Business

Winnipeg Free Press - PRINT EDITION

Manufacturing rebound seen

KPMG predicts turnaround after long doldrums

By: Julian Beltrame and Martin Cash / Posted: 07/22/2014 1:00 AM |

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Argus Industries owner Mike Easton says things are looking up after five of the toughest years his firm has experienced. Photo Store

Canada's manufacturing sector is finally poised for a true recovery after spending the last eight years in survival mode, a new report from consulting firm KPMG states.

In the report, KPMG says many of the headwinds that worked against the sector during and since the 2008-09 recession are poised to reverse.

Canadian manufacturing by the numbers from KPMG

80,000: the number of manufacturing firms in Canada

$591 billion: the amount of revenue those companies generated in 2013

1.8 million: number of people employed in the sector

$290 million: Canada's trade surplus in the month of February 2014

12 per cent: monthly increase in exports to Japan in February 2014

4.4 per cent: monthly increase in exports to the U.S. in February 2014

6.8 per cent: monthly increase in exports to the EU in February 2014

One of the most encouraging, KPMG says, is that far fewer Canadian firms are preoccupied with cost-saving and outsourcing production to such places as China, and are more focused on growth.

Mike Easton, the owner of Argus Industries in Winnipeg, a custom-moulded rubber and die-cut gasket-seal manufacturer, said the last five years have been some of the most challenging his company has ever seen.

"This is the first year we're actually feeling the strong backbone of the economy lifting the manufacturing sector," Easton said. "We've had some record months already this year."

The report, based on a survey of 154 senior industry executives, found only 14 per cent of manufacturers planned to source from China, down from 31 per cent in a 2013 survey.

As well, only three per cent said they planned to source from India, as opposed to 12 per cent last year.

Easton said he's always been a Buy Canadian supporter, but it has not always been easy for him.

But the tide is shifting back home.

Gustavo Zentner, the trade program consultant for the Canadian Manufacturers and Exporters' Manitoba division, said many Manitoba companies he coaches are now making concerted efforts to source inputs from North America and even closer to home in Manitoba.

"You get the advantage of having a closely integrated supply, you eliminate heavy transportation costs and risks associated with quality control," Zentner said. "And when you have a close supply chain doing business with each other, you are more likely to generate other business opportunities."

The KPMG report states "Rising energy and transportation costs, along with added pressure on lead times and increased inflation in China have made Canada and the U.S. more competitive as sourcing nations... reasonable energy costs and the quality and consistency of products offered here at home have also driven Canadian manufacturers to look onshore for their sourcing strategies."

The sourcing response was "surprising," said KPMG business unit leader Laurent Giguère, adding it suggests the lure of cheap labour in emerging markets is starting to wane.

The report also cites the strengthening U.S. economy and weaker loonie as other factors working in favour of Canadian factories, which in February experienced the highest monthly growth since before the recession, with revenue rising 1.4 per cent across the sector.

The sector also recorded a strong month in May as sales rose by 1.6 per cent over April. It was the fourth time in five months sales improved.

Craig McIntosh, CEO of Acrylon Plastics Inc. in Winnipeg said foreign-exchange issues have swung back in Canadian manufacturers' favour.

"Through the financial crisis, the Canadian dollar went above parity and our goods were actually more expensive than American-made goods," he said. "Now we can be competitive and we are not disadvantaged because we're based in Canada."

Also, he said with the U.S. economy coming back, U.S. production capacity in some sectors in which his company is active has dramatically declined.

"In some of our product lines, there were 100 competitors in the U.S. and that's dropped to 40 or 50, particularly in the housing areas," said McIntosh, whose company manufactures custom plastic parts for a variety of applications including residential and commercial windows and doors, buses and agricultural equipment.

He said the U.S. competitors who survived the downturn are very busy now, but are not confident enough to build new factories. They are also less inclined to call on Acrylon's Western Canadian customers, preferring to sell to someone closer to home.

Giguère said the recent uptick in output and the improving climate for domestic producers is good news for the economies of Ontario and Quebec, Canada's two most populous provinces and home to the bulk of its manufacturing.

But Giguère cautioned manufacturers in advanced countries still have to adapt to the needs of the global economy and securing a place in international supply chains.

"The challenge is we need to keep on innovating and being a leading product producer," he said, noting manufacturing for low-end jobs such as in the textile sector has likely disappeared forever.

"Canadian manufacturers rely on innovation... and as long as Canadian companies focus on R & D, they will likely manufacture products that are successful."

The report is also largely positive about the availability of skilled workers for manufacturing.

-- The Canadian Press / staff

Republished from the Winnipeg Free Press print edition July 22, 2014 B5

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