



MANUFACTURING UPDATE

NOVEMBER 2020

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Contents

Effects on Canadian Economy.....	2
Notes:.....	3
Forestry	3
Steel.....	3
Steel Input Prices:.....	4
Iron Ore.....	4
Metallurgical Coal:.....	4
Scrap	4
Nickel& Copper.....	4
Potash:.....	4
Trade and tariffs:.....	5
COMMODITY PRICES.....	5
STEEL PRICES* IN COMPARISON: October 2020.....	6
SOFTWOOD LUMBER PRICES	6
ADDITIONAL FORESTRY PRICE INFORMATION.....	7
EMPLOYMENT INDICATORS.....	8
OTHER ECONOMIC INDICATORS*	9
MANUFACTURING AND BLUE COLLAR WAGE GROWTH	Error! Bookmark not defined.
TRADE INDICATORS.....	10

Effects on Canadian Economy

The current update continues to show an economic recovery that is slowing and reflects some of the setbacks in the labour market due to targeted sector and regional shutdowns, particularly in the service sector.

- The unemployment rate in **November declined to 8.5% from 8.9% in October**. This represented **only an increase of about 62 thousand workers**. This is a slowing down in the recovery and largely reflects recent targeted shutdowns. In comparison, October saw an increase of 84 thousand, 380,000 Canadians returned to work in September, the 280k who returned in August, 420,00 in July and 1 million in June
- The goods producing sector saw a gain of just 1.2% - approximately 44.2k jobs, and the service sector added just 17.9k jobs. While there were impressive gains of employment in retail (nearly 30k) there were large losses in Accommodation and Food Services and Information, culture and recreation (over 50k)
- Manufacturing gained 3,800 jobs in November, representing a 0.2% gain. The unemployment rate in the sector increased to 5.8%

Canadian Manufacturing: Tracking the Rebound and Recovery

As we have reported in the last few updates the decline in manufacturing as a result of COVID-19 was devastating. 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. In July, the Canadian PMI finally entered expansionary territory hitting 52.9, the first expansion in factory activity in 5 months and the sharpest increase since last January (2019). In August, for the second consecutive month, the PMI Index increased to 55.1 and in September it increased to 56. In October, the PMI declined slightly to 55.5. In November, the PMI increased to 55.9. Below, we have further added data which demonstrates the rebound in the sector:

- 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). In May, capacity utilization increased to 62.8%. In June, capacity utilization increased to 73.3%. **In July it increased to 74.9%. August also saw an improvement to capacity utilization increasing to 75.8%. In September, it increased to 78.5%.**

- Weekly working hours continued to increase in September to 37.1. In August weekly hours increased to 36.5 from 35.8. This was the first time since the shutdown in March that weekly hours were over 36. In April they were at a low of 35.1.

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 May manufacturing rebounded and 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 July, manufacturing added 29,000 jobs, lowering the unemployment rate to 7.3%. In August, manufacturing added another 29,000 jobs and the unemployment rate declined to 6.3%. Despite this relatively impressive rebound in manufacturing, nearly 82,000 manufacturing workers still remained out of work since the COVID shutdowns in March. In September the sector took a great leap forward—it added 68,000 jobs, pushing the sector unemployment rate down to 4.5%. In October, the sector took a small step backwards, shedding 4,300 jobs, and the unemployment rate increased to 5.4%. The decline appears to be seasonal, as orders tend to decrease as we reach the winter months. **In November, the sector gained 3,800 jobs.**

Notes:

Forestry

Forestry prices are coming back down to earth after soaring the summer and early fall. Prices are still well ahead of where they were one year ago, with most products about 15% above the 52-week average.

Forestry exports were one of the only areas that grew on a year-over-year basis, rising by 18.4% compared to October 2019, in contrast with a 5% overall drop in total exports.

Steel

Steel prices continued their upward swing in November, with hot-rolled rising by over \$100/metric ton since the beginning of October.

U.S. crude steel output dropped in the final week of November, after rising the first three weeks of the month. Production declined 1.3% at the end of the month, while capacity utilization was at 70.6%, below the 71.5% high seen in mid-November and still above the 67.2% average for 2020.

Global steel production rose in October, increasing by 7.0% globally compared to October 2019 and 3.5% since September 2020. Output is still way down in Canada, with a 17.5% compared to October 2019, though on a monthly basis, output rose by 8.9%. China still dominates global production, representing 57% of total output in October; however, this is a drop from September's numbers, where China's production accounted for 59% of world output.

The steel pipe and tube situation remained dire in Canada in November and leading into December, with Evraz announcing 500 layoffs in Regina. The company cited weak demand for oil-and-gas-related products as the reason for the layoffs. Despite numerous ongoing infrastructure projects across Canada, use of imported steel has resulted in low demand the steel made at Evraz's tubular division.

Steel Input Prices:

Iron Ore

Iron ore prices remain high, with little monthly change compared to October. With production increasing, demand remains strong. Chinese inventories are being drawn down, meaning prices are likely to remain strong in the coming months.

Metallurgical Coal:

Metallurgical coal plunged in November, compared to October, returning to levels last seen in 2016. China's import ban on Australian coal remains in effect. China's import ban on Australian coal led to oversupply in the world market, leading to drastically lower spot prices.

Scrap

Scrap's upward swing continued into November, rising to levels not seen since mid-2018. Prices in November ranged from \$265-\$330/gross ton depending on quality, well above the lows under \$200/gross ton in the Fall of 2019 and Spring of 2020.

Nickel& Copper

Both nickel and copper continue to increase as demand remains steady for both metals. Chinese industrial activity has fueled the demand for both, particularly as stainless steel producers have continued to ramp up production. Nickel prices also increased in October as EV sales, particularly, in China have rebounded.

Potash:

Potash demand remains steady, though with prices at rock bottom, large producers are experiencing significant losses. Nutrien's third quarter report showed a loss of 19% compared to third quarter 2019 in its potash segment, despite rising sales to North American, South American and Indian markets.

Trade and tariffs:

On November 3rd, Joe Biden handily defeated Donald Trump in the U.S. presidential election. The transition will likely have implications for the U.S. trade agenda. Biden is expected to be less belligerent than Trump, with fewer tariffs anticipated against long-time allies such as Canada. It is anticipated that president-elect Biden will enact an America-first manufacturing strategy aimed at using U.S. made steel and other products in domestic infrastructure products. The democratic administration may embrace trade measures such as border carbon adjustments, in line with the European Union's upcoming border carbon adjustments. The CUSMA is silent on procurement, therefore if Canada wants an exemption to future Buy American provisions, it will need to push for access to U.S. infrastructure projects and the development of North American markets.

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	\$120.99	\$121.45	\$87.75	\$18.22	\$126.08 (September 2020)	-4%
Steel – HRB	Metric ton	USD	\$789	\$727	\$735	\$148.87	\$1006 (July 2018)	-21.5%
Aluminum	Metric ton	USD	\$1954.77	1822.03	\$1885.30	\$207.32	\$2299 (May 2018)	-15%
Copper	Pound	USD	\$3.20	\$3.04	\$2.82	\$0.24	current	above
Nickel	Pound	USD	\$7.16	\$6.91	\$6.08	\$0.72	\$8.23 (September 2019)	-13%
Uranium	Pound	USD	\$29.68	29.70	\$26.44	\$3.53	\$33.89 (May 2020)	-12.4%
Gold	Ounce	USD	\$1,868.37	\$1,868.00	\$1,308.63	\$442	\$1,971.98 (August 2020)	-5.2%
Potash (muriate of potash port of Vancouver FOB spot)	Metric Ton	USD	\$202.5	\$202.5	267	\$24.49	\$272 (Jul 2019)	-25.6%
Met Coal** (HCC)	Metric Ton	USD	\$102	\$139	--	--	--	--
Lead	Metric Ton	USD	\$1919.86	\$1777.06	\$2017.88	\$238.96	\$2608 (Jan 2018)	-26.4%
Zinc	Metric Ton	USD	\$2673.91	\$2442.58	\$2568.43	\$414.94	\$3526 (Jan 2018)	-24.2%

*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: October 2020

	US	China	Western Europe	World Export
Hot-rolled band	\$789	\$523	\$635	\$610
Cold-rolled coil	\$973	\$647	N/A	N/A
Standard Plate	\$773	\$515	N/A	N/A
Rebar	N/A	\$522	N/A	N/A

*Prices in U.S. Dollars

SOFTWOOD LUMBER PRICES

Dollars per thousand board feet	27-Nov-20	20-Nov-20	4-week average	52-weeks average	% Change from 52-week average
2x4 eastern spruce-pine-fir (Canadian dollars)	830	810	784	722	14.9%
Composite (U.S. dollars)	567	558	561	533	6.4%
2x4 western spruce-pine-fir (kiln dried) #2 and better (U.S. dollars)	620	596	597	539	15%
2x4 western spruce-pine-fir (kiln dried) Utility #3 (U.S. dollars)	532	522	525	418	27.2%

Source: Natural Resources Canada

PANEL PRICES

U.S. Dollars per thousand board feet	27-Nov-20	20-Nov-20	4-week average	52-weeks average	% Change from 52-week average
Composite	645	656	668	511	26.2%
15/32" 4-ply exterior (south)	545	530	517	504	8.1%
9.5mm 4-ply exterior (west)	675	675	680	518	30.3%

7/16" oriented strand board (north central)	755	825	825	535	41.1%
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Source: Natural Resources Canada

ADDITIONAL FORESTRY PRICE INFORMATION

British Columbia

SPF Prices – US\$/1000 bd ft

	27-Nov-20	20-Nov-20	Y-T-D Average	2019 Average
SPF 2 X 4	620	596	548	\$372
SPF Stud	480	480	500	\$272
SPF 2 X 10	486	454	524	\$350
Cedar 2 X4	1650	1659	1481	\$1396

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

	October 2020	September 2020	Y-T-D Average	2019 Average	2018 Average
Hemlock squares	\$775	\$764	\$791	\$891	\$965

Price indices*: Canada

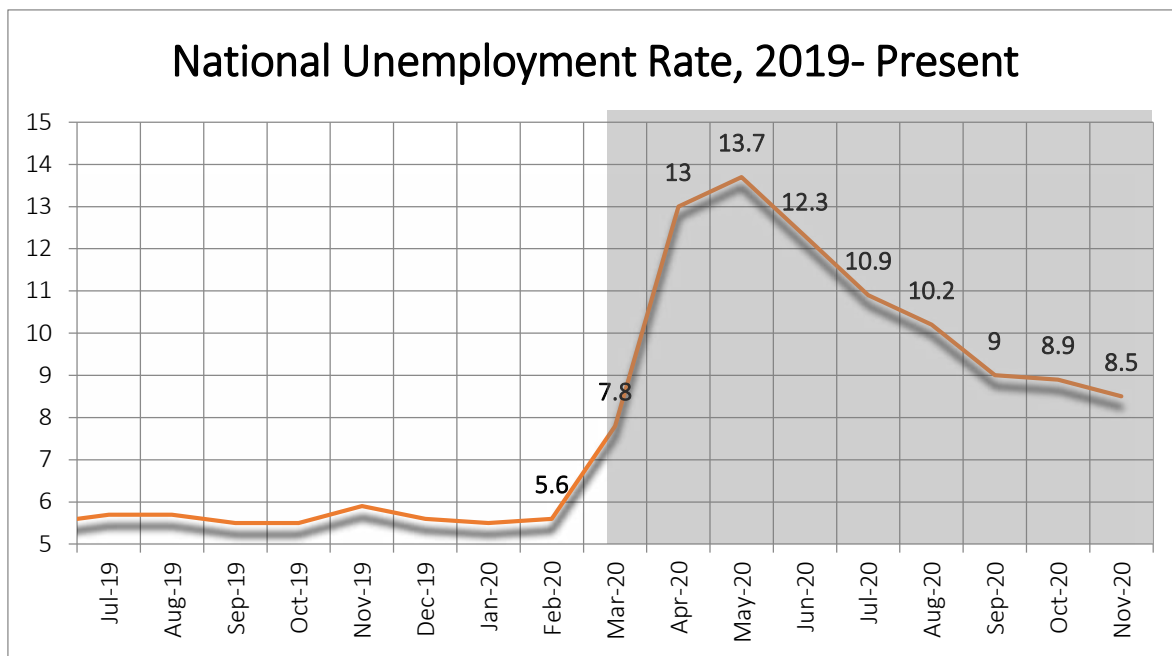
2010=100	September 2020**	Previous Month	Compared to Previous Year
Western Red Cedar	210.1	1.3%	15.4%
Hemlock fir	472	26%	153%
Spruce, pine, fir	304.4	21.7%	111%
Douglas Fir and Western Larch	298.2	14.5	107%

*See notes for explanation of price index

**October numbers not available at the time of publication

EMPLOYMENT INDICATORS

	Recent Month November	October	Change (Percentage Change)	Change from one year ago (percentage point)	Change from May (percentage point)	3 Year Peak
Unemployment rate	8.5%	8.9%	-0.4	2.6	-5.2	13.7% (May 2020)
Employment Rate	59.5	59.4	0.1	-0.5	7.4	62.8 (June 2017)
Real Unemployment (see notes)	11.0	11.0	--	3.5	-7.2	18.2% (May 2020)
Participation Rate	65.1	65.2	-0.1	-0.5	3.7	65.9 (April 2019)
FT/PT (as a percentage of employment)	81.4/18.6	81.1/18.9	0.3/-0.3	0.2/-0.2	-2.86/2.86	84.3/15.7 (May 2020)



The November unemployment rate declined to 8.4% from of 8.5% in October. Approximately 62 thousand Canadians returned to work in November, representing a 0.3% increase over October. The goods producing sector saw a gain of 1.2% (44.2k). The service sector added 17.9k jobs, a 0.2% increase , compared to September.

OTHER ECONOMIC INDICATORS*

	Recent Month	Previous Month	Year Ago	3 Year Peak
MACROECONOMIC				
GDP (All industries, billions, chained 2012)	\$1.91*	\$1.86\$	-3.9%	-
Retail Sales (billion)	\$53.8*	\$53.26	-	-
CPI	0.4%***		-	-
BoC Policy Interest Rate	0.25%	0.25%	1.75%	1.75%
Hourly Wage Growth (Non-Management)	\$28.54***	\$28.51	5.87%	-
MANUFACTURING				
GDP Goods Producing (billion, chained 2012)	\$0.546*	\$0.542	-5.6%	-
Residential Building Permits (thousand)	36,7119***	40.713	35,153	-
Home Price Index (2016=100)	107.3***	106.5	103.2	current
U.S. Housing Starts (million)	1.53	1.42	1.58	1.617(Dec 2019)
Capacity Utilization	78.5%*	75.8%	79.4%	84.2%
Manufacturing employment (million)	1,724.2†	1,720.4	1.4%	
Manufacturing Unemployment Rate	5.8%†	5.4%	3.9%	13%
Weekly Hours of Work (including OT)(manfct)	37.1*	36.5	37.3	38.4
Manufacturing†† Occupations Hourly Wage	\$21.98†	\$21.82	2.82%	-
Blue Collar† Occupations Hourly Wage	\$26.64†	\$26.59	2.69%	-
Ratio of inventory to sales	1.65*	1.62	1.54	2.45
Manufacturing Orders (billions)	\$54*	\$52.1	\$56.82	--
Manufacturing Sales (billion)	\$53.8*	\$52.9	\$57.39	--
Cars and Trucks Sales (billion)	\$4.6*	\$4.6	\$5.51	--
Wood Products Sales (billion)	\$3.3*	\$3.0	\$2.38	--
Petroleum and Coal sales (billion)	\$3.7*	\$3.7	\$5.92	--
Canadian PMI	55.8†	55.5	51.4	57.1

Business Investment (non-residential) (billion)	\$49.4**	\$43.2		--
* September 2020; ** Q3 2020 ***October 2020; †November 2020				

*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: (Inventory value \$) ÷ (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.

TRADE INDICATORS

	October 2020	Previous Month	Previous Year
Trade Balance (Billion)	-\$3.76	-\$3.82	-\$1.81
Trade Balance with U.S. (Billion)	\$3.05	\$1.69	\$4.56
	October 2020	Change from previous month	Change from previous year
Total Exports (Billion)	\$46.5	2.2%	-4.9%
U.S. Exports (Billion)	\$33.8	2.0%	-8.2%
Total Imports (Billion)	\$50.2	1.9%	-0.9%
U.S. Imports (Billion)	\$30.7	-2.3%	-4.6%
Exports by type:			
Metal ores and non-metallic minerals (Billion)	\$1.6	-18.6%	-1.8%
Metal and non-metallic mineral products (Billion)	\$5.6	5.8%	-2.1%
Motor Vehicles and parts (Billion)	\$7.3	-4.7%	-2.7%
Energy Products (Billion)	\$6.7	-18.6%	-1.8%
Forestry products (Billion)	\$4.0	2.5%	18.4%
Industrial machinery, equipment and parts (Billion)	\$3.1	6.5%	=10.4%

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, Trading Economics, Global Steel Trade Monitor, Natural Resources Canada, Government of British Columbia, World Steel Association, Financial Post, BNN Bloomberg, Market Insider, Inside U.S. Trade