MANUFACTURING UPDATE

JULY 2020

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Effects on Canadian Economy

While the economic shock caused by the spread of COVID-19, and the measures taken to contain it, have been tremendous, and they can continue to be seen throughout the data in this update, the data is beginning to sketch out in more detail the contours of the nascent economic recovery.

- The unemployment rate **in July declined to 10.9% from 12.3% in June. Approximately 420,000 Canadians returned to work in July**. This is in addition to the nearly 1 million who returned to work in June. June declined to 12.3% from 13.7% in May with almost 1 million Canadians returning to work (952,000), representing a 5.8% increase over May. In particular, the goods producing sector saw another impressive gain of 4.5% (160,000) and the service sector added nearly 800,000 jobs, a 6.1% increase.

- The beginnings of the recovery are revealed in the release of GDP data for May. While by the end of April, GDP for the month had fallen by 17% compared to the same time last year, while retail sales fell by 10% during the same period, in May GDP had grown by 4.5% over the previous month ($1.7bn) while retail sales grew by 17% over the previous month. The Goods-Producing industries also grew by 8% in May over June.

- In June, the CPI continued to tick upwards in comparison to May, while inflation increased by 0.7% on a year over year basis

Canadian Manufacturing:

As we reported in the last three updates the decline in manufacturing as a result of COVID-19 has been devastating. While most of the data in the April Update contained data results from the end of March, the effects of COVID were already noticeable. 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. While still in contractionary territory, there has certainly been a rebound in the sector. **In July, however, 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 this update we have further added data which demonstrates the nascent economic recovery in the sector:

- GDP of Goods production fell by -21%% in April 2020 compared to April 2019. In May, GDP was still -15.9% lower compared to May2019, but had increased by 8% over April.
- Both Manufacturing Orders and Sales rebounded in May 9.6% and 10.5% respectively over April. Sales of motor vehicles, wood products and petrochemicals also rebounded in May.

- 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%.
- Weekly hours fell from 37 in February to 36.2 in March. In April they fell further to 35.3. In May wekly hours shot up to 36.
- The ratio of inventory to sales increased to 1.72 in March from 1.56 in February 2020. In April, the ratio exploded to 2.41. In May the ratio declined to 2.15

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 another 29,000 jobs, lowering the unemployment rate to 7.3%.**

**Readers will also notice that there were sizable nominal and real wage increases for blue collar and manufacturing workers in both April and May. As with the increase in non-management wages, this increase is more appearance than reality. It is due to the disappearance of low wage workers, which has the effect of driving average and thus nominal wages upwards. Furthermore, combined with this 'pseudo' increase in wages is the continued decline in the CPI which has had the effect of increasing real wages. In June, as workers returned to work and inflation rose, the rise in both nominal and real wages has once again begun to decline.

Commodity Prices:

Forestry

- Most softwood lumber prices rose to their highest levels since mid-2018 in June, largely as a result in a massive drop in supply and a sudden increase in demand as the economy reopened more substantially in Canada and the U.S. in June.
- Wood product exports rose slightly in June compared to May (+2.5%), however exports are still well below last year's levels (-7.4%). The May to June increase was led by increases in exports of building and packaging materials (+6%), while exports of pulp and paper and logs, pulpwood and other forestry products declined (-2.5% and -44%, respectively)

Steel

- After some price recovery in late spring, Hot Rolled Coil and other steel prices declined in late June and into July. Steel demand continues to recover at a modest pace, causing some stagnation in price increases. U.S. HRC prices dipped *below* Chinese prices in July, largely due to the significantly different situations the two countries are in vis-à-vis the coronavirus pandemic and related economic recovery.
- On a month-to-month basis, crude production remained fairly steady, declining by 0.3%. China's monthly production dropped 0.7%. Numerous other countries' production also remained mostly steady or declined slightly on a month-to-month basis (U.S. -0.9%; Brazil -4%), while India's production increased by 20% on a month-to-month basis. Other than China, most of the world's crude steel production remains well below 2019 levels.
    - Global crude steel production dropped by 7% in June 2020, compared to June 2019; however, China's crude steel production *increased* 4.5% year-over-year. Y-o-Y steel production outside of China decreased by 26%, with Indian production declining by 26%, Brazil by 27%, the U.S. by 34.5% and Canada by 30.8%.
- Capacity utilization in the U.S. reached 59.3 at the end of July, well below last year's levels at the same time (80.9). However, the late July numbers are well above the low of 51.1, reached in early May.

Steel Input Prices:

Iron Ore

- Iron ore prices continued to skyrocket in July due to rising Chinese demand and continued Brazilian supply problems. Prices are trending only slightly below 2019 peaks and remain about 25% above April lows.

Metallurgical Coal.

- Unlike iron ore, met coal prices have not increased in tandem with rising Chinese demand. Falling steel crude production levels outside of China and Chinese import quotas have resulted in three-year lows, with prices not expected to recover in 2020.

Scrap:

- After some gains in May and June, prices have dropped again in July, largely due to decreased demand in the U.S. and other parts of the world. However, a lower U.S. dollar has made U.S. scrap more attractive to the rest of world, leading to increased export prices.

Nickel& Copper

- The picking up of Chinese manufacturing activity, combined with supply concerns have helped drive nickel prices in May ($5.51 from $5.33), while copper prices have also continued to appreciate ($2.37 from $2.29). Price appreciation has continued in June, with the average monthly nickel price

increasing to $5.76 and copper prices to $2.60. In July, price appreciation in nickel and copper has continued, with nickel reaching a monthly average of $6.05 and copper $2.88.

Potash:

- Demand for potash remains high around the world, as food production is an essential activity. Decent weather in the U.S. and improving conditions in Australia and Latin America. Exports rose 22% from May to June, while falling 15% on a year-over-year basis. June exports are well above the lows experienced in the Fall and Winter of 2019/2020. Despite rising production and demand, prices remain at historic lows, *in part* as a result of low contract price set by China and Belarusian Potash Company in April at $220/ton, a full $70/ton lower than the previous contract.

Trade and tariffs: ***Aluminum (New)***

- On August 6th, the U.S. announced tariffs of 10% on unwrought, unalloyed aluminum imports from Canada, effective August 16th, 2020. Canada has responded with counter-tariffs of US$2.7B ($3.6B CAD) on aluminum products imported from the United States: the counter-tariffs are set to go into effect after a thirty-day consultation
- Overall exports of unwrought aluminum from Canada to the United States are *below* June 2019 levels, declining 56% year-over-year, led by a decline of exports of unwrought, *alloyed* aluminum, which comprises the majority of aluminum exports from Canada to the U.S. Monthly exports of unwrought, unalloyed aluminum rose by 1.3% from May to June, and increased 87% on an annual basis.
- The increase in exports of unwrought, unalloyed aluminum is in part due to an increase in demand for the most unprocessed type of aluminum caused for auto plant shutdowns and slowdowns, as demand has dropped for intermediate and end- use aluminum)

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	$104.67	$102.37	$82.10	$14.60	$119.50 (July 2019)	-12.4%
Steel – HRB	Metric ton	USD	$530	$572	$738	$144.33	$1006 (July 2018)	-47%
Aluminum	Metric ton	USD	$1676.21	$1587.59	$1905.63	$211.17	$2299 (May 2018)	-27.1%
Copper	Pound	USD	$2.88	$2.60	$2.81	$0.23	$3.03(June 2018)	-5%
Nickel	Pound	USD	$6.05	$5.76	$5.81	$0.76	$8.23 (September 2019)	-26%
Platinum	Ounce	USD	$889.55	$839.30	$882.55	$70.97	$1,183.10 (August 2016)	-25%
Uranium	Pound	USD	$32.45	$32.80	$25.39	$3.76	$33.89 (May 2020)	4.2%
Gold	Ounce	USD	$1,840.81	$1,734.03	$1,396.81	$169.03	current	--
Potash (muriate of potash port of Vancouver FOB spot)	Metric Ton	USD	$202.50	$202.50	$231.89	$23.34`	$272 (Jul 2019)	--
Gasoline*	Litre	CAD	$1.02	$0.92	$1.17		$1.36 (May 18)	-0.25%
Met Coal** (HCC)	Metric Ton	USD	$112	$115	--	--	--	--
Lead	Metric Ton	USD	$1812.08	$1789.86	$2077.13	$261.81	$2608 (Jan 2018)	-30.5
Zinc	Metric Ton	USD	$2163.17	$2106.98	$2642.47	$454.41	$3526 (Jan 2018)	-38.7%

*Regular unleaded gasoline; based on average monthly prices across all major metropolitan areas
*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: JULY 2020

	US	China	Western Europe	World Export
Hot-rolled band	$530	$469	$479	$448
Cold-rolled coil	$710	$531	N/A	N/A
Standard Plate	$665	$473	N/A	N/A
Rebar	N/A	$445	N/A	N/A

*Prices in U.S. Dollars

SOFTWOOD LUMBER PRICES

Dollars per thousand board feet	31-Jul-20	24-Jul-20	4-week average	52-weeks average	% Change from 52-week average
2x4 eastern spruce-pine-fir (Canadian dollars)	$885	$850	= $809	$562	57.4%
Composite (U.S. dollars)	$627	$587	$574	$492	27.4%
2x4 western spruce-pine-fir (kiln dried) #2 and better (U.S. dollars	$620	$590	$567	$399	55.4%
2x4 western spruce-pine-fir (kiln dried) Utility #3 (U.S. dollars)	$470	$430	$419	$304	54.6%

Source: Natural Resources Canada

PANEL PRICES

U.S. Dollars per thousand board feet	31-Jul-20	24-Jul-20	4-week average	52-weeks average	% Change from 52-week average
Composite	635	$593	$570	$385	64.9%
15/32" 4-ply exterior (south)	$703	$668	$651	$596	18%
9.5mm 4-ply exterior (west)	$613	$598	$596	$423	44.9%
7/16" oriented strand board (north central)	$540	$530	$493	$330	63.6%

Source: Natural Resources Canada

ADDITIONAL FORESTRY PRICE INFORMATION

British Columbia

SPF Prices – US$/1000 bd ft

	31-Jul-20	24-Jul-20	Y-T-D Average	2019 Average
SPF 2 X 4	$620	$590	$388	$372
SPF Stud	$618	$568	$415	$272
SPF 2 X 10	$612	$576	$409	$350
Cedar 2 X4	$1,505	$1,505	$1,428	$1396

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

	May 2020	April 2020	Y-T-D Average	2019 Average	2018 Average
Hemlock squares	$816	$816	$821	$891	$965

NOTE: No information is listed for June 2020 Hemlock Squares. May is the most recent month available.

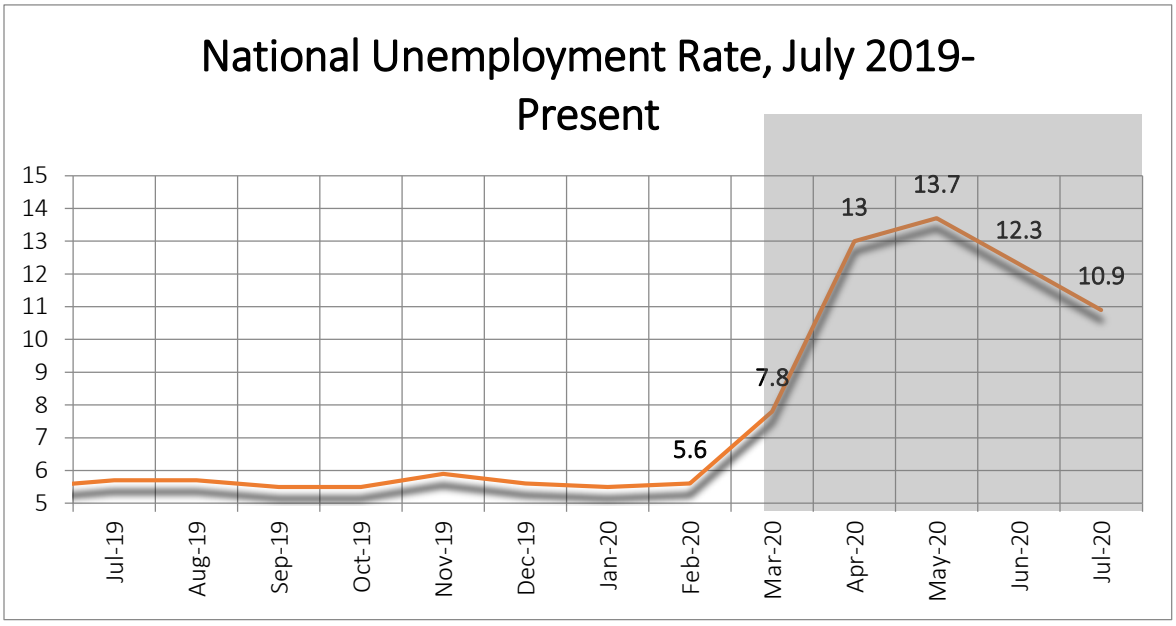
Price indices*

2010=100	June 2020	Previous Month	Compared to Previous Year
Western Red Cedar	193.5	No Change	5.8%
Hemlock fir	201.5	11.4%	15.2%
Spruce, pine, fir	153.8	1.5%	97%
Douglas Fir and Western Larch	157.6	-0.1%	8.9%

*See notes for explanation of price index

EMPLOYMENT INDICATORS

	Recent Month (July)	June	Change June-July (Percentage Change	May	April	March	February	Change from one year ago (percentage point)	3 Year Peak
Unemployment rate	10.9%	12.3%	-1.4	13.7%	13.0%	7.8%	5.6%	6.7	13.7% (May 2020)
Employment Rate	57.3%	56.0%	1.3	52.9%	52.1%	58.5%	61.8%	-6.0	62.8 (June 2017)
Real Unemployment (see notes)	15.6%	15.5%	0.1	18.2%	17.9%	11.7%	8.5%	8.1	18.2% (May 2020)
Participation Rate	64.3%	63.8%	0.5	61.4%	59.8%	63.5%	65.5%	-1.9	65.9 (April 2019
FT/PT	81/19	82.5/17.5	-1.5/+1.5	84.3/15.7	84.5/15.5	83.2/16.8	81.3/18.6	1.2/-1.2	84.3/15.7 (May 2020



The July unemployment rate declined to 10.9% from a high of 12.3%% in June, with approximately 420,000 Canadians returning to work, representing a 2.4%% increase over June, The goods producing sector saw a gain of 1.9%% (70,600) and the service sector added nearly 350,000 jobs, a 2.5.% increase. The July labour force job numbers are encouraging, and it appears that the recovery is well in motion, albeit at a smaller increase than the previous month. In July, approximately 2.1 million Canadians remained unemployed, with 1 million of those due to the Covid shutdown.

OTHER ECONOMIC INDICATORS*

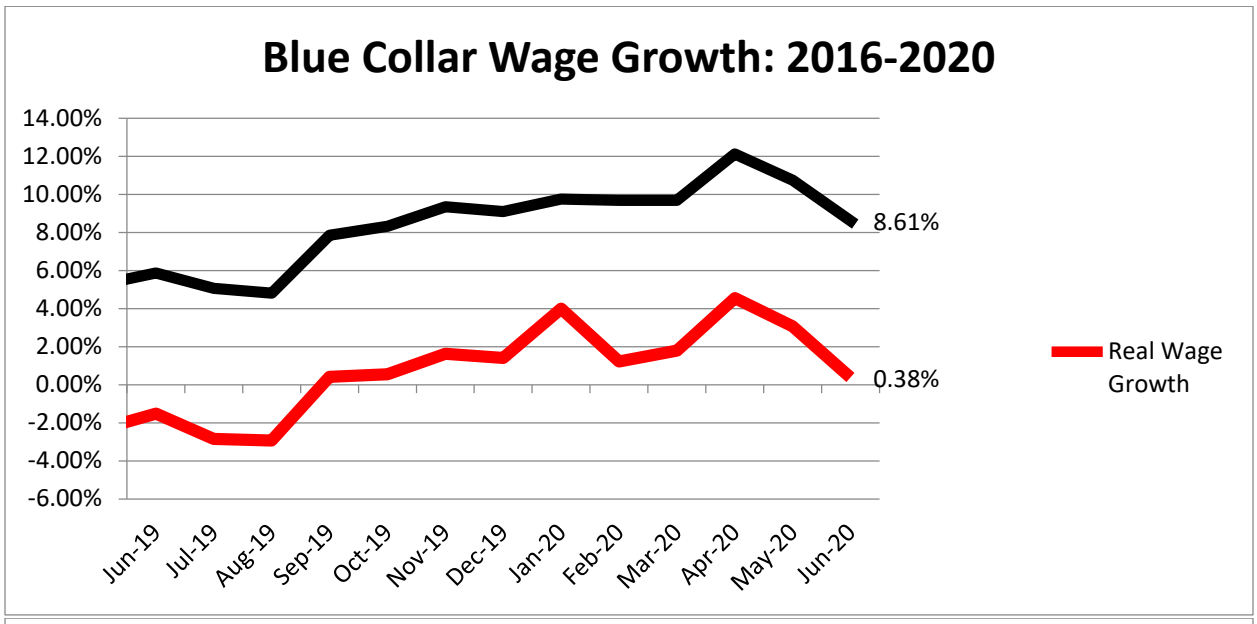
	Recent Month			
		Previous Month	Year Ago	3 Year Peak
MACROECONOMIC				
GDP (All industries, billions, chained 2012)	$1.70*	$1.63	-13.8%	-
Retail Sales (billion)	$41.79*	$35.2	-10%	-
CPI	0.7%***	-0.4%		-
BoC Policy Interest Rate	0.25%	1.75%	1.75%	1.75%
Hourly Wage Growth (Non-Management)	$28.56***	$29.19	7.29%	-
MANUFACTURING				
GDP Goods Producing (billion, chained 2012)	$0.487*	$0.451	-15.9-21.5%	-
Residential Building Permits (thousand)	49,719***	40,444	44,086	-
Home Price Index (2016=100)	104.3***	104.2	103.0	current
U.S. Housing Starts (million)	1.186	1.011	1.212	1.617(Dec 2019)
Capacity Utilization	62.8%*	55.9%	82.2%	84.2%
Manufacturing employment (million)	1,627†	1,598	-6.2%	
Manufacturing Unemployment Rate	7.3%†	10.4%	+3.8%	13%
Weekly Hours of Work (including OT)(manfct)	36*	35.1	36.3	38.4
Manufacturing†† Occupations Hourly Wage	$21.80***	$22.58	3.55%	
Blue Collar† Occupations Hourly Wage	$26.01***	$26.52	2.57%	
Ratio of inventory to sales	2.15*	2.41	1.52	2.41
Manufacturing Orders (billions)	$37.8*	$34.53	$59.3	--
Manufacturing Sales (billion)	$40.1*	$36.3	$57.7	--
Cars and Trucks Sales (billion)	$1.07*	$0.078	$6.0	--
Wood Products Sales (billion)	$2.1*	$1.87	$2.4	--
Petroleum and Coal sales (billion)	$2.4*	$2.0	$6.4	--
Canadian PMI	52.9†	47.8	50.2	57.1
Business Investment (non-residential) (billion)	$48.24**	$53.60	$49.59	--
* May 2020; ** Q1 2020 ***June 2020; †July				

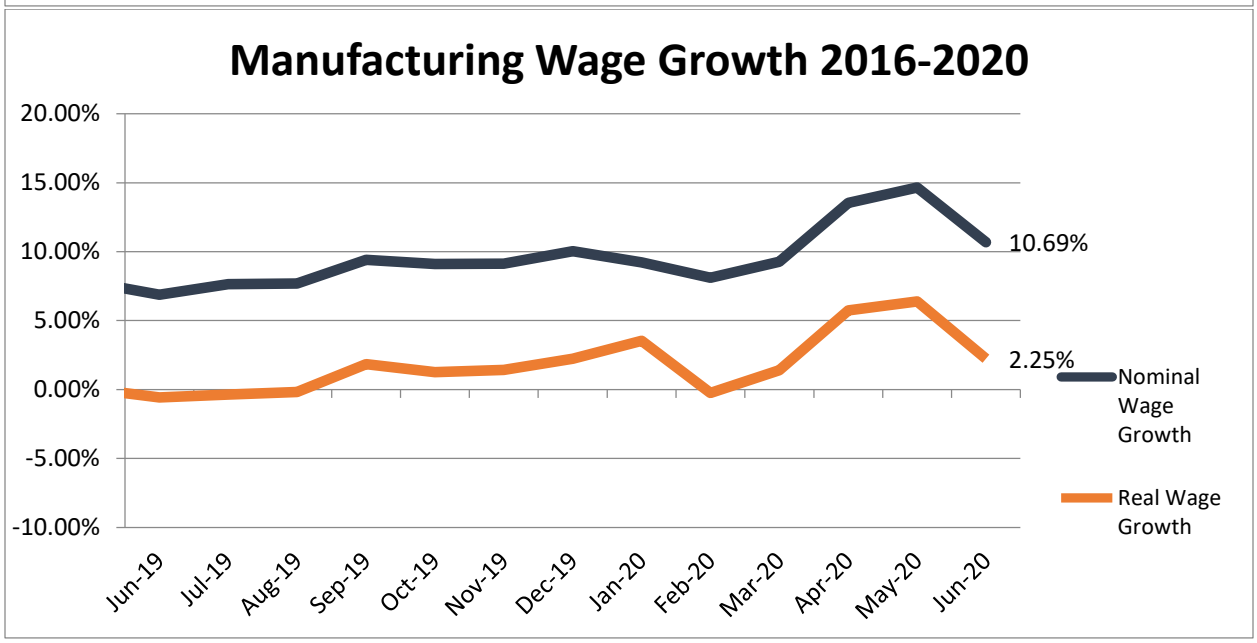
*The categories under **Economic Indicators** are mostly based from StatsCan data. Unfortunately, the data indicators are generally 1-2 months behind the current date of the Update. Note also that Statistics

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 50indicates 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: (Inventory value $) ÷ (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.
†† 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.

MANUFACTURING AND BLUE COLLAR WAGE GROWTH





The above line graphs demonstrate the growth in both nominal (money wages) and real (inflation adjusted) wages since January 2016. For Blue Collar workers, real wages have grown by 0.38%, and for Manufacturing workers they have grown by 2.25**%. It must be noted that the "rise" in real wages during the COVID Pandemic is largely due to 1) lower wage workers in these industries being laid off and therefore increasing the average wage upwards and 2) deflation. In other words, we should keep these elements in mind when interpreting this recent rise of "real wages".** It is generally the case that workers 'real wages' tend to increase towards the end of the business cycle and during the crisis phase. With the return of workers to employment and the recent rise, although marginal, in inflation, the effects of 1) and 2) above have been mitigated, and this is seen in the decline in both nominal and real wage growth in the graph above.

TRADE INDICAORS

		June 2020	Previous Month	Previous Year
Trade Balance (Billion)		-$3.18	-$1.33	$0.127
Trade Balance with U.S. (Billion)		$1.09	$1.94	$5.32
		May 2020	Change from previous month	Change from previous year
Total Exports (Billion)		$39.7	17.1%	-20.0%
U.S. Exports (Billion)		$27.5	21.8%	-25.9%
Total Imports (Billion)		$42.9	21.8%	-15.0%
U.S. Imports (Billion)		$26.3	28%	-18.1%
Exports by type:				
	Metal ores and non-metallic minerals (Billion)	$1.76	17.1%	-3.1%
	Metal and non-metallic mineral products (Billion)	$5.76	17.4%	14.4%
	Motor Vehicles and parts (Billion)	$6.1	218.2%	-24.3%
	Energy Products (Billion)	$3.56	2.9%	-62.9%
	Forestry products (Billion)	$3.15	2.5%	-7.4%
	Industrial machinery, equipment and parts (Billion)	$2.63	-1.3%	-25.2%

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, TradingEconomics, Global Steel Trade Monitor, Natural Resources Canada, Government of British Columbia, World Steel Association, Financial Post, BNN Bloomberg, Market Insider