



MANUFACTURING UPDATE

OCTOBER 2020

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Effects on Canadian Economy

In contrast to the previous 4 manufacturing updates, the economic performance data for October shows a recovery that is slowing, particularly in the labour market. It should be said that this slowing down in the recovery was and is expected. After the reopening phase which was characterized by rapid growth and absorption of excess labour, many believe, such as the Bank of Canada, we are now on the much slower growth road of recovery. We still have a long way to go as we are about 630,000 jobs below our pre pandemic level. In comparison, during the peak of the Great Recession, job losses were *only* at 425,000.

- The unemployment rate in **October declined to 8.9% from 9% in September**. This represented only an increase of about 84 thousand workers. This is clearly a relatively drastic decline from the approximately 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 small gain of just 0.5% - approximately 17.6k jobs, and the service sector added just 66k jobs.
- Manufacturing lost 4,300 jobs in October, representing a -0.2% loss. . The unemployment rate in the sector increased to 5.4%,. While news on manufacturing job numbers is dull, on a year over year basis there was a growth of 0.1%.

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.** 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%

- Weekly working hours increased in August to 36.5 from 35.8. This is the first time since the shutdown in March that weekly hours were over 36. In April they were at a low of 35.1
- Wage growth for both manufacturing workers and 'blue collar' workers have largely returned to pre-shutdown levels of around 2%.

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.**

**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.

Notes:

Forestry

After soaring for a few months, forestry prices have started to stabilize. Supply continues to lag the demand created largely by increased home construction and renovation projects across North America.

While prices started to stabilize, exports skyrocketed in September to their highest levels since 2006. Lumber exports rose by 23% month-over-month.

Steel

Steel prices rose significantly in October, with hot-rolled band rising to levels not seen since well before the pandemic. U.S. HRB prices increased by 17% from mid-September to mid-October.

Crude steel output continues to rise in the U.S., with capacity utilization hitting 70.4% at the end of October. This is still well below the levels seen in January and February, before the pandemic hit (capacity utilization hit 82.5% in the U.S. on February 29th), but indicates a huge resurgence in production since lows in May of 51.1%.

Global steel crude production continued to grow in September, rising by 2.9% year-over-year, while remaining essentially stagnant month-over-month (156,244 MT in August compared to 156,359 in September). China's production continues to outpace that of the rest of the world, with a 10.9% increase from September 2019 and representing 59% of global production in September. Brazil (+7.5%), Vietnam (+45.3%). South Korea (+2.1%) and Russia (+0.8) all contributed to the global increase.

Canada's crude production remains well below last year's levels, hovering at about a 30% drop year-over-year and similar to the numbers we've seen over the past several months. U.S. production remains 18.5% lower than the same month last year. EU production is also well down compared to 2019, remaining 14.9% below September 2019 levels.

Steel Input Prices:

Iron Ore

Iron ore prices remain high, though they are slightly below the three-year highs we saw in August and September. Demand remains strong, with Chinese steel inventories being drawn down, along with increased demand for rebar in China.

Metallurgical Coal:

Metallurgical coal prices had been lagging behind iron ore, but prices have picked up in the last two months and are now about 25-30% above May and June prices. China's import ban on Australian metallurgical coal prices have caused China to look to the U.S. and Canada for supply.

Scrap

Demand for scrap has been rising at a steady pace in both North American and global markets over the past month. High demand from Turkey and higher prices in Asian markets have all led to an improved outlook for scrap. US prices are about double what they were in October 2019, when scrap reached historic lows (\$300 per gross ton of busheling scrap vs. \$150/gross ton in 2019), though prices remain well below three-year highs experienced in mid-2018.

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:

The enforcement of the CUSMA in the U.S. is not as strong as labour and the Democratic Party had hoped, with little action so far on concerns related to forced labour in Mexico. The AFL-CIO is looking into several instances of violations regarding freedom of association and will continue to push the U.S. act on the rapid response mechanism. Canada has yet to take action on any forced labour or denial of freedom of association mechanisms under the CUSMA. The USW has called for free and fair union elections at Mexico's San Rafael Mine (a Canadian-owned mine) after the company threatened to close the mine in response to the vote.

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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	121.45	\$126.08	86.15	17.82	126.08 (September 2020)	-3.6%
Steel – HRB	Metric ton	USD	\$727	\$622	\$732	149.12	\$1006 (July 2018)	-27.7%
Aluminum	Metric ton	USD	1822.03	\$1791.98	1890.08	210.97	\$2299 (May 2018)	- 20.7%
Copper	Pound	USD	\$3.04	\$3.04	\$2.82	\$0.23	current	above
Nickel	Pound	USD	\$6.91	\$6.75	\$6.02	\$0.72	\$8.23 (September 2019)	-16%
Uranium	Pound	USD	29.70	\$29.93	\$26.19	\$3.62	\$33.89 (May 2020)	12.4%
Gold	Ounce	USD	\$1,868.00	\$1,891.35	\$1,344.69	\$381	\$1,971.98 (August 2020)	-5%
Potash (muriate of potash port of Vancouver FOB spot)	Metric Ton	USD	\$202.5	\$202.5			\$272 (Jul 2019)	-25.6%
Met Coal** (HCC)	Metric Ton	USD	\$139	\$123			--	
Lead	Metric Ton	USD	\$1777.06	\$1844.25	\$2032.24	\$248.69	\$2608 (Jan 2018)	-31.9%
Zinc	Metric Ton	USD	\$2442.58	\$2460.41	\$2581.49	\$425.81	\$3526 (Jan 2018)	-30.7%

*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: October 2020

	US	China	Western Europe	World Export
Hot-rolled band	\$727	\$493	\$597	\$524
Cold-rolled coil	\$911	\$605	N/A	N/A
Standard Plate	\$713	\$500	N/A	N/A
Rebar	N/A	\$469	N/A	N/A

*Prices in U.S. Dollars

SOFTWOOD LUMBER PRICES

Dollars per thousand board feet	23-Oct-20	16-Oct-20	4-week average	52-weeks average	% Change from 52-week average
2x4 eastern spruce-pine-fir (Canadian dollars)	860	985	1024	700	22.9%
Composite (U.S. dollars)	685	760	797	514	25%
2x4 western spruce-pine-fir (kiln dried) #2 and better (U.S. dollars)	700	960	895	519	34.8%
2x4 western spruce-pine-fir (kiln dried) Utility #3 (U.S. dollars)	612	662	655	392	56.1%

Source: Natural Resources Canada

PANEL PRICES

U.S. Dollars per thousand board feet	23-Oct-20	16-Oct-20	4-week average	52-weeks average	% Change from 52-week average
Composite	710	724	741	480	47.9%
15/32" 4-ply exterior (south)	483	523	588	490	1.4%
9.5mm 4-ply exterior (west)	730	730	730	489	49.2%
7/16" oriented strand board (north central)	960	960	960	480	100%

Source: Natural Resources Canada

ADDITIONAL FORESTRY PRICE INFORMATION

British Columbia

SPF Prices – US\$/1000 bd ft

	30-Oct-20	23-Oct-20	Y-T-D Average	2019 Average
SPF 2 X 4	660	700	548	\$372
SPF Stud	570	670	500	\$272
SPF 2 X 10	498	581	524	\$350
Cedar 2 X4	1650	1650	1481	\$1396

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

	September 2020 *	August 2020	Y-T-D Average	2019 Average	2018 Average
Hemlock squares	\$764	\$764	\$793	\$891	\$965

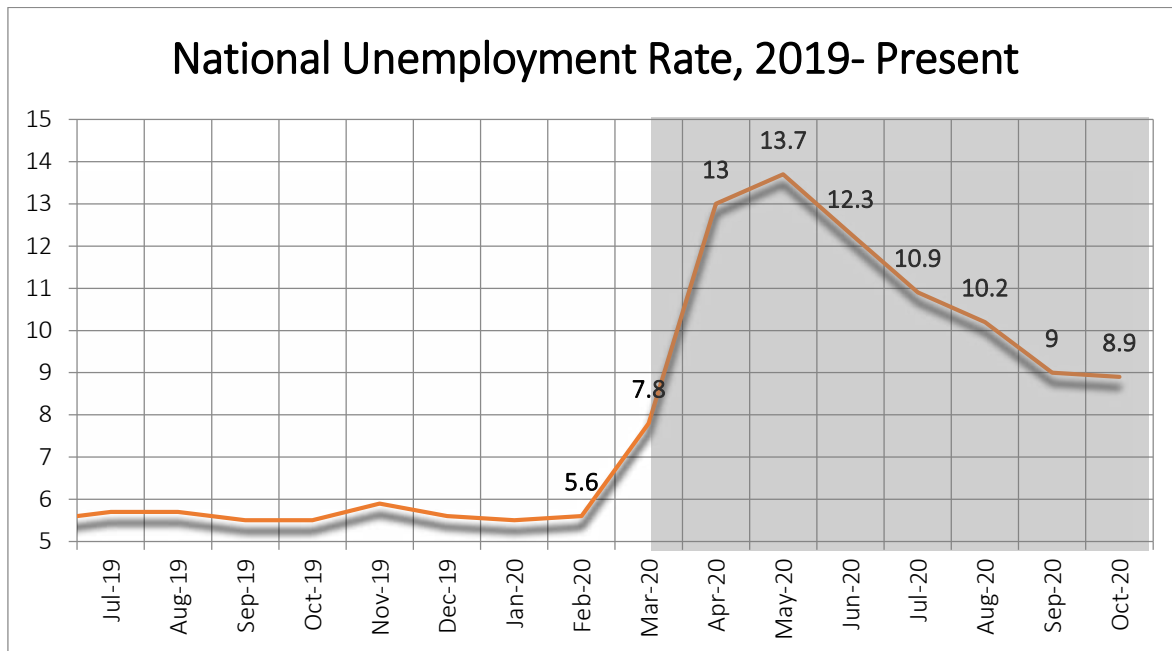
Price indices*: Canada

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

EMPLOYMENT INDICATORS

	Recent Month (October)	September	Change (Percentage Change)	Change from one year ago (percentage point)	Change from May	3 Year Peak
Unemployment rate	8.9%	9.0%	0.1	1.1	-4.8	13.7% (May 2020)
Employment Rate	59.4	59.1	0.3	-2.6	6.6	62.8 (June 2017)
Real Unemployment (see notes)	11.0	11.2	-0.2	4.0	-7.2	18.2% (May 2020)
Participation Rate	65.2	65.0	0.2	-0.4	-3.4	65.9 (April 2019)
FT/PT (as a percentage of employment)	81.1/18.9	81.1/18.9	--	0.1/-0.1	-3.2/+3.2	84.3/15.7 (May 2020)



The October unemployment rate declined to 8.5% from of 9% in September. Approximately 84 thousand Canadians returned to work in October, representing a 0.5% increase over September. The goods producing sector saw a gain of 0.5% (17.6k). The service sector added 66k jobs, a 0.5% increase as well, compared to September.

OTHER ECONOMIC INDICATORS*

	Recent Month	Previous Month	Year Ago	3 Year Peak
MACROECONOMIC				
GDP (All industries, billions, chained 2012)	\$1.97*	\$1.88	-3.8%	-
Retail Sales (billion)	\$52.9*	\$42.8	-10%	-
CPI	-0.1%***	0.1%		-
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)	\$0.576*	\$0.546	-4.7%	-
Residential Building Permits (thousand)	40,549***	39,769	34,983	-
Home Price Index (2016=100)	106.5***	105.2	103.2	current
U.S. Housing Starts (million)	1.42	1.38	1.377	1.617(Dec 2019)
Capacity Utilization	75.8%*	74.9%	79.6%	84.2%
Manufacturing employment (million)	1,720.4†	1,724.7	0.1%	
Manufacturing Unemployment Rate	5.4%%†	4.5%	+1.4%	13%
Weekly Hours of Work (including OT)(manfct)	36.5*	35.8	36.7	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)	\$50.8*	\$52.6	\$58.3	--
Manufacturing Sales (billion)	\$52.4*	\$53.5	\$57.5	--
Cars and Trucks Sales (billion)	\$4.6*	\$3.9	\$5.4	--
Wood Products Sales (billion)	\$2.9*	\$2.6	\$2.3	--
Petroleum and Coal sales (billion)	\$3.7*	\$3.7	\$6.0	--
Canadian PMI	55.5†	56	51.2	57.1
Business Investment (non-residential) (billion)	\$43.2**	\$48.2	\$52.5	--
* August 2020; ** Q2 2020 ***September 2020; †October 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: $(\text{Inventory value } \$) \div (\text{Sales value } \$)$; an increasing ratio indicates an increasing level of inventory

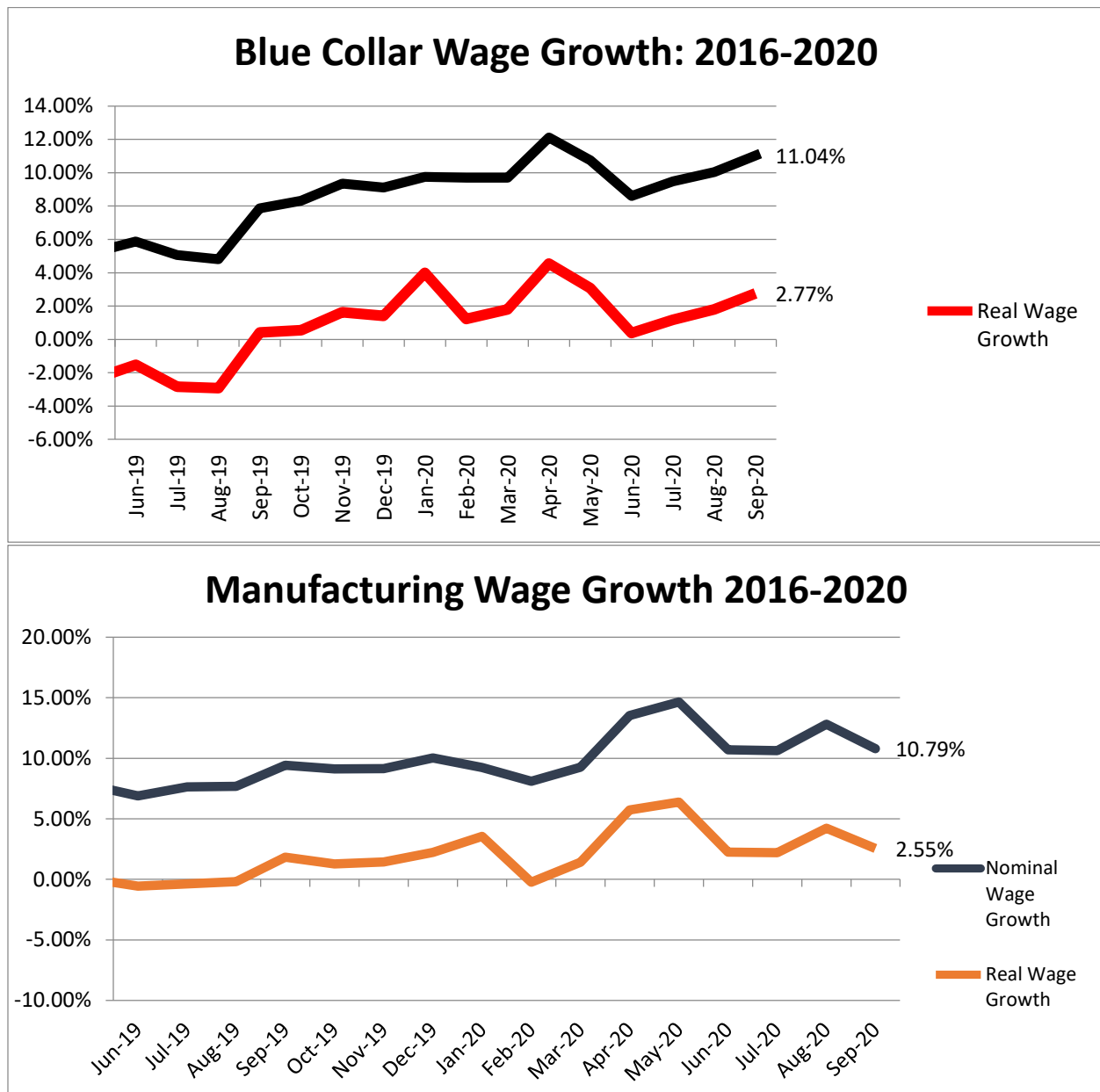
***GDP measurement** refers to real GDP growth, chained (2012) dollars

***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 2.77%, and for Manufacturing workers they have grown by 2.55%. **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

	September 2020	Previous Month	Previous Year
Trade Balance (Billion)	-\$3.25	-\$3.21	-\$1.29
Trade Balance with U.S. (Billion)	\$2.03	\$2.92	\$4.27
	September 2020	Change from previous month	Change from previous year
Total Exports (Billion)	\$45.5	1.5%	-7.4%
U.S. Exports (Billion)	\$33.2	-1.6%	-10.4%
Total Imports (Billion)	\$48.8	1.5%	-3.3%
U.S. Imports (Billion)	\$31.2	1.2%	-5.0%
Exports by type:			
Metal ores and non-metallic minerals (Billion)	\$1.9	10.7%	19.7%
Metal and non-metallic mineral products (Billion)	\$5.2	2.2%	-5.6%
Motor Vehicles and parts (Billion)	\$7.7	2.7%	-1.4%
Energy Products (Billion)	\$6.3	-2.8%	-32.4%
Forestry products (Billion)	\$3.9	10.7%	19.7%
Industrial machinery, equipment and parts (Billion)	\$2.9	-0.7%	-17.0%

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