



MANUFACTURING UPDATE

JUNE 2020

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Effects on Canadian Economy

While the economic shock caused by the spread of COVID-19, and the measures taken to contain it, have been tremendous, and they can continue to be seen throughout the data in this update, we can also see the beginnings of a turnaround.

- The unemployment rate in June declined to 12.3% from 13.7% in May with almost 1 million Canadians returning to work (952,000), representing a 5.8% increase over May. In particular, the goods producing sector saw another impressive gain of 4.5% (160,000) and the service sector added nearly 800,000 jobs, a 6.1% increase.
- By the end of April, GDP for the month had fallen by 17% compared to the same time last year, while retail sales fell by 10% during the same period.
- In May, Canada CPI ticked upwards in comparison to April, but inflation had declined by 0.4% on a year over year basis.
- On the wage front, wages for non-management workers increased by 7.29%. This increase is largely due to an exodus of lower wage workers losing their employment which results in raising the average wage.

Canadian Manufacturing:

As we reported in the last two updates the decline in manufacturing as a result of COVID-19 has been no less devastating. While most of the data in the April Update contained data results from the end of March, the effects of COVID were already noticeable. The Canadian PMI Index declined from 51.8 in February to 46.1 in March. In April, the sector further contracted, the index dropping to 33 from 46.1. Both of these declines were unprecedented. In May, however, Canadian manufacturing rebounded increasing to 40.6 and in June to 47.6. While still in contractionary territory, there has certainly been a rebound in the sector. In March, the sector lost nearly 40 thousand jobs, while the sector unemployment rate increased from 4.1% to 4.4%. In April, the unemployment rate jumped from 4.4% to 13.6%- representing a loss of 260,000 jobs in one month. In this update we have further added data which paints a clearer picture of the effects of the COVID shutdown:

- GDP of Goods production fell by -21%% in April 2020 compared to April 2019

- Capacity Utilization fell to 72.8% in March 2020 from 77% in February 2020. In April it fell to 55.9%, with massive declines in transportation manufacturing (just 17% from 60% in March)
- Weekly hours fell from 37 in February to 36.2 in March. In April they fell further to 35.3
- The ratio of inventory to sales increased to 1.72 in March from 1.56 in February 2020. In April, the ratio exploded to 2.41.

Manufacturing employment in May has rebounded, in what it is hoped to be the first step towards recovery. Employment in the sector increased by 78 thousand, helping lower the unemployment in the sector to 12.7% from 13.6%. In June the sector added 82,000 jobs and the unemployment rate declined further to 10.4% from 12.7% in May. In the next update we hope to continue to see further improvements in employment gains, and improvements in capacity utilization and hours worked as data for the latter are on a one month lag.

**Readers will also notice that there were sizable nominal and real wage increases for blue collar and manufacturing workers in both April and May. As with the increase in non-management wages, this increase is more appearance than reality. It is due to the disappearance of low wage workers, which has the effect of driving average and thus nominal wages upwards. Furthermore, combined with this 'pseudo' increase in wages is the continued decline in the CPI which has had the effect of increasing real wages.

Commodity Prices:

Forestry

- Forestry prices rose in June well above the lows experienced over the past few months. However, demand and production are still heavily impacted by the effects of the coronavirus. U.S. housing starts rose slightly in June, but are still below 2019 levels. Statistics Canada forestry production numbers are not yet reflected of the coronavirus impact, as they do not go beyond March 2020. Since March, Canfor, Paper Excellence, Mercer Celgar and Caribou pulp and paper have all announced temporary or indefinite shutdowns across British Columbia, as the province continues to be particularly hard-hit by the effects of pine beetle infestations and low demand caused by the COVID-19 pandemic.

Steel

- Steel prices rose slightly in June, after hitting three-year lows at the end of April. The U.S. HRB price was about 5% higher as of June 22 than it had been on April 27th. North American rebar prices are fairly steady this month, though they remain at 2.5 year lows.
- On the demand side, auto plants across the continent have reopened, though rising coronavirus cases in the United States may lead to additional temporary shutdowns.
- Crude steel production in Canada, US and the world:
 - Overall crude steel production rebounded *slightly* in May compared to April (June numbers have not been released) with an increase of 8.5%, led by an increase in Chinese production, which also increased 8.5% month-to-month
 - On a year-over-year basis, world crude steel production declined by 8.7%, with steep drops in Canada (-19.6%) and the United States (-36.6%) compared to May 2019. China's production actually increased year-over-year, rising 4.2% since May of 2019.
- Most North American steel mills continue to run, though production remains well down of 2019 levels. Capacity utilization in the United States at the end of June was a few points above the year's lowest levels in May (55.4 on June 27th, compared to a low of 51.1 on May 2nd). Capacity utilization is still well below 2020's highest point of 82.7 in early January.

Steel Input Prices:

Iron Ore

- Prices way up largely due to soaring demand from China and production restrictions in Brazil after many workers tested at several sites tested positive for the coronavirus. China's

steel production increased in May, up 4.2% from May 2019, in contrast to slowed production in much of the rest of the world.

Metallurgical Coal

- While metallurgical coal prices held steady and even rose slightly until April, they came crashing down in May, hitting three-year lows between \$110-\$115/metric tonne for premium HCC. The 8.8% decrease in global steel production in May year-on-year followed several months of massive global steel declines. Growing Chinese crude steel production was not enough to offset reduced demand for metallurgical coal from the rest of the world, as prices dipped close to 3% in June below May's low prices.

Scrap:

- June Scrap prices are down again, after slight increases in late May, but remain about 10% above April lows, on average. Auto sector re-starts in May increased supply significantly, however Canadian and U.S. steel production is still far below 2019 levels, with May crude steel production 19.6% below May 2019 levels.

Potash:

- Demand for potash *had* been more stable than for many commodities during the pandemic in April in May. However, spot prices are way down this spring, dropping to a new three-year low in June. Nutrien cites poor demand outside the United States and reduced corn demand as the major cause of the price drops.
- Export data reflects the collapse in demand for potash in late spring, as total exports in May dropped 27% from the previous month

Nickel& Copper

The picking up of Chinese manufacturing activity, combined with supply concerns have helped drive nickel prices in May (\$5.51 from \$5.33), while copper prices have also continued to appreciate (\$2.37 from \$2.29). Price appreciation has continued in June, with the average monthly nickel price increasing to \$5.76 and copper prices to \$2.60.

Trade developments

Overall exports started to recover in May, though they are still well below the previous year. Exports of all goods increased 6.7% from April, but are down 34% from May 2019. Imports continued to decline in May, down 3.8%, while they dropped 32.6% from the previous year.

On July 1st, the new NAFTA (CUSMA) officially came into force. While this should have signalled an improvement to trade relations between the U.S. and Canada, the U.S. continues to threaten Canadian aluminum exports with the re-imposition of Section 232 tariffs. The American Primary Aluminum Association, which does *not* represent the majority of aluminum interests in the United States, is pushing for 10% tariffs on Canadian products, despite a lack of evidence of any import surges from Canada. The APAA has the ear of the U.S. Republican Party meaning there is a distinct possibility these tariffs will be re-imposed. The USW, the Aluminum Association and the Canadian government are all working to prevent the re-imposition of tariffs.

COMMODITY PRICES

	Unit	Currency	Latest	Previous Month Average	3 year average	Standard deviation***	3 year peak	% down from the peak
Iron Ore	Metric ton	USD	\$102.37	\$88.39	\$80.82	\$14.64	\$119.50 (July 2019)	-14.3%
Steel – HRB	Metric ton	USD	\$572	\$553	\$741	\$141.15	\$1006 (July 2018)	-43%
Aluminum	Metric ton	USD	\$1587.59	\$1499	\$1911.28	\$207.63	\$2299 (May 2018)	30.9%
Copper	Pound	USD	\$2.60	\$2.37	\$2.80	\$0.23	\$3.03 (June 2018)	-14%
Nickel	Pound	USD	\$5.76	\$5.51	\$5.81	\$0.82	\$8.23 (September 2019)	-30%
Platinum	Ounce	USD	\$839.30	\$826.74	\$883.79	\$70.94	\$1,183.10 (August 2016)	-29%
Uranium	Pound	USD	\$32.80	\$33.89	\$25.04	\$3.68	\$33.89 (May 2020)	3.2%
Gold	Ounce	USD	\$1,734.03	\$1,715.70	\$1,380.25	\$151.76	current	
Potash (muriate of potash port of Vancouver FOB spot))	Metric Ton	USD	\$202.50	\$245	\$231.99	\$23.21	\$301 (Feb 2017)	32.8%
Gasoline*	Litre	CAD	\$0.92	\$0.79	\$1.18	\$0.12	\$1.36 (May 18)	-32%
Met Coal** (HCC)	Metric Ton	USD	\$115	\$166 (April)			--	
Lead	Metric Ton	USD	\$1789.86	\$1619	\$2090.43	\$260.47	\$2608 (Jan 2018)	-31.4%
Zinc	Metric Ton	USD	\$2106.98	\$1964	\$2661.09	\$448.30	\$3526 (Jan 2018)	40.2%

*Regular unleaded gasoline; based on average monthly prices across all major metropolitan areas

**Met Coal tracking started April 2019 [note that the average price since 2008 is USD \$197/t]

***See notes for an explanation of the significance of the standard deviation.

STEEL PRICES* IN COMPARISON: JUNE 2020

	US	China	Western Europe	World Export
Hot-rolled band	\$572	\$447	\$458	\$420
Cold-rolled coil	\$759	\$502	N/A	N/A
Standard Plate	\$662	\$459	N/A	N/A
Rebar	N/A	\$439	N/A	N/A

*Prices in U.S. Dollars

SOFTWOOD LUMBER PRICES

Dollars per thousand board feet	03-Jul-20	26-Jun-20	4-week average	52-weeks average	% Change from 52-week average
2x4 eastern spruce-pine-fir (Canadian dollars)	\$655	\$625	\$610	\$538	21.7%
Composite (U.S. dollars)	\$498	\$483	\$477	\$385	29.4%
2x4 western spruce-pine-fir (kiln dried) #2 and better (U.S. dollars)	\$468	\$436	\$419	\$383	22.2%
2x4 western spruce-pine-fir (kiln dried) Utility #3 (U.S. dollars)	\$360	\$342	\$344	\$295	22%

Source: Natural Resources Canada

PANEL PRICES

U.S. Dollars per thousand board feet	03-Jul-20	26-Jul-20	4-week average	52-weeks average	% Change from 52-week average
Composite	\$483	\$464	\$456	\$368	31%
15/32" 4-ply exterior (south)	\$565	\$530	\$513	\$380	48.7%
9.5mm 4-ply exterior (west)	\$560	\$550	\$523	\$410	36.6%
7/16" oriented strand board (north central)	\$405	\$390	\$389	\$312	29.8%

Source: Natural Resources Canada

ADDITIONAL FORESTRY PRICE INFORMATION

British Columbia

SPF Prices – US\$/1000 bd ft

	26-Jun-20	19-Jun-20	Y-T-D Average	2019 Average
SPF 2 X 4	\$436	\$394	\$386	\$372
SPF Stud	\$436	\$408	\$331	\$272
SPF 2 X 10	\$456	\$410	\$389	\$350
Cedar 2 X4	\$1455	\$1455	\$1423	\$1396

Source: British Columbia Ministry of Forests Lands, Natural Resource Operations and Rural Development.

*Note that the week of May 22nd is the most recent week for which data has been published. Typically, the reports are released weekly, however nothing has been published for the week of May 29th.

	May 2020	April 2020	Y-T-D Average	2019 Average	2018 Average
Hemlock squares	\$816	\$816	\$821	\$891	\$965

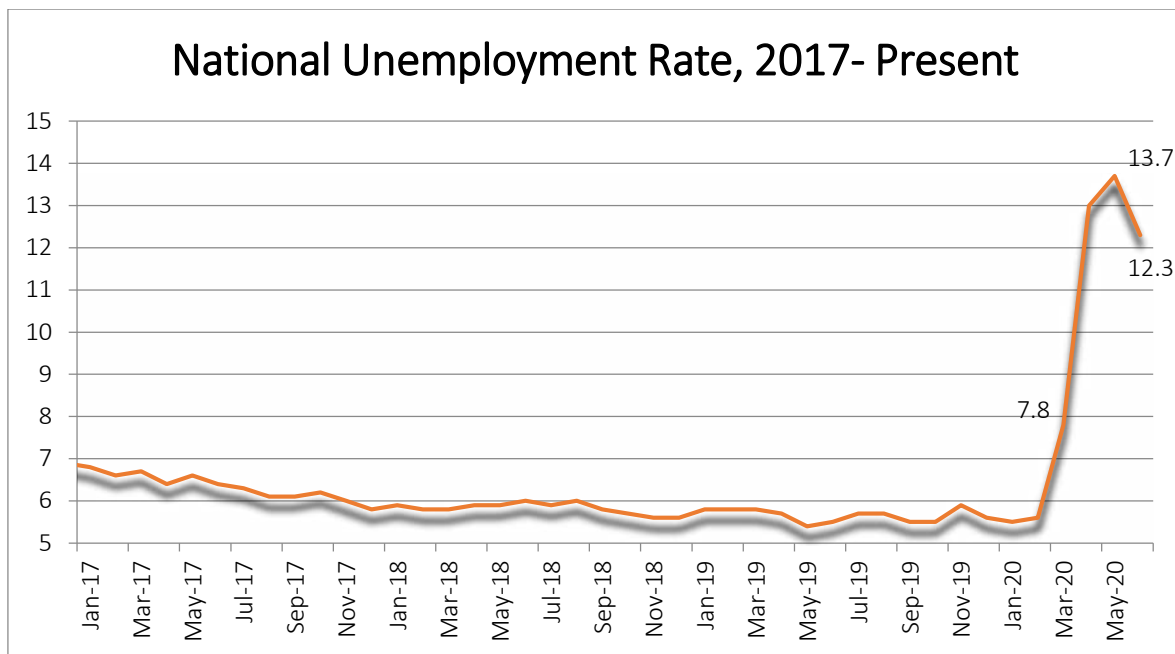
Price indices*

2010=100	March 2020	Previous Month	Compared to Previous Year
Western Red Cedar	184.5	No Change	0.8%
Hemlock fir	181.2	-7%	2.3%
Spruce, pine, fir	153.2	-2.3%	11.2%
Douglas Fir and Western Larch	158.1	-0.4%	8.2%

*See notes for explanation of price index

EMPLOYMENT INDICATORS

	Recent Month (June)	May	Change May-June (Percentage Change)	April	March	February	Change from one year ago (percentage point)	3 Year Peak
Unemployment rate	12.3%	13.7%	-1.4	13.0%	7.8%	5.6%	6.7	13.7% (May 2020)
Employment Rate	56.0%	52.9%	3.1	52.1%	58.5%	61.8%	-6.0	62.8 (June 2017)
Real Unemployment (see notes)	15.5%	18.2%	-2.7	17.8%	11.7%	8.5%	8.1	18.2% (May 2020)
Participation Rate	63.8%	61.4%	2.4	59.8%	63.5%	65.5%	-1.9	65.9 (April 2019)
FT/PT	82.5/17.5	84.3/15.7	-1.8/+1.8	84.5/15.5	83.2/16.8	81.3/18.6	1.2/-1.2	84.3/15.7 (May 2020)



The June unemployment rate declined to 12.3% from a high of 13.7% in May, with almost 1 million Canadians returning to work (952,000), representing a 5.8% increase over May. In particular, the goods producing sector saw another impressive gain of 4.5% (160,000) and the service sector added nearly 800,000 jobs, a 6.1% increase. While employment numbers are encouraging in June, 2.4 million Canadians remain unemployed, with 1.3 million of those due to the Covid shutdown.

OTHER ECONOMIC INDICATORS*

	Recent Month			
		Previous Month	Year Ago	3 Year Peak
MACROECONOMIC				
GDP (All industries, billions, chained 2012)	\$1.63*	\$1.84	-17.1%	-
Retail Sales (billion)	\$34.72*	\$47.15	-10%	-
CPI	-0.4%***	-0.2%	2.4%	-
BoC Policy Interest Rate	0.25%	1.75%	1.75%	1.75%
Hourly Wage Growth (Non-Management)	\$28.56†	\$29.19	7.29%	-
MANUFACTURING				
GDP Goods Producing (billion, chained 2012)	\$0.452*	\$0.544	-21.5%	-
Residential Building Permits (thousand)	39,541***	19,867	50,160	-
Home Price Index (2016=100)	104.2***	104.1	103.1	104.2
U.S. Housing Starts (million)	0.974	0.934	1.235	1.617(Dec 2019)
Capacity Utilization	55.9%*	72.3%	79.6%	84.2%
Manufacturing employment (million)	1,598†	1,516	-8.1%	
Manufacturing Unemployment Rate	10.4%†	12.7%	+6.7%	13%
Weekly Hours of Work (including OT)(manfct)	35.3*	35.9	36.8	38.4
Manufacturing†† Occupations Hourly Wage	\$21.80†	\$22.58	3.55%	
Blue Collar† Occupations Hourly Wage	\$26.01†	\$26.52	2.57%	
Ratio of inventory to sales	2.41*	1.74	1.53	2.41
Manufacturing Orders (billions)	\$35.12*	\$51.16	\$57.8	--
Manufacturing Sales (billion)	\$36.36*	\$50.8	\$57.7	--
Cars and Trucks Sales (billion)	\$0.078*	\$3.1	\$4.8	--
Wood Products Sales (billion)	\$1.9*	\$2.4	\$2.4	--
Petroleum and Coal sales (billion)	\$2.0*	\$3.8	\$6.3	--
Canadian PMI	47.8†	40.6	49.2	57.1
Business Investment (non-residential) (billion)	\$48.24**	\$53.60	\$49.59	--
* April 2020; ** Quarterly Figures; ***May2020; †June				

*The categories under **Economic Indicators** are mostly based from StatsCan data. Unfortunately, the data indicators are generally 1-2 months behind the current date of the Update. Note also that Statistics Canada continually updates its data. As a result, there is often some discrepancy in monthly numbers and in the data provided in each subsequent monthly update.

*PMI - An indicator of economic health in the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. A PMI of more than 50 represents expansion

of the manufacturing sector, compared to the previous month. A reading under 50 represents a contraction, while a reading of 50 indicates no change.

***The Inventory to Sales Ratio** metric measures the amount of inventory you are carrying compared to the number of sales orders being fulfilled. Calculate inventory to sales using the following formula:

$(\text{Inventory value } \$) \div (\text{Sales value } \$)$; an increasing ratio indicates an increasing level of inventory

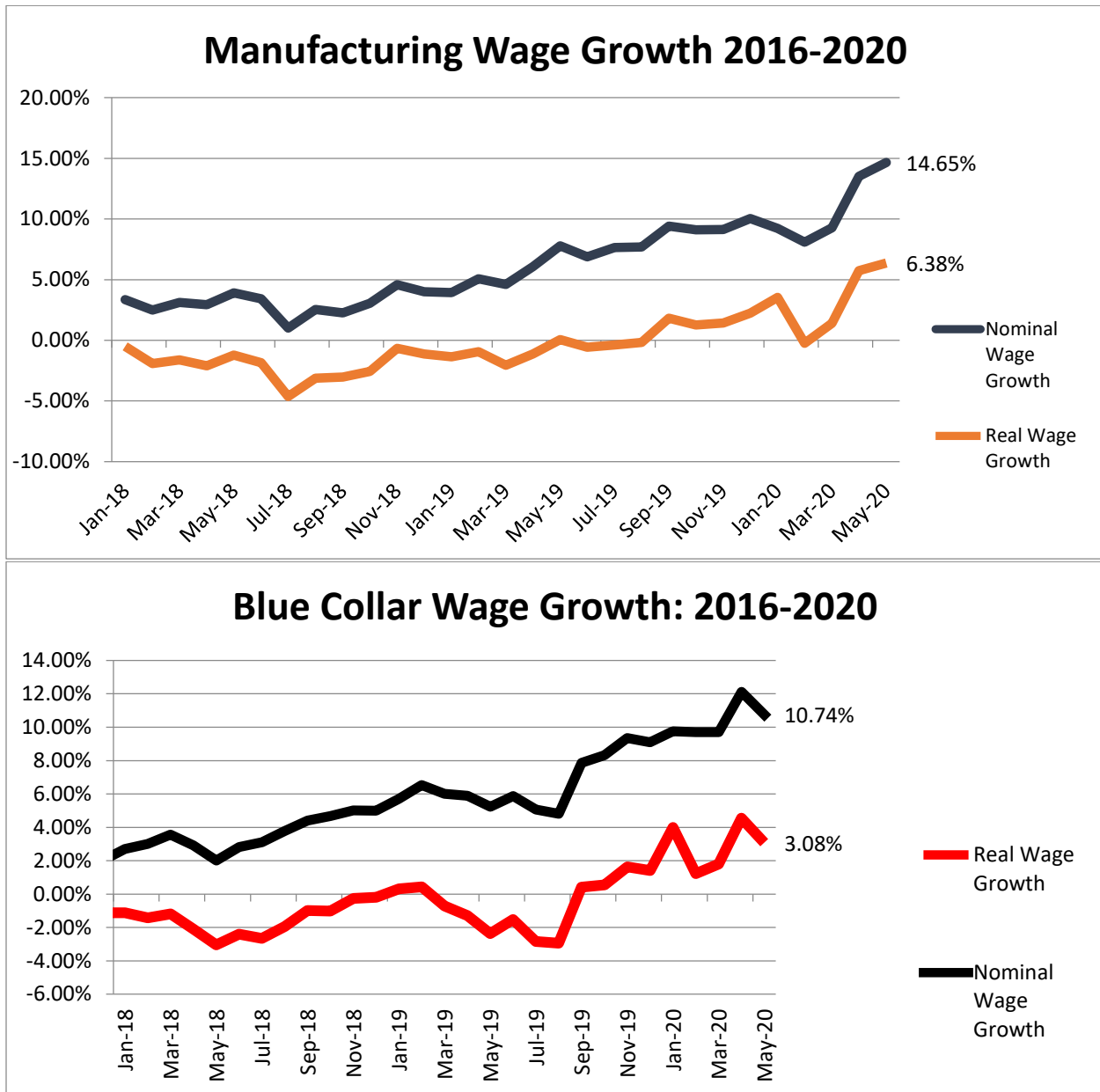
***GDP measurement** refers to real GDP growth, chained (2012) dollars

***Real unemployment rate** refers to StatCan's R8 supplementary unemployment rate, which includes discouraged searchers, waiting group, portion of involuntary part-time

†**Blue Collar Workers** category is composed of non-management/supervisory occupations in Manufacturing, Natural Resources, Trades, Transport & Equipment Operators. It covers approximately 2.9 million workers.

†† **Manufacturing Workers** category is composed of non-management/supervisory occupations in Manufacturing, such as processing, machine operators, production workers, assemblers and labourers. It covers approximately 615,000 workers.

MANUFACTURING AND BLUE COLLAR WAGE GROWTH



The above line graphs demonstrate the growth in both nominal (money wages) and real (inflation adjusted) wages since January 2016. For Blue Collar workers, real wages have grown by 3.08%, and for Manufacturing workers they have grown by 6.38%. It must be noted that the “rise” in real wages during the COVID Pandemic is largely due to 1) lower wage workers in these industries being laid off and therefore increasing the average wage upwards and 2) deflation. In other words, we should keep these elements in mind when interpreting this recent rise of “real wages”. It is generally the case that workers ‘real wages’ tend to increase towards the end of the business cycle and during the crisis phase.

TRADE INDICATORS

	May 2020	Previous Month	Previous Year
Trade Balance (Billion)	-\$0.677	-\$4.27	\$0.127
Trade Balance with U.S. (Billion)	\$2.86	\$1.2	\$5.32
	May 2020	Change from previous month	Change from previous year
Total Exports (Billion)	\$34.6	6.7%	-34%
U.S. Exports (Billion)	\$23.2	8.2%	-40%
Total Imports (Billion)	\$35.3	-3.8%	-32.6%
U.S. Imports (Billion)	\$20.3	0.9%	-38.9%
Exports by type:			
Metal ores and non-metallic minerals (Billion)	\$1.49	-13.4%	
Metal and non-metallic minerals (Billion)	\$4.87	-3.4%	-25.7%
Motor Vehicles and parts (Billion)	\$1.9	-76.2%	-85.4%
Energy Products (Billion)	\$4.3	14.5%	-52.9%
Forestry products (Billion)	\$3.1	1.7%	-18.7%
Industrial machinery, equipment and parts (Billion)	\$2.7	13.4%	-32.8%

NOTES:

Standard deviation: The standard deviation provides an indication of the variability of the commodity price over a given period of time (in this case, based on three years of prices). The closer the standard deviation is to 0, the less variability in price over the past three years. For example, if over the past three years, the standard deviation for gold is \$50, then 68% of gold prices would have fallen within 1 standard deviation (\$50 plus or minus) of the average gold price and 95% would have fallen within two standard deviations (\$100 plus or minus) of the average gold price.

Forestry index: we have included information from Statistics Canada on the wood product price index. For the products covered in the Industrial Product Price Index, prices are for goods sold at the factory gate and do not include the full price including taxes, transportation costs, or any distribution costs. Statistics Canada provides a price index to track price movement for manufactured goods in Canada and broadly tracks the economic performance of given sectors. For certain lumber products, the specific weekly or monthly prices are not publicly available, however the index provides information on the general state of prices compared to past prices. The index demonstrates that lumber product prices continue to decline in 2019.

Monthly data: Statistics Canada revises its data on a monthly basis. As a result, there are almost always some changes to the published data from the previous month. This will likely explain the discrepancies between the stats can data from the previous report and what is available in their tables [for example, we use the most recent monthly data available, which is the preliminary data; when we prepare the next month's report, the source data used in the previous report may have changed slightly, which will not be reflected in these updates.

Sources: Statistics Canada, SteelBenchmarker, TradingEconomics, Global Steel Trade Monitor, Natural Resources Canada, Government of British Columbia, World Steel Association, Financial Post, BNN Bloomberg, Market Inside