



MANUFACTURING UPDATE

FEBRUARY 2021

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Effects on Canadian Economy

The economic recovery took a step forward in the month of February, after taking a step back in the month of January, as unemployment declined greater than expected. .

- The unemployment rate in February declined to 8.2% from 9.4% in January. This represented approximately a gain of 259k thousand jobs.
- The goods producing sector saw only a gain of 0.1%, roughly 3.3k jobs. Construction and Manufacturing led the way in the goods sector adding 6.8k and 8.3k respectively. The service sector added 255k jobs, a 1.8% increase in comparison to January. Job gains were concentrated in wholesale/retail (122k) and accommodation and food services (65k).

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. **In February, the PMI rose to 54.8- the 8th straight month of expansion.** 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% **In December capacity utilization declined further to 75.7, while January saw a slight increase to 76.8%.**
- Weekly working hours slightly decreased in November to 37.1, from 37.4 in October. In November they declined to 37.2, and further declined in December to 35.6.

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%. **In February the sector added 8.3k, with the unemployment rate declining to 5.1%**

Notes:

Forestry

Prices continue to soar in February after some slowdowns near the end of the previous month. Ultimately, demand has outstripped supply and while it has ramped up to some extent, it still lags behind. U.S. housing starts slowed somewhat in February, but along with home renovations, they are expected to pick up in the spring and summer. Along with general economic recovery around the globe, it is expected that prices will stay high in 2021.

Steel

Hot-rolled steel prices reached records highs in North America in February, mostly due to supply not keeping pace with higher demand.

U.S. capacity utilization showed a stronger rebound in February, reaching 77.2%, inching closer to the 2020 high of 82.4% seen in January of last year.

World crude steel production rose by 4.8% in January 2021 compared to the previous year. However, overall production declined by 7.0% in North America year-over-year, while it increased in Asia (6.9%) and Europe (11.2%).

Steel Input Prices:

Iron Ore

Iron prices stopped skyrocketing in February, though they remained close to the 7-year high reached in January. Lower shipment levels from the world's largest producers, including Rio Tinto, Vale, BHP and Fortescu kept prices high. China's commitment to cut crude steel production in 2021 due to emissions concerns may put a damper on iron ore prices as we move further into the year.

Metallurgical Coal

The overall premium coking coal prices rose again in February, but Australian coal prices remained low as a result of China's ongoing import restrictions. China has looked to other markets—in particular North America – for its metallurgical coal as it has moved away from using Australian coal. North American prices and seaborne prices have skyrocketed as a result of the China-Australia situation.

Scrap

Prime bushelling scrap reached highs not seen in over 10 years in February. Scrap prices continue to rise aided in large part by China's shut-down of numerous blast furnaces in a bid to reduce emissions.

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 low long-term contract prices, potash spot prices are expected to rise in the near future. Strong demand in advance of the Northern hemisphere's spring planting season has led to significantly tighter inventory levels and record orders in North America.

Trade and tariffs

The threat of new softwood lumber tariffs is rearing its head once again. The U.S. Department of Commerce is considering reinstating higher duties on certain Canadian softwood lumber exports with the initiation of its Third Administrative Review of antidumping and countervailing duty investigations. Canada continues to push for a permanent deal to settle this decades-long dispute.

U.S. President Biden reinstated Section 232 tariffs on the United Arab Emirates after they were removed in the final days of the Trump administration. The USW supported this decision, as aluminum imports from the UAE may have posed a threat to both the Canadian and U.S. domestic industries.

Overall, Canadian exports rose significantly in February (8.1%), rising at the highest rate month-to-month since 1995. Aircraft and other transportation equipment led the way (72.3%), though increases were seen in forestry products (10.7%), energy products (5.9%) and metal ores and non-metallic minerals (12.7%) and mineral products (5.5%).

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	\$160.51	\$168.71	= \$94.92	\$26.02	\$168.71 (Jan 2021)	-4.8%
Steel – HRB	Metric ton	USD	\$1313	\$1143	\$768	\$181.69	Current	--
Aluminum	Metric ton	USD	\$2083.34	\$2014.11	\$1878.21	\$199.53	\$2299 (May 2018)	-9.4%
Copper	Pound	USD	\$3.83	\$3.61	\$2.86	\$0.23	current	--
Nickel	Pound	USD	\$8.42	\$8.10	\$6.29	\$0.88	Current	--
Uranium	Pound	USD	\$28.66	\$29.63	\$26.87	\$3.56	\$33.89 (May 2020)	-15.4%
Gold	Ounce	USD	\$1,814	\$1,869.68	\$1,272	\$493	\$1,971.98 (August 2020)	-8%
Potash (muriate of potash port of Vancouver FOB spot)	Metric Ton	USD	\$202.5	\$202.5	\$229.65	\$25.14	\$272 (Jul 2019)	-25.6%
Met Coal** (HCC)	Metric Ton	USD	\$128.5	117	--	--	--	--
Lead	Metric Ton	USD	\$2024.5	\$2014.6	\$1978.04	\$186.69	\$2387 (Feb 2018))	15.2%
Zinc	Metric Ton	USD	\$2548.30	\$2705.84	\$2504.45	\$319.53	\$3489 (Feb 2018)	-27%

*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: FEBRUARY 2021

	US	China	Western Europe	World Export
Hot-rolled band	\$1313	\$614	\$883	\$730
Cold-rolled coil	\$1464	\$739	N/A	N/A
Standard Plate	\$1181	\$614	N/A	N/A
Rebar	N/A	\$587	N/A	N/A

*Prices in U.S. Dollars

SOFTWOOD LUMBER PRICES

Dollars per thousand board feet	26-Feb-21	19-Feb-21	4-week average	52-weeks average	% Change from 52-week average
2x4 eastern spruce-pine-fir (Canadian dollars)	\$1,395	\$1,355	\$1,339	\$886	57.7%
Composite (U.S. dollars)	\$1,016	\$992	\$979	\$653	55.6%
2x4 western spruce-pine-fir (kiln dried) #2 and better (U.S. dollars)	\$1,040	\$1,012	\$1,001	\$658	58.1%
2x4 western spruce-pine-fir (kiln dried) Utility #3 (U.S. dollars)	\$940	\$884	\$882	\$534	76%

Source: Natural Resources Canada

PANEL PRICES

U.S. Dollars per thousand board feet	26-Feb-21	19-Feb-21	4-week average	52-weeks average	% Change from 52-week average
Composite	\$1,006	\$971	\$958	\$632	59.2%
15/32" 4-ply exterior (south)	\$1,013	\$950	\$938	\$625	62.1%
9.5mm 4-ply exterior (west)	\$1,050	\$950	\$938	\$625	68%
7/16" oriented strand board (north central)	\$1,275	\$1,200	\$1,195	\$698	82.7%

Source: Natural Resources Canada

ADDITIONAL FORESTRY PRICE INFORMATION

British Columbia

SPF Prices – US\$/1000 bd ft

	26-Feb-21	19-Feb-21	Y-T-D Average	2020 Average
SPF 2 X 4	\$1,040	\$1,005	\$919	570
SPF Stud	\$890	\$829	\$756	505
SPF 2 X 10	\$960	\$917	\$829	528
Cedar 2 X4	\$1,700	\$1,700	\$1,650	1509

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

	January 2021	December 2020	Y-T-D Average	2020 Average
Hemlock squares	\$905	826	N/A\$905	\$793

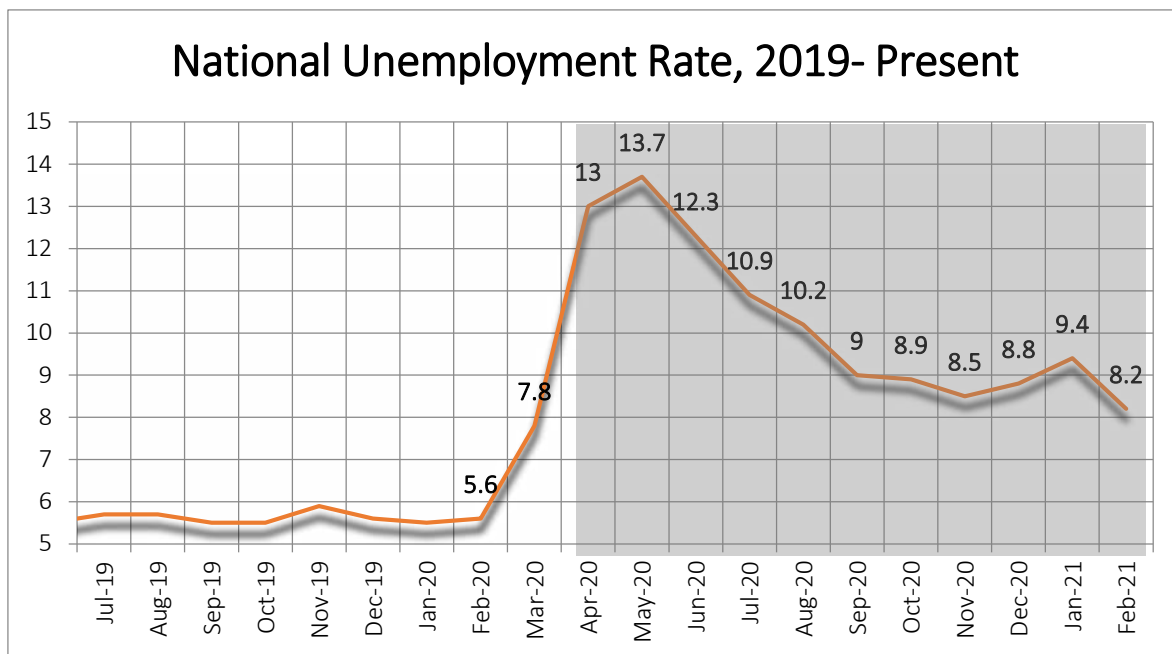
Price indices*: Canada [note the price indices have not been updated in several months; they will be included when they are updated again]

*See notes for explanation of price index

**September 2020 numbers are the most recent available.

EMPLOYMENT INDICATORS

	Recent Month: February	January	Change from one year ago (percentage point)	3 Year Peak
Unemployment rate	8.2%	9.4%	2.5	13.7% (May 2020)
Employment Rate	59.4%	58.6%	-2.4	62.8 (June 2017)
Real Unemployment (see notes)	12.2%	13.3%	3.6	18.2% (May 2020)
Participation Rate	64.7%	64.7%	-0.8	65.9 (April 2019)
FT/PT (as a percentage of employment)	82.1/17.9	82.8/17.2	-0.7/0.7	84.3/15.7 (May 2020)



The February unemployment rate decreased to 8.4% from 9.4% in January. The economy added approximately 259k thousand jobs- the vast majority of net jobs were added in the service sector (255k), The goods producing sector saw a gain of 0.1% (3.3k).

OTHER ECONOMIC INDICATORS*

	Recent Month			
		Previous	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	138.2***	137.4	1%	-
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)	\$561.72*	\$558.64	-2.7%	-
Residential Building Permits (thousand)	19,886***	19,684	16,466	-
Home Price Index (2016=100)	109.3***	108.3	102.8	current
U.S. Housing Starts (million)	1.58	1.669	1.56	1.669 (Jan. 2021)
Capacity Utilization	76.8%*	75.7%	76.9%	84.2%
Manufacturing employment (million)	1,746.9†	1,738.6	0.0%	
Manufacturing Unemployment Rate	5.1%†	6.4%		13%
Weekly Hours of Work (including OT)(manfct)	35.6*	37.2	36.4	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	1.71*	1.60	1.59	2.42
Manufacturing Orders (billions)	\$58*	\$54	\$56	--
Manufacturing Sales (billion)	\$56.2*	\$54.5	\$55.6	--
Motor Vehicle Sales (billion)	\$3.2*	\$4.0	\$4.0	--
Wood Products Sales (billion)	\$4.0*	\$3.7	\$2.4	--
Petroleum and Coal sales (billion)	\$4.27*	\$4.21	\$5.7	--
Canadian PMI	54.8†	54.4		57.1
Business Investment (non-residential) (billion)	\$49.4**	\$43.2	--	--
* December 2020; ** Q3 2020 ***January 2020; †February 2021				

* December 2020; ** Q3 2020 ***January 2020; †February 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

	January 2021	Previous Month	Previous Year
Trade Balance (Billion)	\$1.4	-1.9	-\$2.7
Trade Balance with U.S. (Billion)	\$6.2	\$2.5	\$2.8
	January 2021	Change from previous month	Change from previous year
Total Exports (Billion)	\$51.2	8.1%	8.6%
U.S. Exports (Billion)	\$37.2	11.3%	6.6%
Total Imports (Billion)	\$49.8	0.9%	-0.3%
U.S. Imports (Billion)	\$31.0	0.4%	-3.5%
Exports by type:			
Metal ores and non-metallic minerals (Billion)	\$2.14	12.7%	37.3%
Metal and non-metallic mineral products (Billion)	\$6.64	5.5%	18.4%
Motor Vehicles and parts (Billion)	\$6.88	-0.5%	-4.9%
Energy Products (Billion)	\$7.9	5.9%	-6.9%
Forestry products (Billion)	\$4.4	10.7%	32.5%
Industrial machinery, equipment and parts (Billion)	\$3.06	2.1%	-6.3%

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