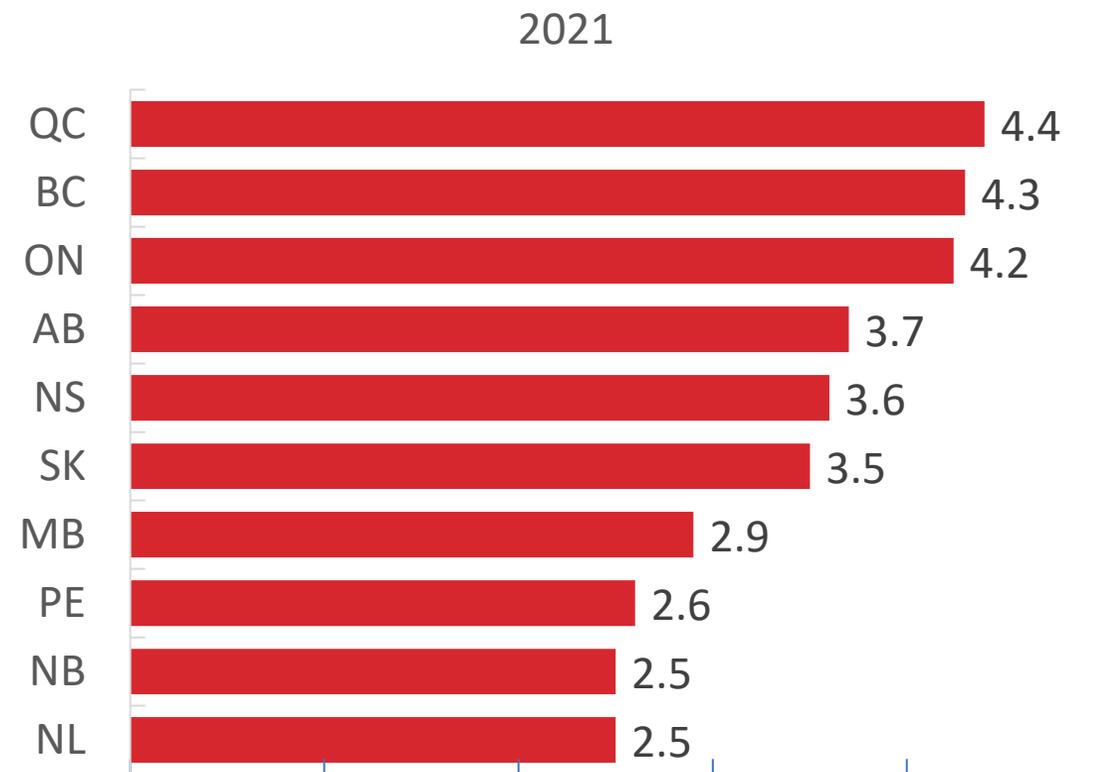
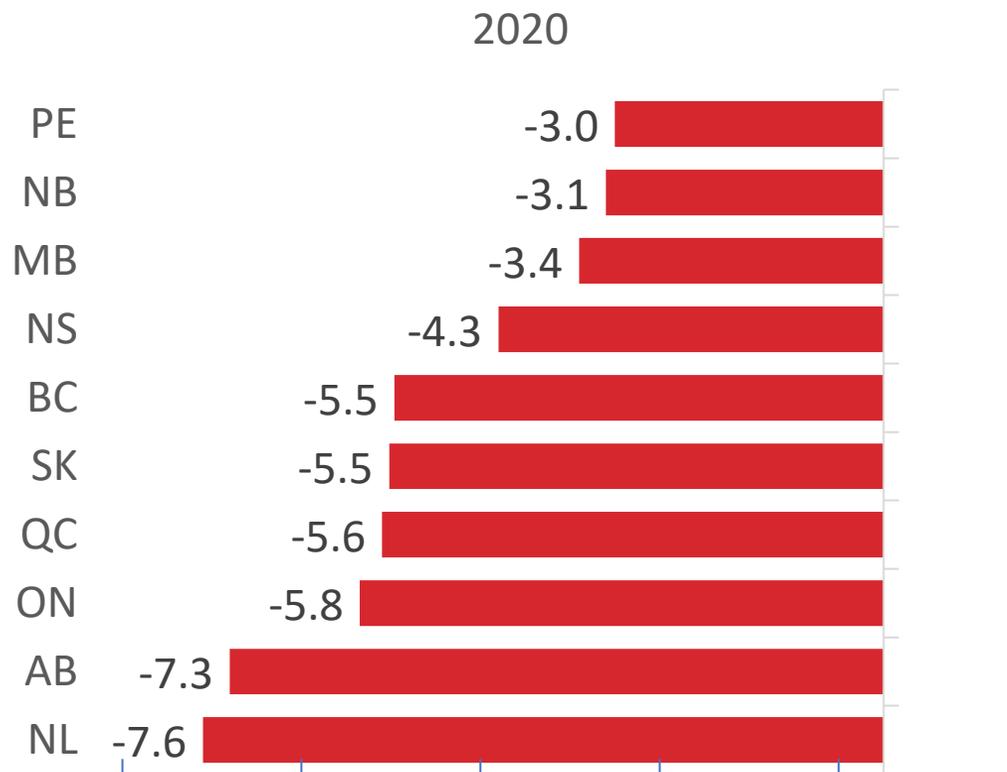
Sources: OECD; CME.



Canadian real GDP is forecast to decline by 5.8% this year, followed by a partial rebound of 4.0% in 2021.

# PROVINCIAL OUTLOOK

GDP at basic prices (per cent change)



# TRACKING THE RECOVERY BY PROVINCE

(% change latest month vs. February, by key indicator)

Employment Mfg sales Retail sales Wholesale trade

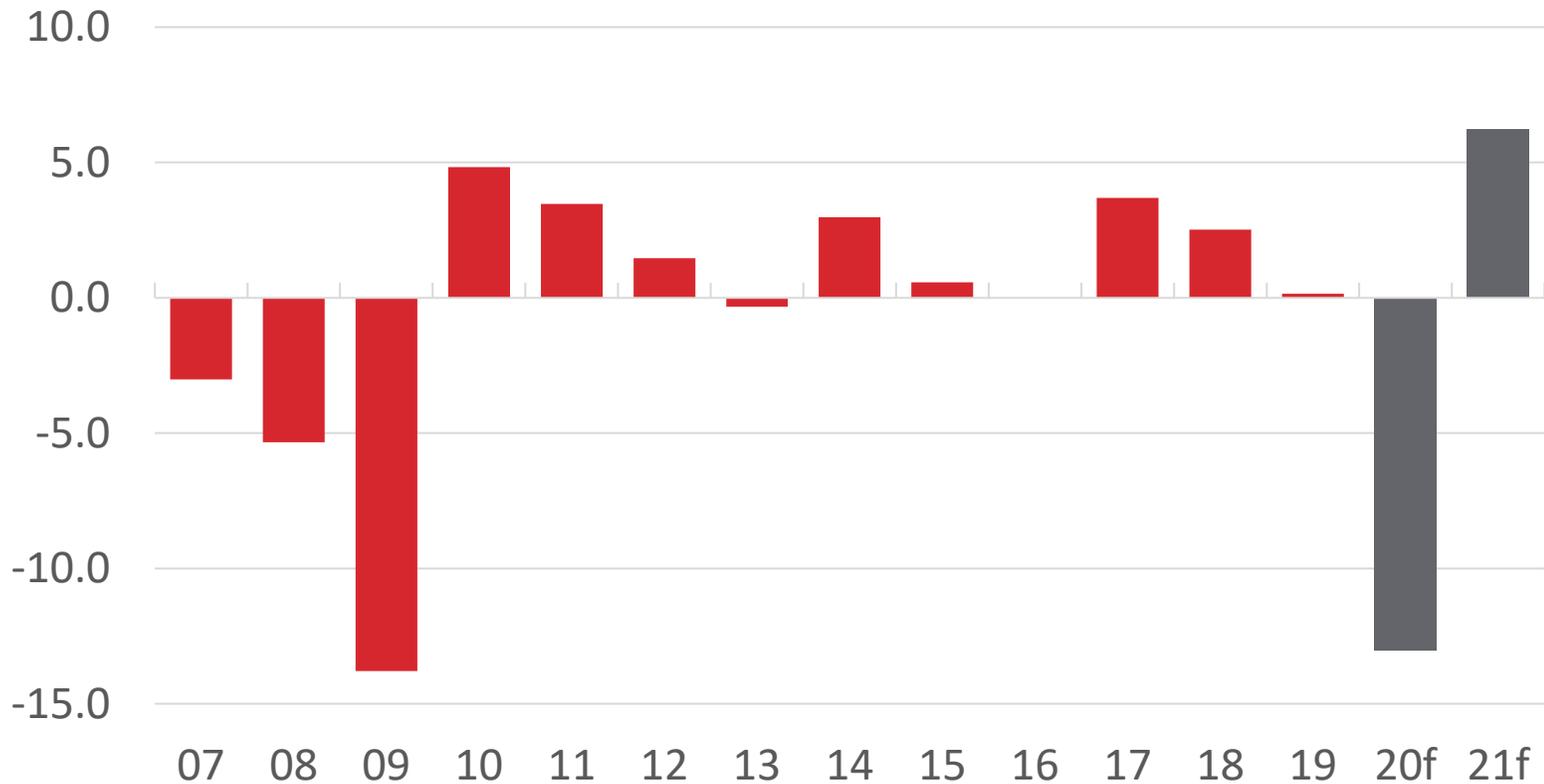
Canada	-3	-7	2	2
Newfoundland and Labrador	0	-48	6	-2
PEI	-5	-24	-1	4
Nova Scotia	-3	-1	3	12
New Brunswick	-2	-18	4	6
Quebec	-3	-8	5	2
Ontario	-4	-4	-1	0
Manitoba	-2	8	6	6
Saskatchewan	-3	-9	4	13
Alberta	-4	-19	-1	-2
British Columbia	-2	5	3	7



Energy dependant provinces were hardest hit since the beginning of the pandemic

# MANUFACTURING SUFFERING STEEP FALL

Canada (real manufacturing GDP, per cent)



Sources: CME; Statistics Canada.

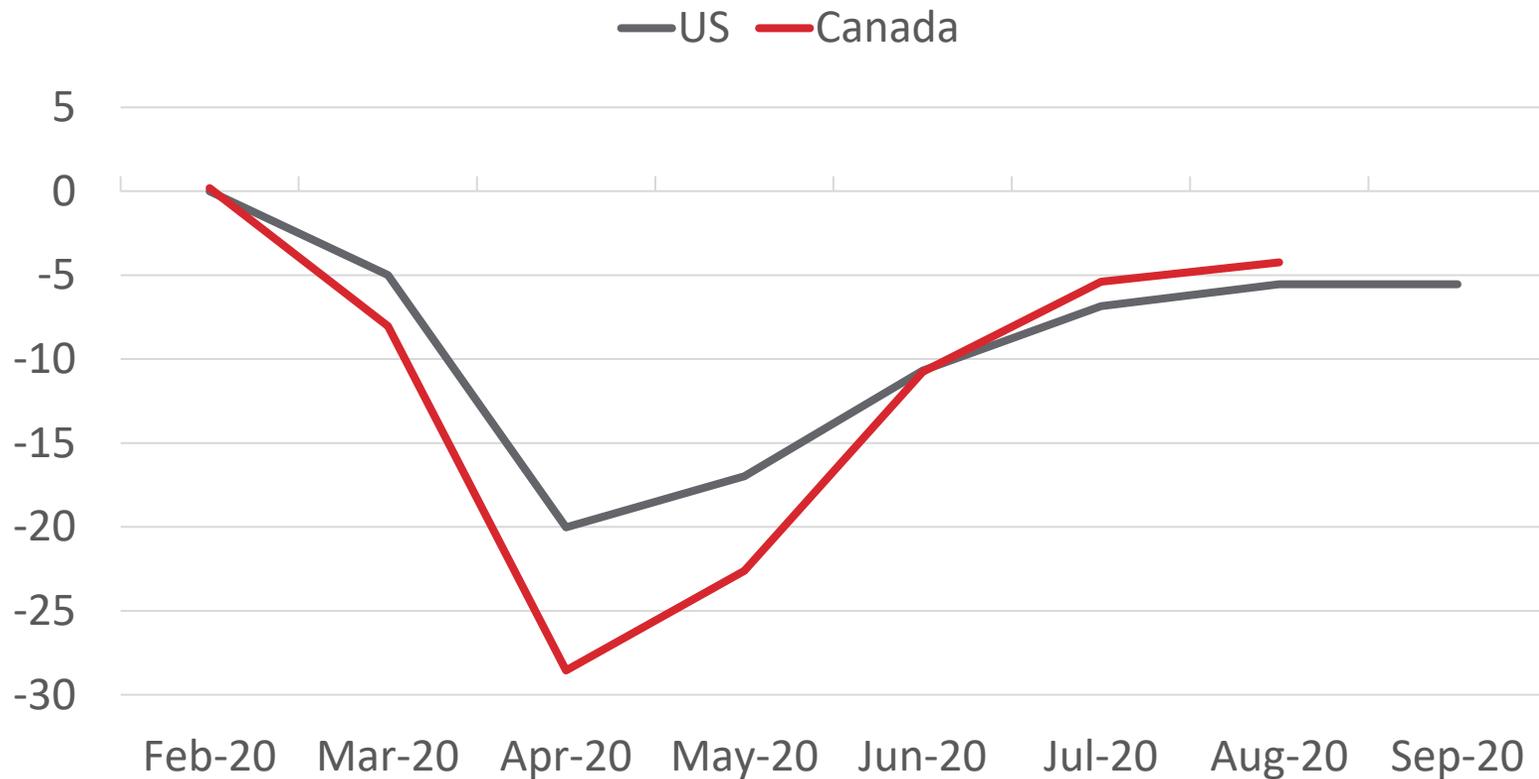


While manufacturing is recovering more quickly than other sectors, its annual drop will still be steeper and will drag down Canada's performance.

Output is forecast to plunge by 13.0% in 2020, before bouncing back with a 6.2% gain in 2021.

# MANUFACTURING ON SIMILAR TRAJECTORIES IN CAN. & US

Manufacturing production (% difference from February)



Sources: Statistics Canada (Table 36-10-0434-01), Federal Reserve Board; CME.

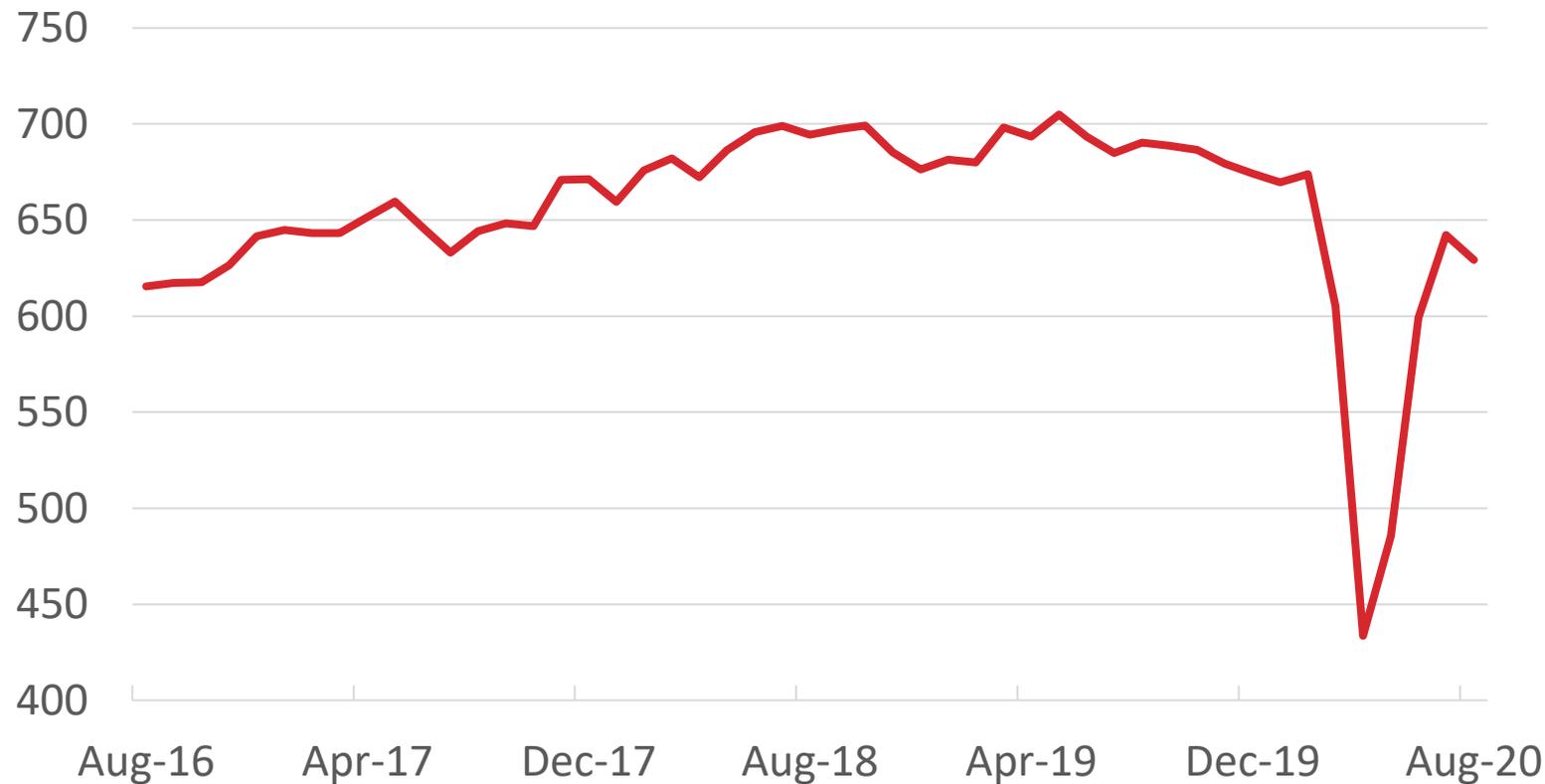


Like Canada, the recovery in US manufacturing is being hampered by weak business demand, while being driven by strong consumer goods production.

Not surprisingly, manufacturing is recovering at a similar rate on both sides of the border.

# MANUFACTURING SALES

Canada (billions \$, seasonally adjusted annual rate)



Source: Statistics Canada (Table 16-10-0047-01).



Manufacturing sales fell 2% in August, following three strong monthly increases, leaving them 6.6% below their February 2020 levels.

Forward-looking indicators were also subdued, suggesting that the road ahead will be long and bumpy.

# CONSUMER-ORIENTED MANUFACTURING RECOVERING FASTER

Canada (real manufacturing GDP, year-over-year % change)



Sources: CME; Statistics Canada (Table 36-10-0434-01).



Manufacturing businesses seeing healthy gains are the ones servicing consumers, while firms producing goods intended for businesses remain challenged.

Consumer demand for goods has surged during the pandemic. In contrast, businesses are reluctant to invest in such an uncertain environment.

# MANUFACTURING SALES BY SECTOR

Canada (% change August vs. February, by sector)

Total sales -7

Non-durable goods	-9	Durable goods	-5
Food products	1	Wood products	22
Beverage and tobacco products	7	Non-metallic mineral products	-7
Textile mills	0	Primary metal	-3
Textile product mills	9	Fabricated metal	-14
Clothing	-5	Machinery	-2
Leather and allied products	6	Computer and electronic products	-9
Paper	-4	Electrical equipment	-1
Printing and related activities	-15	Transportation equipment	-10
Petroleum and coal products	-34	Furniture and related products	-13
Chemical	-7	Miscellaneous	22
Plastics and rubber products	-1		



Energy and related sectors suffered the biggest declines

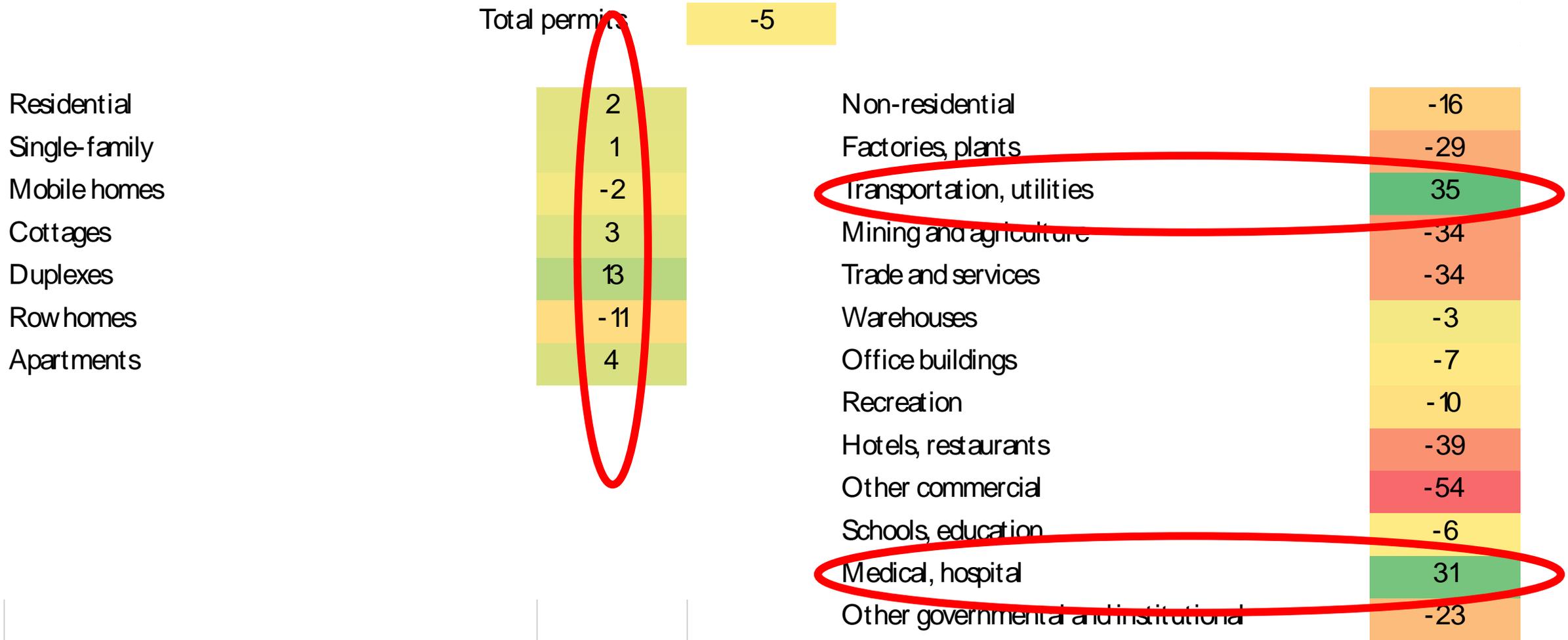
Food & beverage and home improvement sectors fared the best



# INVESTMENT OUTLOOK

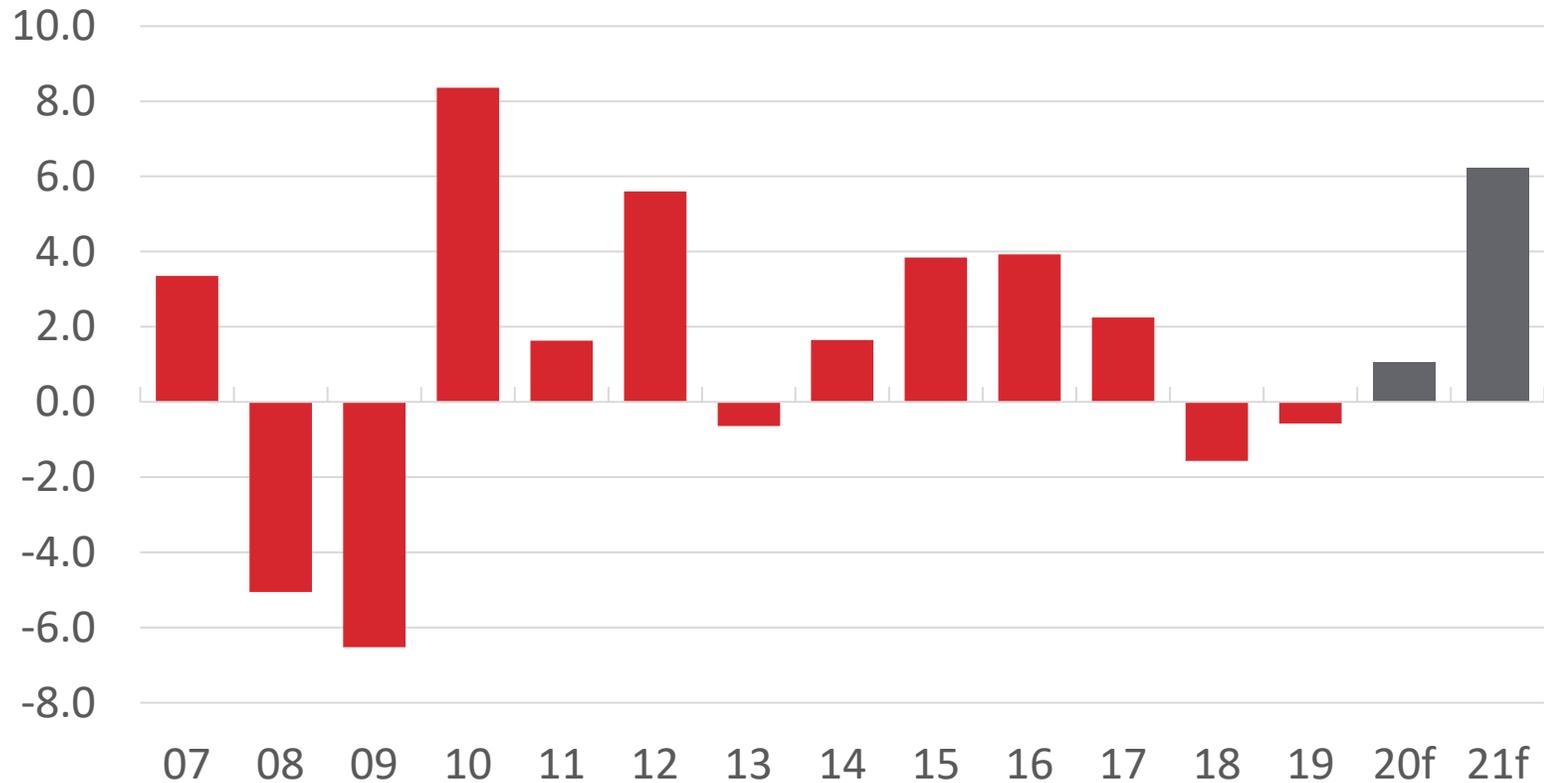
# BUILDING PERMITS

Canada (% change September 2019 YTD vs. September 2020 YTD)



# RESIDENTIAL INVESTMENT

Canada (real growth, per cent)



Sources: CME; TD Economics.

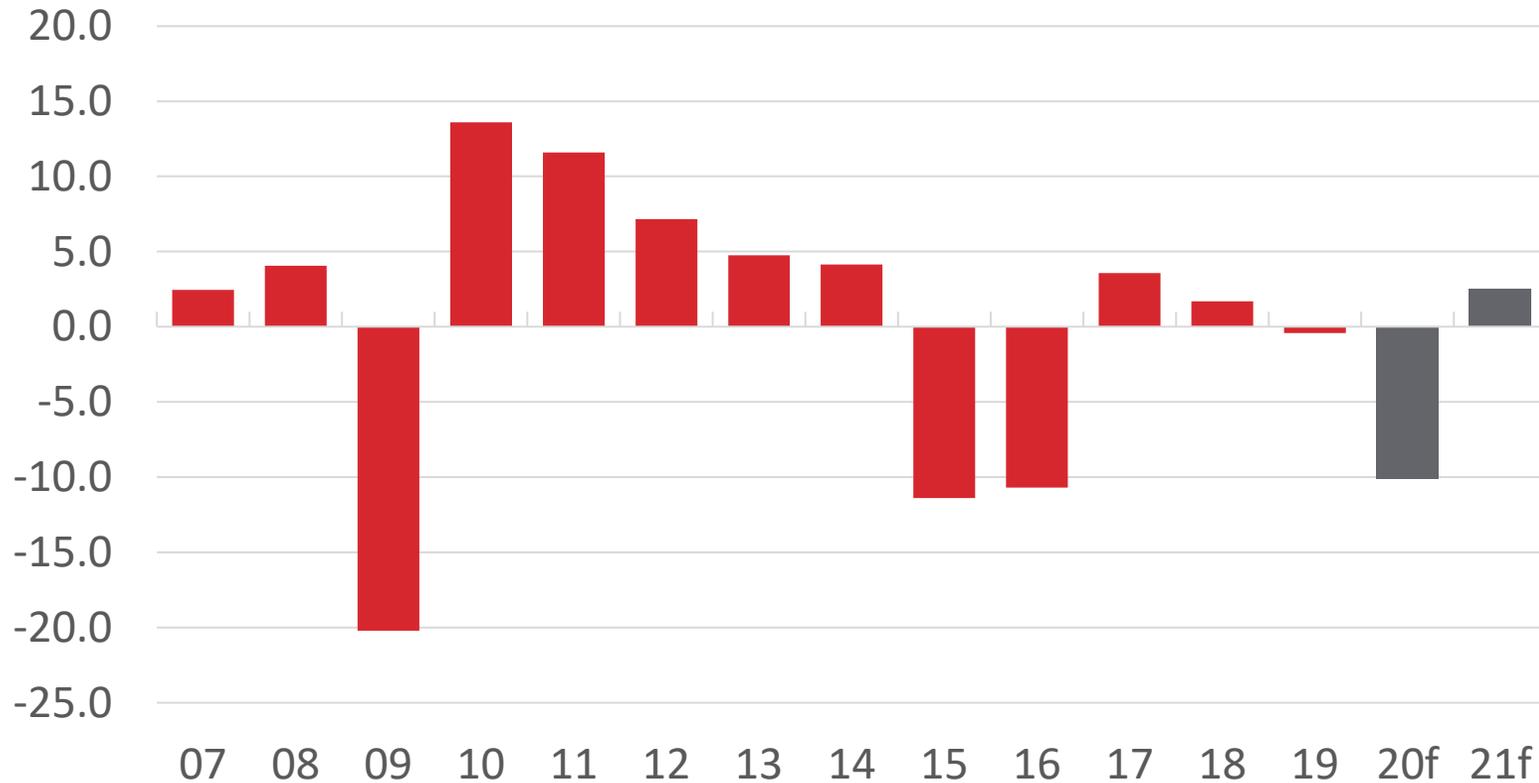


Canada's housing market has become disconnected from other economic trends. Analysts point to low interest rates, stable employment for high income earners, government income support programs, and pent-up demand as key growth drivers.

Residential investment growth is expected to improve from 1.0% this year

# NON-RESIDENTIAL INVESTMENT

Canada (non-res. structures, equipment & IP, real growth, per cent)



Sources: CME; TD Economics.

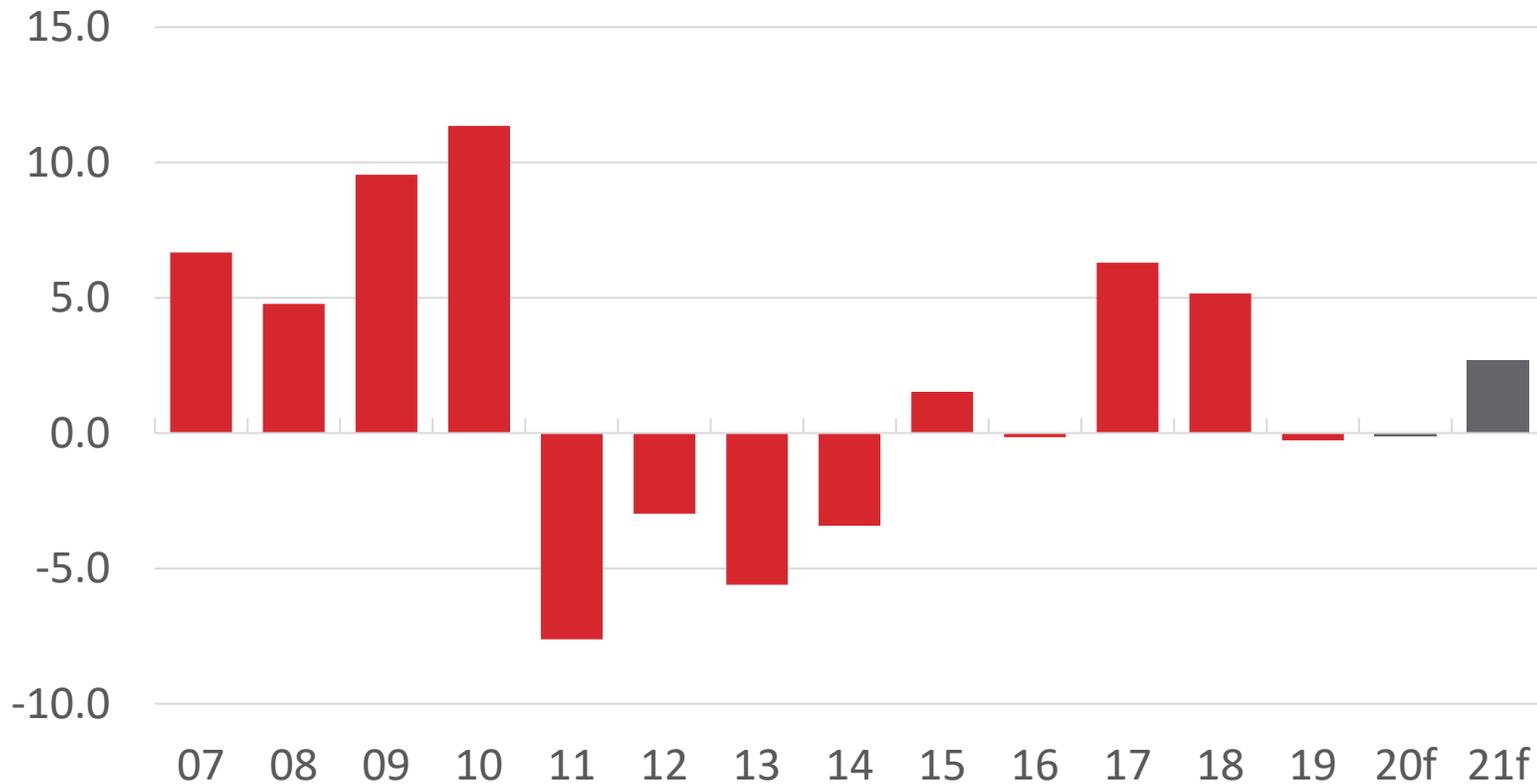


The second wave of COVID-19 infections, combined with uncertainty around the timing and efficacy of a vaccine, will keep business investment restrained.

After tumbling by 10.1% this year, non-residential investment is forecast to climb by a modest 2.5% in 2021.

# GOVERNMENT INVESTMENT

Canada (real growth, per cent)



Sources: Statistics Canada; CME.

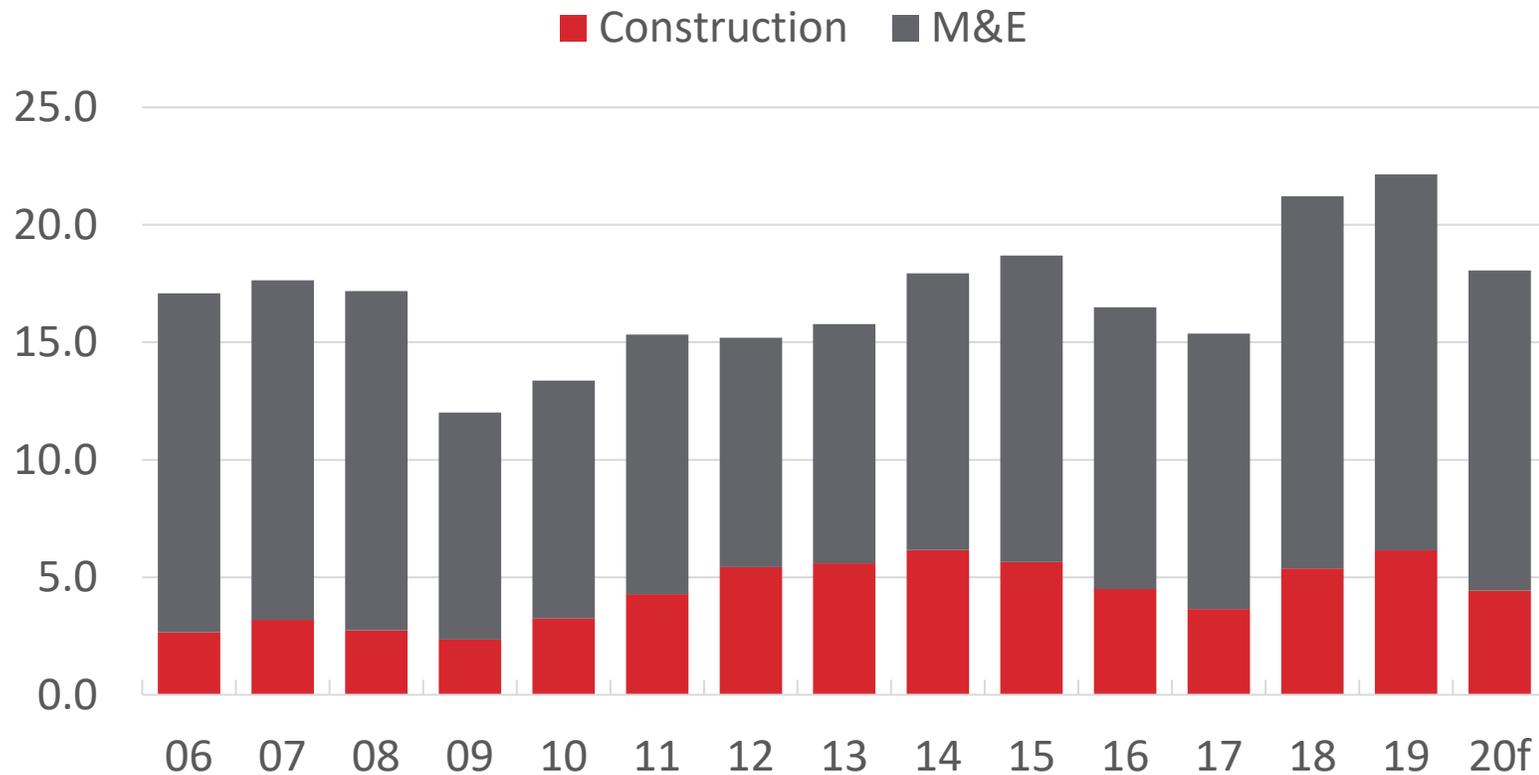


Government investment is expected to remain fairly flat this year, edging down by 0.1%. Look for an improvement next year though, with growth coming in at 2.7%.

Note, however, that we have not had a federal budget in over 600 days, making this indicator a little more difficult to predict than usual.

# MANUFACTURING INVESTMENT

Actual, preliminary actual, and intentions (billions \$)



Source: Statistics Canada (Table 34-10-0035-01).



According to Statistics Canada's Revised Investment Intentions Survey, manufacturing investment is set to contract 18.5% this year, the biggest decline since 2009.

Investment in structures is expected to drop by 28.0%, while M&E investment is poised to fall 14.8%.

# AUTO INDUSTRY REVVING UP PLANNED MAJOR INVESTMENTS

The Detroit Three automakers have reached collective agreements with Unifor that will lead to nearly \$5 billion in new investment and add more than 4,000 jobs in Ontario:

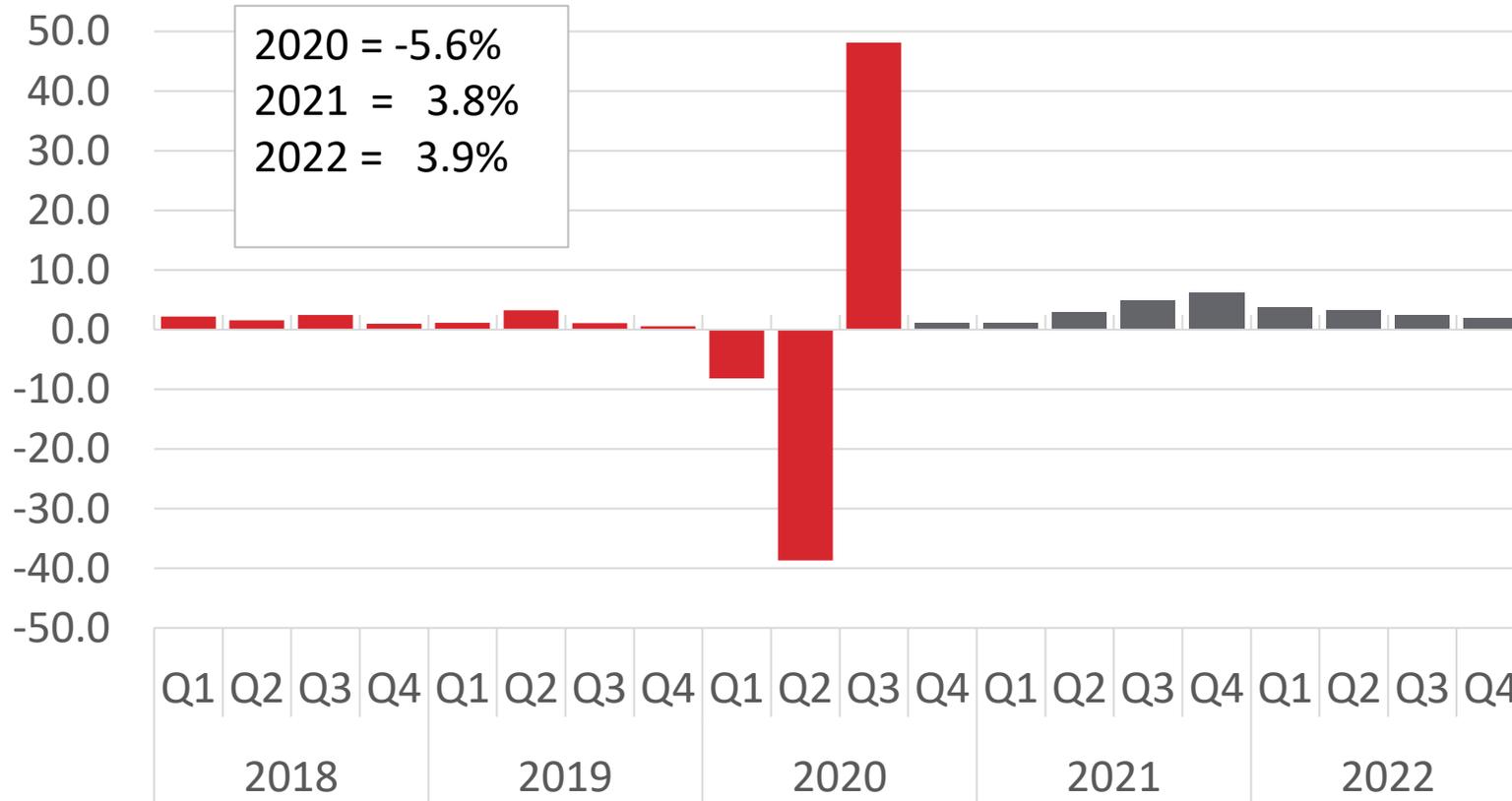
- **Ford** has agreed to \$1.98 billion in new investments that will bring battery-electric vehicle production to its assembly plant in Oakville and a new engine derivative to its two engine plants in Windsor.
- **General Motors** will spend \$1.3 billion to reopen its Oshawa assembly plant to make pickup trucks in 2022, \$109 million for GM's St. Catharine's engine plant, and \$500,000 for a parts distribution division in Woodstock.
- **Fiat Chrysler Automobiles (FCA)** will make a \$1.5 billion investment that will lead to a state-of-the-art multi-energy vehicle platform at the Windsor Assembly Plant, enabling the production of both plug-in hybrid vehicles and battery electric vehicles with at least one new model in 2025.



This investment is a huge win for Ontario and critical to the auto sector moving forward

# ECONOMIC OUTLOOK

Canada (real GDP, quarter-over-quarter annualized growth)



Canadian real GDP is forecast to decline by 5.6% this year, followed by gains of 3.8% and 3.9%, respectively, in 2021 and 2022.

After a strong rebound in Q3, growth is expected to remain weak through the fall and winter, picking up again once the vaccine starts rolling out in 2021.



# THE PATH FORWARD

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## THE POLITICS

- Government focus shifting back to health and containment of COVID but will remain mindful on economic growth
- Governments will focus on economic recovery and growth plans – such as seen in Ontario - with budgets
- Look for a focus from governments on:
  - Increased support for hardest hit sectors – especially tourism and hospitality
  - Procurement reform and strengthening purchases of domestic goods
  - Supporting technology adoption and digitization of industry
  - Green initiatives to help companies de-carbonize and meet net-zero commitments
  - Business condition improvements through improved regulation



# THE PATH FORWARD

## THE UNITED STATES

- Election now settled and formal transition started
- Expect the relationship to normalize – typical tensions but with increased diplomacy
- Domestic protectionism will not let up in the US with Buy American policies resurfacing
- Will work more closely with Canada and Mexico on regional integration –including full implementation of CUSMA
- Will reengage in multi-lateral global activities – trade, environment, etc. and be more cooperative on global stage with Canada and key allies
- China is now engrained as major trade challenge and expect actions to continue, but more diplomacy too



# THE PATH FORWARD

## BUSINESS & THE ECONOMY

- Weak economic conditions began well before COVID-19 started
- Weak conditions in most the world and especially Canada will continue well into 2021 and will likely to result in:
  - COVID-19 support programs to be extended and expanded well into 2021
  - Possible new stimulus programs
- Increased attention on limiting spread of COVID into facilities and employee transmission
- Will be looking to government for short and medium term strategies for growth and market opportunities





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