

The Manufacturing Crisis

Overview

Canada's manufacturing sector is in crisis. High energy prices, a high dollar, and worsening trade deficits with Asia have caused many Canadian plants to reduce output, layoff workers, or close altogether. Despite a seemingly strong economy, the value of Canada's manufacturing capital has declined since 2000 because business investment has not even covered depreciation.¹ Despite a steadily growing workforce, the number of Canadians employed in manufacturing has fallen to its lowest level since January 1998.² As a result, Canada's economy is increasingly focused on the extraction of raw, non-renewable resources and more Canadians must make do with unstable, low-paid jobs in the service sector.

Job Losses

Manufacturing Job Losses (Gains)

	First Period Nov. 2002 - Apr. 2004	Second Period Apr. 2004 - Feb. 2007	Cumulative Total Nov. 2002 - Feb. 2007
Quebec	33,000	91,100	124,100
Ontario	17,000	124,600	141,600
Rest of Canada	(27,500)	9,100	(18,400)
All of Canada	22,500	224,800	247,300

Source: Seasonally-adjusted Statistics Canada figures.

Canadian manufacturing employment peaked in November 2002. Outside of Quebec and Ontario, manufacturing employment peaked in April 2004. Between these two peaks, more than half of job losses in central Canada were offset by gains in other parts of the country. After April 2004, employment losses accelerated in central Canada and spread to other regions.

¹ Jayson Myers (Canadian Manufacturers & Exporters), "We Need Help," *Financial Post*, FP19, March 15, 2007.

² Except where otherwise cited, figures are based on seasonally-adjusted Statistics Canada data.

Since 2002, Canada as a whole has lost 247,300 manufacturing jobs, about one in ten positions. Ontario has lost 141,600 manufacturing jobs, about one in eight positions. Quebec has lost 124,100 manufacturing jobs, about one in five positions.

These serious job losses are closely linked to Canada's soaring deficit in the trade of manufactured goods, and the increased penetration of the Canadian domestic market and the US market for manufactured goods by exports from low-wage Asian countries.

Declining Job Quality

Increased employment in other sectors has more than offset the number of manufacturing jobs lost, even in Quebec and Ontario. However, most of the jobs created in recent months have been part-time and/or self-employed positions as opposed to full-time, paid positions.³ The jobs created in other sectors pay lower wages, on average, than manufacturing jobs.

Statistics Canada recently concluded that Canadian workers displaced by firm closures and mass layoffs who find other jobs suffer an average decline of 25% in annual earnings, implying a loss of about \$10,000 for a typical manufacturing worker. Given the disappearance of one-quarter of a million manufacturing jobs, the total loss of Canadian earnings is now probably around \$2.5 billion annually.

The capital-intensive resource sector provides some high-wage positions, but not on the same scale as manufacturing. The *total* number of jobs in mining and in oil and gas extraction is less than the number of jobs *lost* in manufacturing. Increased employment in resource extraction has not, and will not, compensate for decreased manufacturing employment.

The service sector has created huge numbers of jobs at below-average wages. Many of the better jobs in this sector involve providing services to manufacturers. Manufacturing is important because of its potential to sustain relatively large numbers of relatively well-paid jobs. However, between November 2002 and February 2007, the proportion of the workforce employed in manufacturing declined from 18.6% to 14.4% in Quebec, from 18.2% to 14.8% in Ontario, and from 9.4% to 8.8% in the rest of Canada.

³ Benjamin Tal, *Booming Job Market and Disappointing Economy: Explaining the Disconnect* (Toronto: CIBC World Markets, 2007).

Last month, CIBC World Markets revealed that its Employment Quality Index has fallen to “its lowest level since the early 1990s” because the new “jobs were mainly in low-paying sectors such as personal services, repair and maintenance, retailing and textile while high-paying sectors such as paper and printing manufacturing, mineral manufacturing and public administration, in fact, lost ground during that period.”⁴

Other Implications

Manufacturing jobs are relatively well-paid because they are relatively productive. While manufacturing employs 12.6% of Canada’s workforce, it produces 15.7% of Gross Domestic Product (GDP).⁵ However, manufacturing makes economic contributions that far exceed its share of GDP. As Finance Canada notes, manufacturing accounts for “a large share of Canada’s inbound foreign direct investment” and sixty-five percent of all research and development.⁶ Manufacturers provide more than sixty percent of Canada’s gross exports.⁷ Even factoring out their use of imported inputs, manufacturers account for more than forty percent of exports.⁸ It will be very difficult for Canada to significantly increase productivity, investment, research and development, or exports if the manufacturing sector continues to shrink.

Government Response

Machinery and equipment used in manufacturing and processing is typically subject to a 30% Capital Cost Allowance. Budget 2007 raises the rate to 50% until the end of 2008, allowing manufacturers a two-year writeoff of eligible machinery and equipment against taxable profits. This temporary measure is welcome and may induce profitable manufacturers to make greater investments in Canada before 2009. However, it provides no incentive for the many manufacturers that have become unprofitable.

EW:sm:ch*cope225 March 28, 2007 (9:13am)
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⁴ Ibid.

⁵ These figures are for December 2006, the most recent available for GDP.

⁶ Finance Canada, *Tax Expenditures and Evaluations 2006* (Ottawa: Government of Canada, 2007), page 52 and Finance Canada, *Tax Expenditures and Evaluations 2005* (Ottawa: Government of Canada, 2006), footnote 14.

⁷ Letter to Stephen Harper from the Canadian Manufacturing Coalition, November 7, 2006.

⁸ Erin Weir, *Lies, Damned Lies, and Trade Statistics: North American Integration and the Exaggeration of Canadian Exports* (Orono: Canadian-American Center, University of Maine, 2006).