



MANUFACTURING UPDATE

JANUARY 2021

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Effects on Canadian Economy

The economic recovery took another step back in the month of January as unemployment increased for the second consecutive month since the Covid economic shock. Unlike in December, in January manufacturing also saw net job loss and contraction.

- The unemployment rate in January increased for the second consecutive month to 9.4% from 8.8% in December. This represented approximately a loss of 213k thousand jobs. This is another step back in the recovery. Although most the employment losses appeared in the service sector- wholesale and retail trade and accommodation and food services-, these losses appear to be largely reflective of the effects of the continued shutdowns and lockdown orders.
- The goods producing sector saw a gain of 0.6%, roughly 23.4k jobs. All new job growth came from the construction sector (38k). The service sector, once again, had a rough month, shedding 236k jobs, a 1.6% decline in comparison to December. Job losses were concentrated in wholesale/retail (168k) and accommodation and food services (75k).
- Manufacturing lost 12.3k jobs in January, representing a 0.7% monthly loss. The unemployment rate in the sector jumped to 6.4 from 5.1%.

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. In November, the PMI increased to 55.9 and in December the sector continued to expand with the PMI rising to 57.9. **In contrast, the sector declined slightly in January, with the PMI falling to 54.4. The latest reading pointed to the seventh consecutive month of expansion in manufacturing activity although at the softest pace since July. Output, new orders and employment increased at weaker rates amid ongoing coronavirus restrictions.** Below, we provide a chronology of the recovery and its fits and starts:

- 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% and in **October it declined to 78.3%. In November it further declined to 77.7%.**
- **Weekly working hours slightly decreased in November to 37.1, from 37.4 in October.**
- Median wage growth for manufacturing workers and blue collar workers increased by 1.27% and 3.22% respectively in December signifying a return to more 'normal' (i.e stagnant) wage rate growth in the sector after the distortions caused by the Covid related layoffs. (See graph below for more analysis).

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. In December the sector added over 15k jobs and the sector unemployment rate declined to 5.1% from 5.8% in November. **In January, the sector lost 12.3k jobs, contributing to an increase in the sector unemployment rate to 6.4%.**

Notes:

Forestry

While lumber prices continued to rise at the beginning of the month, they slowed in the second half of January. Despite continued increases in demand, supply was able to fulfill the increased demand, unlike in previous months.

Steel

Steel prices continued to soar in January, surpassing the previous highs seen in 2018. Supply has not ramped up from 2020 lows at the same pace as demand, leading to the price surge.

U.S. capacity utilization continued to rise at a slow pace in January, reaching 75.9%, a two-point increase compared to December, but down from 82.4% seen in January 2020.

The final numbers on global crude steel production shows a 0.9% decrease in production compared to 2019. However, various markets had wildly different experiences, as China's production rose by 5.2% in 2020. In contrast, the EU's production decreased by 11.8%, while North America experienced the largest drop at 15.5%. Canada's production declined by 14.1% (-1.8 metric tons), while the U.S. saw a 17.2% drop.

Steel Input Prices:

Iron Ore

Prices reached new seven-year highs in January, primarily due to increased demand from China. With continued reduced production in Brazil, the increased demand and prices have primarily benefited Australian mines.

Nearly two years after the Brumadinho mine disaster in Brazil that killed 270 people and sent millions of tons of toxic waste into nearby villages, Vale has been ordered to pay out close to \$7B to hard-hit communities.

Metallurgical Coal

Prices finally started to rise in January, large due to supply issues. While the Chinese ban on Australian coal had led to a glut in supply over the previous months, demand for Australian coal outside of China increased substantially as China gobbles up North American coal. China's ongoing ban on Australian met coal imports has paid off for North American coal, specifically from Canada as Chinese import prices for metallurgical coal rose significantly in January.

Scrap

Scrap prices rose in tandem with other steel prices at the beginning of the month, but they experienced a global downturn at the close of January due to oversupply and poor demand in several major markets included India, Vietnam and Turkey. Overall, prices remain well above levels seen over the past three years

Nickel& Copper

Demand for nickel from China's stainless-steel mills continues unabated and combined with concerns for finished and mined supply from New Caledonia and the Philippines respectively saw the nickel price on a run through the first month of the year. After the European nickel price finished 2020 near US\$16,500/t, it has risen over January to over US\$18,300/t before finishing the month at US\$17,706/t. The January average of US\$17,639/t is a 5.1% increase from December. The Asia Nickel price followed a similar trend, but slightly higher on the China's domestic demand, finishing January at US\$18,066/t and averaging US\$17,952/t for the month.

Copper prices continued their remarkable rally in January on expectations of further stimulus from the US, low visible inventory, the global bounce back of manufacturing and merchandise consumption, as well as the bullish outlook on green energy. The Asia Spot Price averaged US\$8,068/t in January, skyrocketing to the highest monthly average since September 2011 (US\$8,250/t) and rising 2% from the previous month. Meanwhile, the Europe Spot Price surged to an average US\$7,933/t last month, which marked the highest monthly price since February 2013 (US\$8,061/t) and was also up by 2% from December

Potash

Despite positive projections for price increases in 2021, a new long-term deal between India and Belarus Potash Corp locked in low prices again this year. Canpotex, the export arm of Canadian potash producers, believes this contract falls well below market price levels, maintaining the potash prices will rise this year.

Trade and tariffs

U.S. president Joe Biden was inaugurated in January and immediately took action on trade and tariffs. President Biden signed a Buy American Executive Order in order to bolster demand for U.S.-made manufactured goods. Canada is largely exempt from Buy American provisions, though the Steelworkers continue to ensure that U.S. procurement actions will benefit workers in manufacturing in both Canada and the U.S.

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	\$168.71	\$148.77	\$92.64	\$23.90	Current	--
Steel – HRB	Metric ton	USD	\$1143	\$1048	\$755	\$166.08	Current	--
Aluminum	Metric ton	USD	\$2014.11	\$2027.78	\$1881.62	204.17	\$2299 (May 2018)	-12.4%
Copper	Pound	USD	\$3.61	\$3.51	\$2.84	\$0.29	current	
Nickel	Pound	USD	\$8.10	\$7.63	\$6.22	\$0.80	\$8.23 (September 2019)	-2%
Uranium	Pound	USD	\$29.63	\$30.20	\$26.73	\$3.58	\$33.89 (May 2020)	-12.6%
Gold	Ounce	USD	\$1,869.68	\$1,852.86	\$1,236	\$537	\$1,971.98 (August 2020)	-5%
Potash (muriate of potash port of Vancouver FOB spot)	Metric Ton	USD	\$202.5	\$202.5	\$230	\$25.12	\$272 (Jul 2019)	-25.6%
Met Coal** (HCC)	Metric Ton	USD	117	\$101	--	--	--	--
Lead	Metric Ton	USD	\$2014.6	\$2017.33	\$1989.33	\$201.62	\$2608 (Jan 2018)	-22.8%
Zinc	Metric Ton	USD	\$2705.84	\$2781.51	\$2529.87	\$358.20	\$3526 (Jan 2018)	-23.3%

*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: January 2021

	US	China	Western Europe	World Export
Hot-rolled band	\$1143	\$585	\$1216	\$758
Cold-rolled coil	\$1347	\$724	N/A	N/A
Standard Plate	\$1066	\$587	N/A	N/A
Rebar	N/A	\$555	N/A	N/A

*Prices in U.S. Dollars

SOFTWOOD LUMBER PRICES

Dollars per thousand board feet	29-Jan-21	22-Jan-21	4-week average	52-weeks average	% Change from 52-week average
2x4 eastern spruce-pine-fir (Canadian dollars)	\$1,250	\$1,175	\$1,238	\$827	51.1%
Composite (U.S. dollars)	\$916	\$892	\$918	\$609	50.4%
2x4 western spruce-pine-fir (kiln dried) #2 and better (U.S. dollars)	\$874	\$874	\$874	\$615	42.1%
2x4 western spruce-pine-fir (kiln dried) Utility #3 (U.S. dollars)	\$738	\$738	\$728	\$492	50%

Source: Natural Resources Canada

PANEL PRICES

U.S. Dollars per thousand board feet	29-Jan-21	22-Jan-21	4-week average	52-weeks average	% Change from 52-week average
Composite	\$884	\$961	\$854	\$589	50%
15/32" 4-ply exterior (south)	\$893	\$868	\$847	\$572	56.1%
9.5mm 4-ply exterior (west)	\$780	\$780	\$280	\$584	33.5%
7/16" oriented strand board (north central)	\$880	\$880	\$880	\$634	38.8%

Source: Natural Resources Canada

ADDITIONAL FORESTRY PRICE INFORMATION

British Columbia

SPF Prices – US\$/1000 bd ft

	22-Jan-21	15-Jan-21	Y-T-D Average	2020 Average
SPF 2 X 4	894	944	914	570
SPF Stud	736	806	754	505
SPF 2 X 10	822	852	822	528
Cedar 2 X4	1650	1650	1650	1509

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

	December 2020	November 2020	Y-T-D Average	2020 Average
Hemlock squares	826	782	N/A	\$793

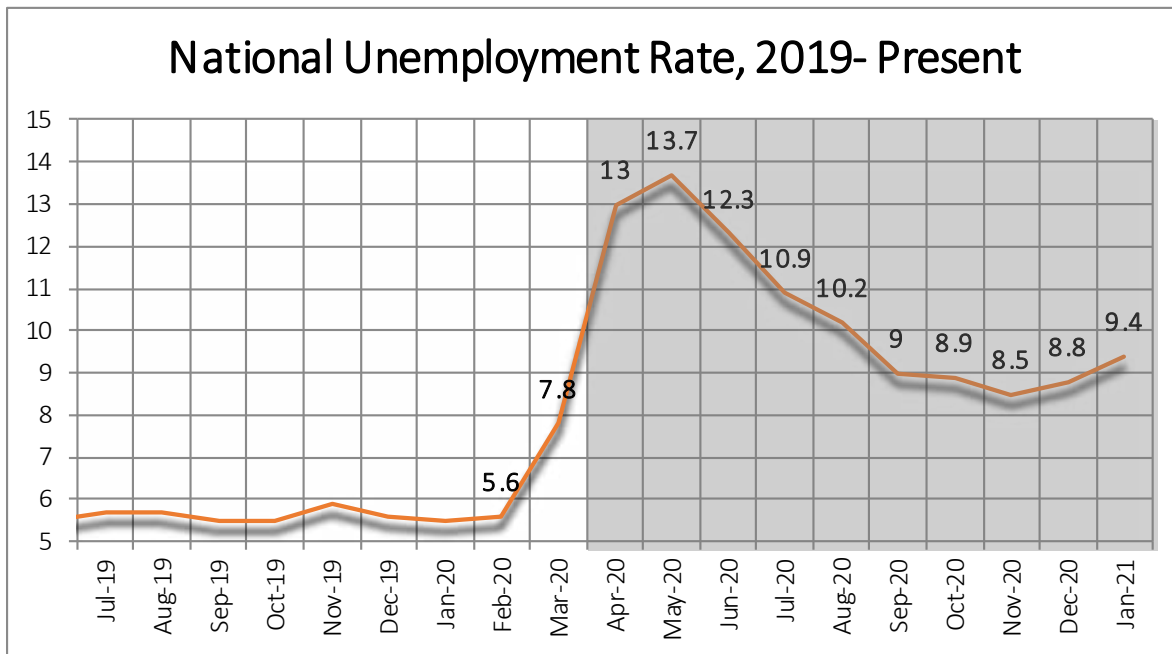
Price indices*: Canada [note the price indices have not been updated in several months; they will be included when they are updated again]

*See notes for explanation of price index

**September 2020 numbers are the most recent available.

EMPLOYMENT INDICATORS

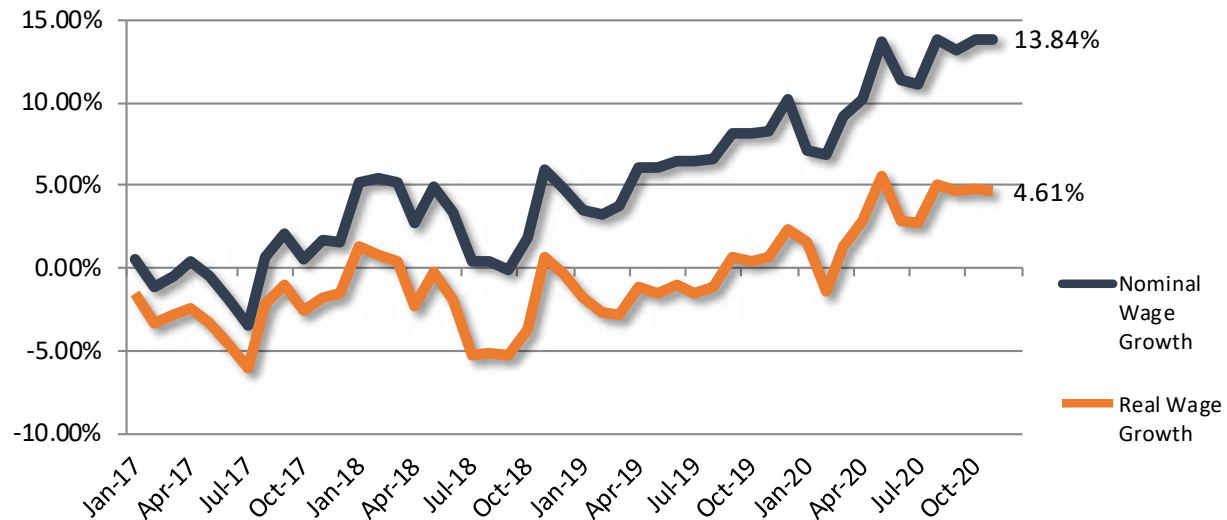
	Recent Month: January	December	Change from one year ago (percentage point)	3 Year Peak
Unemployment rate	9.4%	8.8%	3.8	13.7% (May 2020)
Employment Rate	58.6%	59.3%	-0.3	62.8 (June 2017)
Real Unemployment (see notes)	13.3%	11.1%	4.8	18.2% (May 2020)
Participation Rate	64.7%	65.0%	-0.8	65.9 (April 2019)
FT/PT (as a percentage of employment)	82.8/17.2	81.9/18.1	1.6/-1.6	84.3/15.7 (May 2020)



The January unemployment rate increased to 9.4% from 8.8% in December. This is the second month in a row of job losses since the beginning of the covid economic shock. The economy lost approximately 213k thousand jobs- all of them in the service sector (236.2), an 1.6% decline from December 2020. The goods producing sector saw a gain of 0.6% (23.4k). The service sector lost 74k jobs, a -0.5% decline, compared to September.

MANUFACTURING WAGE GROWTH*

Median Manufacturing Wage Growth 2016-2020



We have moved from tracking average wage growth to median wage growth as this is a better representative of the typical wage rate and growth for manufacturing workers. The median wage rate captures the wage rate at the midpoint of the wage distribution.

As the graph above shows, while the 2020 median real wage growth has improved, this is partly a statistical anomaly due to lower wage rate workers exiting the labour market as a result of Covid layoffs/unemployment thereby driving the median wage upward, as well as low, and even deflationary moments in mid- 2020 which also had the upward effect on real wages. **The real story, however, is the trend growth in real wages since 2016 which have largely remained stagnant.**

OTHER ECONOMIC INDICATORS*

	Recent Month			
		Previous Month	Year Ago	3 Year Peak
MACROECONOMIC				
Real GDP ((Quarterly, at annual rates)	\$2.003T**	\$1.839T	-5%	-
Retail Sales (billion)	\$53.8*	\$53.26	-	-
CPI	137.4***	137.7	136.4	-
BoC Policy Interest Rate	0.25%	0.25%	1.75%	1.75%
Median Hourly Wage Growth (Non-Management)	\$26.96†	\$26.97	5.81%	-
MANUFACTURING				
GDP Goods Producing (billion, chained 2012)	\$556.5*	\$550.08	-3.7%	-
Residential Building Permits (thousand)	19,950***	27,221	15,057	-
Home Price Index (2016=100)	108.3***	108.0	102.8	current
U.S. Housing Starts (million)	1.669	1.58	1.62	current
Capacity Utilization	77.7%*	78.3%	79.9%	84.2%
Manufacturing employment (million)	1,738.6†	1,750.9	0.2%	
Manufacturing Unemployment Rate	6.4%†	5.1%	2.0%	13%
Weekly Hours of Work (including OT)(manfct)	37.1*	37.3	37.8	38.4
Median Manufacturing†† Occupations Hourly Wage	\$20.26†	\$20.68	1.27%	-
Median Blue Collar† Occupations Hourly Wage	\$25.57†	\$25.20	3.22%	-
Ratio of inventory to sales	1.62*	1.60	1.56	2.42
Manufacturing Orders (billions)	\$50*	\$51	\$56	--
Manufacturing Sales (billion)	\$53.6*	\$53.9	\$56.3	--
Motor Vehide Sales (billion)	\$4.61*	\$4.67	\$5.6	--
Wood Products Sales (billion)	\$3.3*	\$3.4	\$2.3	--
Petroleum and Coal sales (billion)	\$4.0*	\$3.8	\$6.0	--
Canadian PMI	54.4†	57.9		57.1
Business Investment (non-residential) (billion)	\$49.4**	\$43.2	--	--
* November 2020; ** Q3 2020 ***December 2020; †January 2021				

* November 2020; ** Q3 2020 ***December 2020; †January 2021

* 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. Beginning December 2020, this measure is longer the average wage, but the median.

†† **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. Beginning December 2020, this measure is no longer the average wage, but the median.

TRADE INDICATORS

	December 2020	Previous Month	Previous Year
Trade Balance (Billion)	-\$1.7	-43.6	-\$3.4
Trade Balance with U.S. (Billion)	\$2.8	\$2.2	\$2.6
	December 2020	Change from previous month	Change from previous year
Total Exports (Billion)	\$47.3	1.5%	-2.7%
U.S. Exports (Billion)	\$33.4	1.5%	-5.1%
Total Imports (Billion)	\$48.9	-2.3%	-5.9%
U.S. Imports (Billion)	\$30.7	-0.1%	-5.8%
Exports by type:			
Metal ores and non-metallic minerals (Billion)	\$1.88	-4.5%	14.1%
Metal and non-metallic mineral products (Billion)	\$6.24	0.1%	11.6%
Motor Vehicles and parts (Billion)	\$6.88	-0.4%	-15.4%
Energy Products (Billion)	\$7.59	10.2%	-22.8%
Forestry products (Billion)	\$3.97	5.0%	16.8%
Industrial machinery, equipment and parts (Billion)	\$2.98	-1.7%	-10.8%

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 statscan 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