



MANUFACTURING UPDATE

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Effects on Canadian Economy

The economic shock caused by the spread of COVID-19, and the measures taken to contain it, have been tremendous. We are, however, now in the 3rd straight month of the economic recovery, although the data, particularly the labour market data, is certainly beginning to show a slowing down of the recovery.

- The unemployment rate in **August declined to 10.2% from 10.9% in July. Approximately 246,000 Canadians returned to work in August.** This is in addition to the nearly 1 million who returned to work in June and the 420,000 who returned in July. The goods producing sector saw a gain of 0.7% and the service sector added nearly 220,000 jobs, a 1.5% increase.
- In June, the CPI continued to tick upwards in comparison to May, while inflation increased by 0.7% on a year over year basis. In July, inflation marginally increased by 0.1%

Canadian Manufacturing:

As we have reported in the last few updates the decline in manufacturing as a result of COVID-19 has been 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, however, 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, the steepest increase since August 2018. In this update we have further added data which demonstrates the nascent economic recovery 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%.
- Weekly hours fell from 37 in February to 36.2 in March. In April they fell further to 35.3. In May weekly hours shot up to 36. In June, they marginally decreased to 35.7
- 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. In May the ratio declined to 2.15 and in June it further declined to 1.79. This impressive decline in June demonstrates that firms were able to sell off accumulated inventory.

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, early 82,000 manufacturing workers still remain out of work since the COVID shutdowns in March.

**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. In June, as workers returned to work and inflation rose, the rise in both nominal and real wages has once again begun to decline.

Commodity Prices:

Forestry

Forestry prices skyrocketed in August, with some products more than double the 52-week average. Limited supply coupled demand in the face of the COVID recovery cause the spike in prices.

Exports of wood products rose y on a month-to-month basis (+3.9%), but are still well below last year's levels (-5.6%).

Steel

Despite signs of a COVID recovery, steel prices remain low, though they lost little ground in August. North American prices are roughly where they were in July, while Chinese and European prices increased slightly in August

Global crude steel production fell by 2.5% compared to July 2019. On a month-to-month basis, crude production rose 3%, led primarily by an increase in Chinese production (up 9.1% y-o-y and 1.9% on a monthly basis)

- Canada's crude production is close to a quarter lower than it was in July 2019 (-24.5), though it increased by close to 7% between June and July
- US production also dipped significantly from 2019 levels, dropping 29% y-o-y, while increasing about 10% from June to July
- Most of the world's other major markets also experienced drops on a year-over-year basis: India's production was down 25%, while Japan and Korea dropped by 28% and 8.3%, respectively. In contrast, Vietnam and Brazil saw year-over-year increases of 19.8% and 3.5%, respectively. Capacity utilization continued to rise in the U.S. in August, reaching 63% the week of the 2nd. However, it fell for the first time since June during the week of August 29th, falling to 61.7%

Steel Input Prices:

Iron Ore

Iron ore continued its upswing in August, coming close to reaching the three-year peak reached in July 2019 and up close to 15% compared to July. China's imports continued to rise, offsetting decreased imports to other key markets. Supply issues from Brazil, combined with soaring demand in China has allowed prices to continue to rise through the summer.

Metallurgical Coal:

August prices for met coal remained at similar levels to those seen in July, dropping slightly to \$108/ metric tonne from \$112/tonne the previous month. While crude steel production continues to rise in China, it is still way below last year's levels in most of the rest of the world, with met coal imports way below last year's levels in South Korea and Japan. Prices are expected to remain fairly stable in the fourth quarter of 2020, with some hope of increased demand as the COVID recovery continues and as a result of Anglo American's temporary mine closure in Australia.

Scrap:

Scrap prices stayed relatively stable in August compared to the last several months, remaining slightly above April's record lows. As of the end of August, the future looked a little rosier for scrap with demand at mills starting to pick up.

Nickel& Copper

Both Nickel and Copper LME prices increased impressively in August; Nickel prices increased by nearly 9% in August over July, while Copper prices increased by 2.1% over the same period.

Potash:

Potash spot prices remain at 10-year lows, in part as a result of long-term contracts signed by China and the Belarusian Potash Company at \$220/tonne and Uralkali's long-term contract with India at \$230/tonne, \$70 and \$50 lower than previous contracts, respectively. Despite stable and rising demand high in most regions outside of China, prices have not budged over the past several months. Political unrest in Belarus, including strikes at the major potash mines, may cause a disruption to world supply. The impact will likely be seen in the coming months.

Trade and tariffs:

- The WTO ruled in Canada's favour in the ongoing softwood lumber dispute with the United States, deeming its duties violated the WTO's Agreement on Subsidies and Countervailing Measures. However, the Trump administration's dismantling of the WTO's appellate body may make the decision difficult or impossible to enforce, as the Dispute Settlement Body will be unable to adopt a panel report as a result of the administration's actions.
- Canada's Ministry of Finance held a public consultation on aluminum countermeasures on \$3.6 billion worth of goods. The final report and products that will be subject to countermeasures will be announced in September.
- Canada's trade with the rest of the world continued to rebound in August, but is still below last year's levels, with exports of energy products hardest hit (-30% year-over-year). There are some exceptions, specifically motor vehicles, which are roughly where they were at last year.

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	\$117.35	104.67	\$83.44	\$15.50	\$119.50 (July 2019)	-1.8%
Steel – HRB	Metric ton	USD	\$528	\$530	\$734	\$147.87	\$1006 (July 2018)	-47.5%
Aluminum	Metric ton	USD	\$1774.58	\$1676.21	\$1902.16	\$212.27	\$2299 (May 2018)	-22.8%
Copper	Pound	USD	\$2.94	\$2.88	\$2.82	\$0.23	\$3.03 (June 2018)	-2.97
Nickel	Pound	USD	\$6.57	\$6.05	\$5.93	\$0.72	\$8.23 (September 2019)	-20%
Platinum	Ounce	USD	\$956.74	\$889.55	\$883.56	\$71.78	\$1,183.10 (August 2016)	-19.13%
Uranium	Pound	USD	\$30.85	\$32.45	\$25.68	\$3.75	\$33.89 (May 2020)	-9%
Gold	Ounce	USD	\$1,971.98	\$1,840.81	\$1,417.86	\$192	current	--
Potash (muriate of potash port of Vancouver FOB spot)	Metric Ton	USD	\$202.5	\$202.50	\$231.76	\$23.49	\$272 (Jul 2019)	25.6%
Gasoline*	Litre	CAD	\$1.07	\$1.02	\$1.17			-21%
Met Coal** (HCC)	Metric Ton	USD	\$108	\$112	--	--	--	--
Lead	Metric Ton	USD	\$1934.91	\$1812.08	\$2065.91	\$258.66	\$2608 (Jan 2018)	-7.8%
Zinc	Metric Ton	USD	\$2404.59	\$2163.17	\$2622.60	\$448.08	\$3526 (Jan 2018)	-31.8%

*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: JULY 2020

	US	China	Western Europe	World Export
Hot-rolled band	\$538	\$486	\$416	\$500
Cold-rolled coil	\$725	\$562	N/A	N/A
Standard Plate	\$648	\$487	N/A	N/A
Rebar	N/A	\$454	N/A	N/A

*Prices in U.S. Dollars

SOFTWOOD LUMBER PRICES

Dollars per thousand board feet	28-Aug-20	21-Aug-20	4-week average	52-weeks average	% Change from 52-week average
2x4 eastern spruce-pine-fir (Canadian dollars)	\$1200	\$1090	\$1065	\$606	98%
Composite (U.S. dollars)	\$889	\$819	\$781	\$435	104%
2x4 western spruce-pine-fir (kiln dried) #2 and better (U.S. dollars)	\$940	\$850	\$801	\$434	117%
2x4 western spruce-pine-fir (kiln dried) Utility #3 (U.S. dollars)	\$700	\$622	\$594	\$329	113%

Source: Natural Resources Canada

PANEL PRICES

U.S. Dollars per thousand board feet	28-Aug-20	21-Aug-20	4-week average	52-weeks average	% Change from 52-week average
Composite	\$750	\$728	\$713	\$415	80.8%
15/32" 4-ply exterior (south)	\$800	\$780	\$768	\$437	83%
9.5mm 4-ply exterior (west)	\$645	\$632	\$626	\$441	46.2%
7/16" oriented strand board (north central)	\$915	\$850	\$814	\$373	145%

Source: Natural Resources Canada

ADDITIONAL FORESTRY PRICE INFORMATION

British Columbia

SPF Prices – US\$/1000 bd ft

	28-Aug-20	21-Aug-20	Y-T-D Average	2019 Average
SPF 2 X 4	\$940	\$850	\$411	\$372
SPF Stud	\$870	\$774	\$371	\$272
SPF 2 X 10	\$898	\$802	\$414	\$350
Cedar 2 X4	\$1600	\$1,505	\$1,475	\$1396

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

	Jul 2020	June 2020	Y-T-D Average	2019 Average	2018 Average
Hemlock squares	\$764	\$771	\$801	\$891	\$965

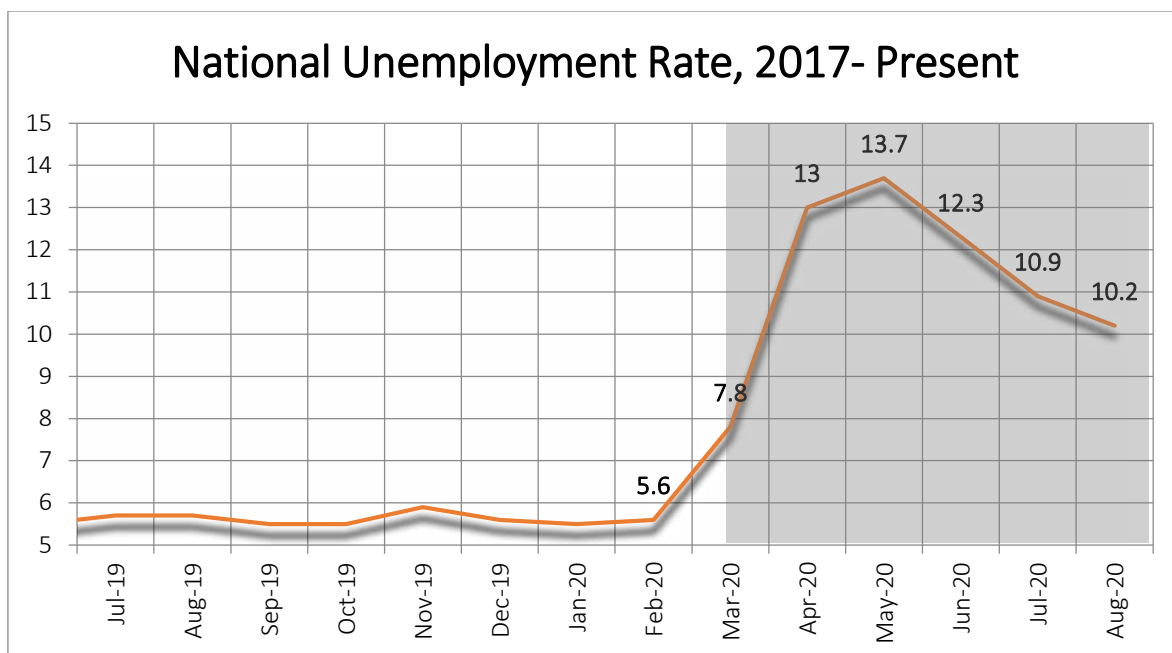
Price indices*: British Columbia

2010=100	June 2020	Previous Month	Compared to Previous Year
Western Red Cedar	214.1	8.6%	17.4%
Hemlock fir	253.7	25.7	37.1%
Spruce, pine, fir	200.8	27.4%	35.1%
Douglas Fir and Western Larch	173.9	7.8%	21.2%

*See notes for explanation of price index

EMPLOYMENT INDICATORS

	Recent Month August	July	Change (Percentage Change)	Change from one year ago (percentage point)	Change from May	3 Year Peak
Unemployment rate	10.2%	10.9%	-0.7	4.5	-3.5	13.7% (May 2020)
Employment Rate	58.0	57.3%	0.7	-4.0	4.4	62.8 (June 2017)
Real Unemployment (see notes)	14.5%	15.6%	-1.1	6.0	-3.7	18.2% (May 2020)
Participation Rate	64.6%	64.3%	0.3	-1.2	3.2	65.9 (April 2019)
FT/PT	81.2%/18.8%	81%/19%	0.2/-0.2	0.2/-0.2	-3.1/3.1	84.3/15.7 (May 2020)



The August unemployment rate declined to 10.2% from a of 10.9% in July. , with approximately 246,000 Canadians returning to work, representing a 1.4%% increase over July. , The goods producing sector saw a gain of 0.7%% (27,600) and the service sector added 218,100 jobs, a 1.5.% increase. The August labour force job numbers remain encouraging as the labour market continues to absorb excess labour, however the slowing down of the recovery is worrying. In August, approximately 2 million Canadians remained unemployed, with 1 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)	\$1.97*	\$1.71	-7.8%	-
Retail Sales (billion)	\$52.9*	\$42.8	-10%	-
CPI	0.1%***	0.7%		-
BoC Policy Interest Rate	0.25%	0.25%	1.75%	1.75%
Hourly Wage Growth (Non-Management)	\$28.25***	\$28.56	6.33%	-

MANUFACTURING				
GDP Goods Producing (billion, chained 2012)	\$0.526*	\$0.490	-9.2%	-
Residential Building Permits (thousand)	46,438***	49,977	43,007	-
Home Price Index (2016=100)	104.7***	104.3	102.9	current
U.S. Housing Starts (million)	1.496	1.186	1.377	1.617(Dec 2019)
Capacity Utilization	73.3%*	62.8%%	81.3%	84.2%
Manufacturing employment (million)	1,656.7†	1,627.3	-4.9%	
Manufacturing Unemployment Rate	6%†	7.3%	+2.6%	13%
Weekly Hours of Work (including OT)(manfct)	35.7*	35.9	36.8	38.4
Manufacturing†† Occupations Hourly Wage	\$21.78***	\$21.80	4.2%	-
Blue Collar† Occupations Hourly Wage	\$26.22***	\$26.01	2.57%	-
Ratio of inventory to sales	1.79*	2.16	1.52	2.41
Manufacturing Orders (billions)	\$47.1*	\$38.1	\$56.4	--
Manufacturing Sales (billion)	\$48.7*	\$40.3	\$57.7	--
Cars and Trucks Sales (billion)	\$4.56*	\$1.08	\$5.8	--
Wood Products Sales (billion)	\$2.4*	\$2.1	\$2.3	--
Petroleum and Coal sales (billion)	\$3.2*	\$2.4	\$6.1	--
Canadian PMI	55.1†	52.9	49.1	57.1
Business Investment (non-residential) (billion)	\$43.2**	\$48.2	\$52.5	--
* June2020; ** Q2 2020 ***July 2020; †August				

*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

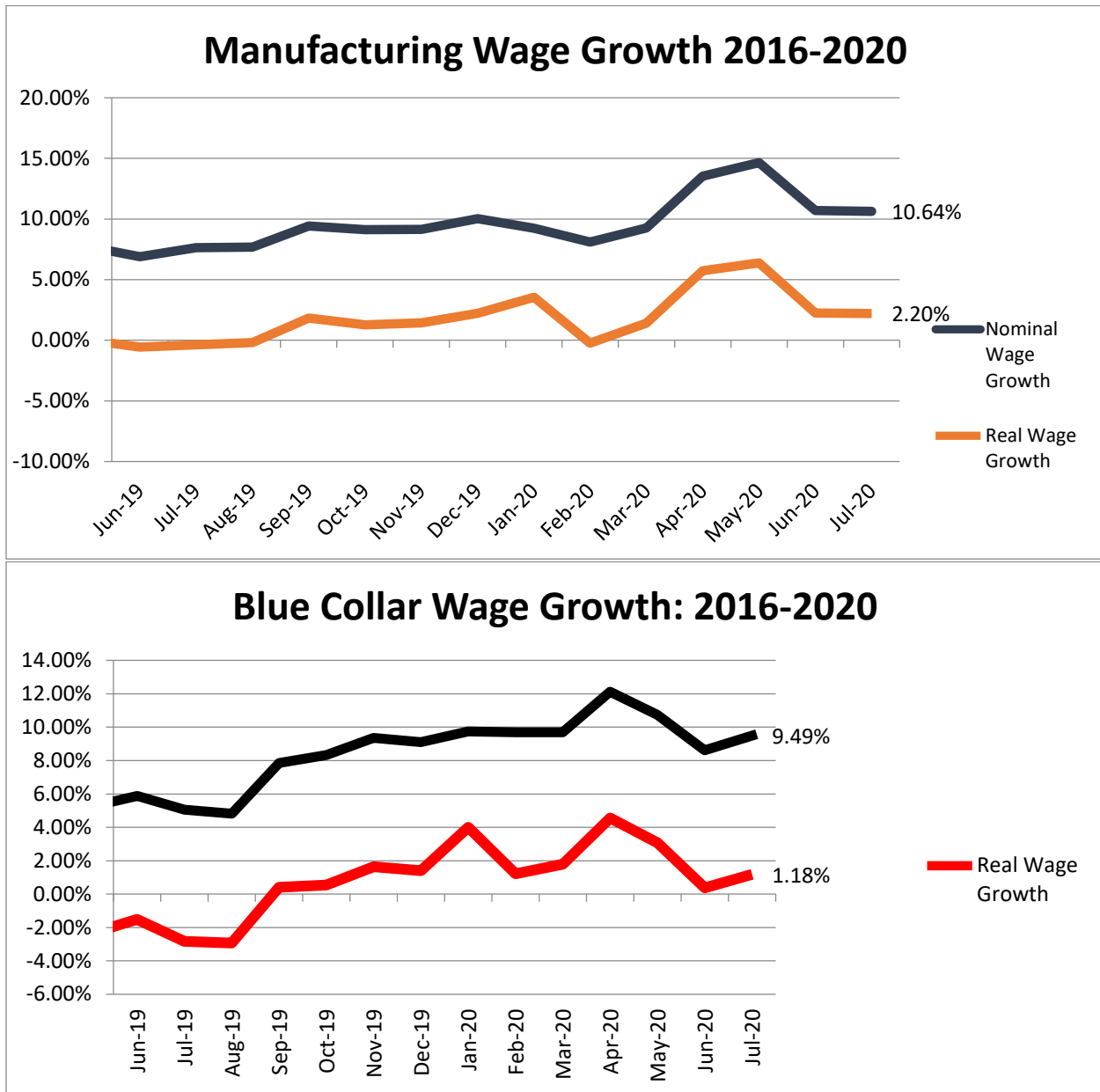
***GDP measurement** refers to real GDP growth, chained (2012) dollars

***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.

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 1.18%, and for Manufacturing workers they have grown by 2.20%. **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. With the return of workers to employment and the recent rise, although marginal, in inflation, the effects of 1) and 2) above have been mitigated, and this is seen in the decline in both nominal and real wage growth in the graph above.

TRADE INDICATORS

	July 2020	Previous Month	Previous Year
Trade Balance (Billion)	-2.5B	-1.6B	-1.5B
Trade Balance with U.S. (Billion)	\$2.86	\$2.75	\$4.418
	July	Change from previous month	Change from previous year
Total Exports (Billion)	\$45.4	11.1%	-7.8%
U.S. Exports (Billion)	\$33.5	15.1%	-8.5%
Total Imports (Billion)	\$47.8	12.7%	-5.6%
U.S. Imports (Billion)	\$30.7	16.2%	-5.6%
Exports by type:			
Metal ores and non-metallic minerals (Billion)	\$1.7	-4.3%	-8.4%
Metal and non-metallic mineral products (Billion)	\$5.2	0.3%	-6.8%
Motor Vehicles and parts (Billion)	\$8.2	37.0%	0.6%
Energy Products (Billion)	\$6.4	18.9%	-30.0%
Forestry products (Billion)	\$3.24	3.9%	-5.6%
Industrial machinery, equipment and parts (Billion)	\$2.9	10.7%	-13.3%

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