

# Manufacturing

## National Manufacturing

Over the past several years, Canadian manufacturers had been increasingly challenged by low-cost producers in China and India, rising energy costs, and an appreciating Canadian dollar. The recent credit crunch and global economic slowdown exacerbated an already challenging situation. Conditions are particularly difficult for the automobile industry in North America—in the fourth quarter of 2008 sales declined by more than 30%. Newsprint producers have also been hit hard as a result of declining demand for paper products. National manufacturing employment retreated from peak levels in 2002 with the largest losses recorded by the provinces of Ontario (down 17.6% since 2002) and Quebec (down 16.2% since 2002). Manufacturing employment in Newfoundland and Labrador decreased by 11.9% over the same time period with most losses occurring in 2008.

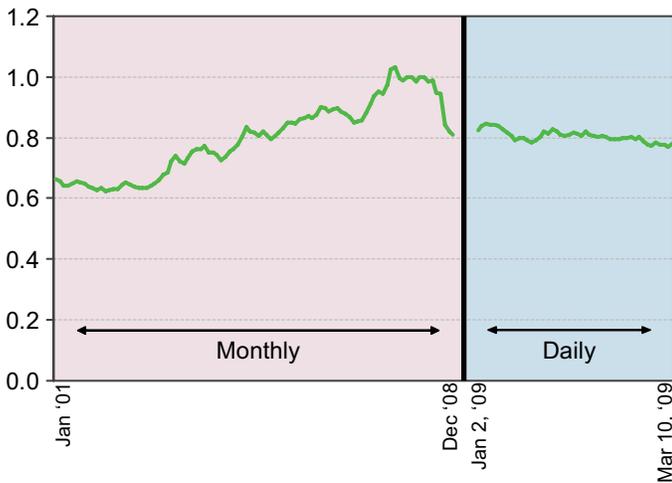
An appreciating Canadian dollar can cause many challenges for domestic manufacturers as approximately 78% of Canadian exports go to the U.S. Companies who sell their products in U.S. dollars will, all else being equal, effectively receive lower prices and, consequently, less revenue when the dollar is appreciating. After rising steadily since 2002, the Canadian dollar remained at parity with the U.S. dollar for the first half of 2008. However, it has since declined and by early March 2009 had fallen to about 78 cents US. This recent depreciation should benefit Canadian manufacturers.



*Footwear Manufacturing*

Terra Nova Shoes

## Exchange Rate (CAN\$/US\$)



Source: Bank of Canada

## Provincial Manufacturing

The manufacturing industry in this province accounts for about 4% of GDP and 6% of total employment. Although there are many manufacturers in the province producing a wide variety of products, the majority of output from, and employment in, the industry is concentrated among three groups—food processing (mainly seafood), newsprint and refined petroleum.

The value of provincial manufacturing shipments rose in 2008. The total value of shipments was approximately \$6.6 billion, representing an increase of 26.2% over 2007. This is mostly due to the higher value for refined petroleum resulting from record high oil prices last year.

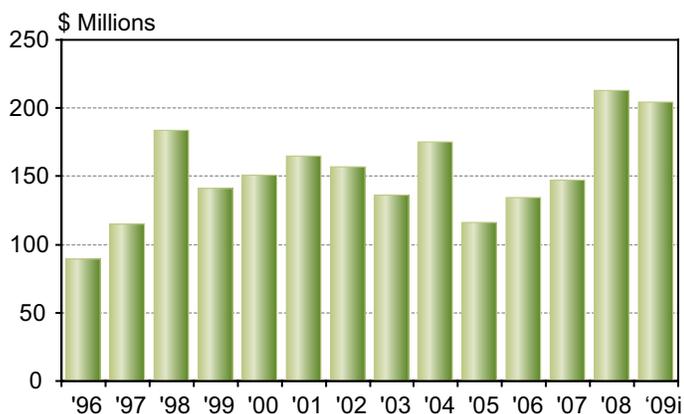
While the value of manufacturing shipments rose in 2008, employment in the industry declined. Employment averaged 14,100 in 2008, a decrease of 11.8% over 2007. Fish processing employment declined by about 300, while manufacturing employment outside of fish processing declined by about 1,800.

The fish processing industry faced several challenges in 2008, including continued competition from low-cost producers and unfavourable exchange rates for part of the year. Fish production for the year was about 181,700 tonnes, down about 5% from 2007.

The volume of newsprint shipments decreased by 4.4% in 2008. This was partly due to a paper machine shutdown in Kruger's Corner Brook mill in October 2007. However, the estimated value of newsprint production increased by approximately 12% as a result of higher newsprint prices. On February 12, 2009, AbitibiBowater closed the Grand Falls-Windsor mill. In addition, on March 3, 2009, Kruger announced a production cut of 15,000 tonnes and the associated layoff of up to 30 employees at its Corner Brook mill. (For more information on the newsprint industry see the [Forestry and Agrifoods](#) section).

The refined petroleum industry experienced a large increase in production value in 2008. According to export data from Industry Canada, the value of refined petroleum products exported from the province increased by 47.4% in 2008 to about \$3.5 billion as crude oil hit record highs. Crude oil represents 80%-90% of refining input costs. Thus, the value of refined petroleum rises and falls with crude oil prices. Harvest Energy, which operates the North Atlantic Refinery in Come-

## Manufacturing Investment



i: intentions

Source: Statistics Canada

by-Chance, completed its visbreaker expansion and enhancement project in November 2008. The \$30 million project reduces the necessity of blending higher valued distillate products into lower valued high sulfur fuel oil products. The company has also continued to search for a financial partner in a proposed \$2 billion refinery expansion. However, due to financial market volatility, the company has chosen to postpone the proposed expansion until market conditions improve.

Investment in manufacturing activities has risen consistently over the past several years. In a recent survey by Statistics Canada, manufacturing firms indicated capital investment of \$213 million in 2008, an increase of 56% over 2007. This increase was due in part to an increase in capital expenditures at the North Atlantic Refinery. While a majority of manufacturing investment in the province is spent on the larger resource-based industries (e.g., newsprint, refined petroleum), other manufacturers such as Browning Harvey Ltd., A.H.M. Fabricators Ltd., Newfoundland Aqua Service Ltd., Builder's Edge Manufacturing Inc., and

Terra Nova Shoes have invested in their operations over the past year. Over the past several years 75%-80% of capital expenditures in the province, on average, have been spent on machinery and equipment with the remainder spent on construction.

## Outlook 2009

The global recession will continue to weaken demand for many manufactured products.

The value of manufacturing shipments is expected to decline as a result of lower energy prices and decreased newsprint production.

Production of newsprint will decline with the closure of the Grand Falls-Windsor mill and a planned shutdown at Corner Brook.

The recent depreciation of the Canadian dollar compared to the U.S. dollar and the Japanese Yen may have a positive effect on seafood value; however, there is much uncertainty over how market prices will evolve as the year progresses and this year's product begins to enter the market.

Harvest Energy intends to spend about \$50 million in 2009 in refinery upgrades and improvements.

The development of Vale Inco's nickel processing plant will result in a significant boost to manufacturing shipments in years to come. Investment in the US\$2.177 billion project will peak in 2010 and operations will commence in 2013.