CM&E

CANADIAN
MANUFACTURERS
& EXPORTERS

2020 MANAGEMENT ISSUES SURVEY

ALAN ARCAND
Chief Economist

WHO WE ARE

ABOUT CANADIAN MANUFACTURERS & EXPORTERS

Since 1871, we have made a difference for Canada's manufacturing and exporting communities. Fighting for their future. Saving them money. Helping them grow.

The association directly represents more than 2,500 leading companies nationwide. More than 85 per cent of CME's members are small and medium-sized enterprises. As Canada's leading business network, CME, through various initiatives including the establishment of the Canadian Manufacturing Coalition, touches more than 100,000 companies from coast to coast, engaged in manufacturing, global business, and service-related industries.

CME's membership network accounts for an estimated 82 per cent of total manufacturing production and 90 per cent of Canada's exports.

CME-MEC.CA

ABOUT THE CANADIAN MANUFACTURING COALITION

The Canadian Manufacturing Coalition is comprised of more than 40 major industry groups, united by a common vision for a world-class manufacturing sector in Canada.

The Coalition speaks with one voice on priority issues affecting manufacturers, and what must be done to ensure all Canadians continue to enjoy economic growth, high-value outputs and high-paying jobs. The Canadian Manufacturing Coalition's member organizations represent roughly 90,000 companies through their collective networks.

MANUFACTURINGOURFUTURE.CA

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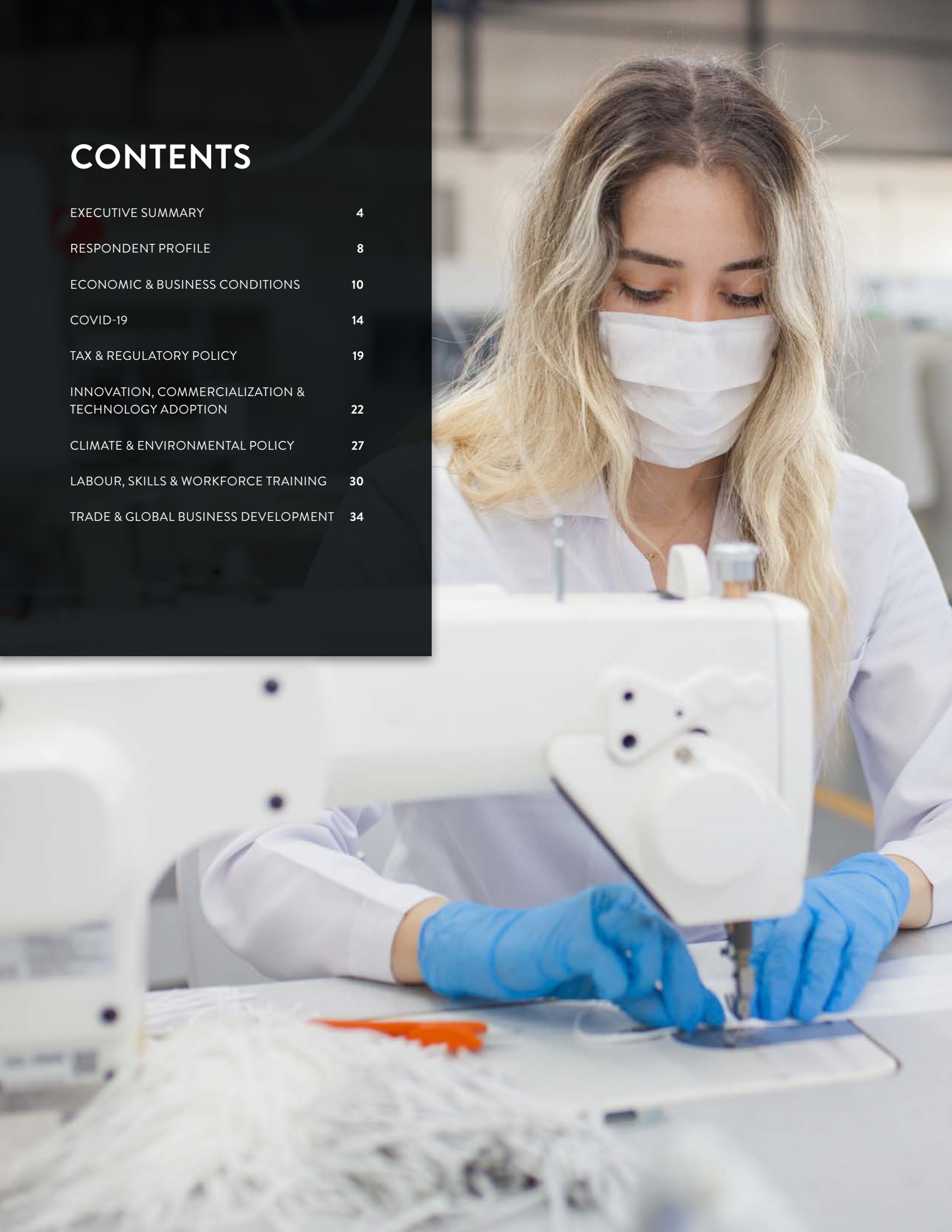


EXECUTIVE SUMMARY

ALAN ARCAND
Chief Economist
Canadian Manufacturers & Exporters

CME's biennial Management Issues Survey (MIS) is one of our most important tools for taking the pulse of the manufacturing community. It provides important insights into the current conditions of manufacturers, their expectations for the future, and their most pressing challenges and needs.

Once again, survey participants represented a broad cross-section of the Canadian manufacturing sector, with 563 respondents spanning at least 19 industries. We heard from small businesses with only a handful of workers, all the way up to large, multinational corporations that boast over 500 employees. The survey also achieved broad geographic representation, with participation from companies from all regions of the country.

The MIS has taken on greater significance this year since it was conducted in the middle of a once-in-a-century pandemic. COVID-19 is clearly having a profound impact on all aspects of our lives, including on the economy and the manufacturing sector. Some of the specific ways in which the virus is affecting manufacturing are explored in this survey.

Many manufacturers suffered a simultaneous fall in demand and rise in supply chain disruptions in the early weeks of the pandemic. While the overall industry experienced a strong rebound coming out of the lockdown, activity has cooled markedly in line with exhausted pent-up demand and a second wave of infections. Not surprisingly, our survey found that more manufacturers have seen their production decrease on a year-over-year basis than those that have seen it increase. As such, many manufacturers are welcoming government support to help get through the crisis, including more than half that have received or are receiving Canada Emergency Wage Subsidy (CEWS) payments.

Unfortunately, the economic scars of the pandemic will linger for years to come. While 30 per cent of manufacturers have already seen their production return to the pre-pandemic levels of February 2020 and an additional 6 per cent think they will reach this threshold by the end of this year, many more are anticipating a more drawn-out recovery. In fact, 10 per cent of those surveyed are very pessimistic about the outlook of their businesses, including 5 per cent that predict that their sales will never fully recover.

The COVID-19 pandemic also forced manufacturers to adapt quickly to ensure operational continuity and employee safety. For example, about 60 per cent of those surveyed are purchasing personal protective equipment (PPE) to keep their workers safe. This has emerged as a major new expense for manufacturers. In fact, for those that are purchasing PPE this year due to COVID-19, average costs to-date were estimated at $201,500. For the full year, average costs were expected to rise to $373,400.

Not only are manufacturers major purchasers of PPE, but they are also major producers. According to our survey, some 15 per cent of manufacturers have scaled up or retooled their operations to make components and final products that are helping in the fight against COVID-19. Included in the list of products being manufactured in Canada are eye protection and face shields, hand sanitizer, disinfectant and disinfectant wipes, and surgical masks.

Notwithstanding the immediate and pressing issue of COVID-19, long-standing challenges for manufacturers also surfaced again in this year's survey. For example, 60 per cent of respondents reported having immediate labour and skills shortages, down from about 70 per cent in 2018 but up from 40 per cent in 2016. Companies in Quebec, BC, and Ontario are having the most trouble finding the workers they need. While this year's finding could be unsettling because the survey was conducted in a time of economic crisis and high unemployment, it is conceivable that the extreme circumstances of the COVID-19 pandemic may be exacerbating ongoing labour challenges. First, the Canada Emergency Response Benefit (CERB) and its successor, the Canada Recovery Benefit (CRB), may be acting as a disincentive to work. As well, people may have pulled back from the labour force because they fear for their health and safety or because they have childcare obligations.

Nevertheless, even when these temporary factors are behind us, there is no doubt that Canada's manufacturing sector will continue to struggle with labour and skills shortages, and they are acting as a serious impediment to growth. Indeed, they are limiting manufacturers' ability to innovate and invest in technology. The reason for this is simple: as advanced manufacturing technologies become more commonplace and as production processes grow ever more sophisticated, the skillsets that businesses need are changing rapidly. Not only do new workforce entrants need up-to-date specialized training, but also the ability to adapt and evolve in time with future technological advancements.

While businesses have some ability to mitigate labour shortages, there is only so much they can do. Instead, the nature of this problem requires governments to take the lead on this chronic and growing issue. According to our survey, manufacturers believe governments need to work more closely with post-secondary institutions to develop more relevant education and training programs that support industry needs. At the same time, governments could help ease the burden of labour and skills shortages by lowering payroll and other taxes, by more effectively promoting skilled trades and other career opportunities to secondary students, and by providing more direct funding to support on-the job training.

In addition, another perennial issue for manufacturers—Canada's eroding business tax competitiveness—was once again identified as a top concern in the 2020 MIS. In fact, close to 40 per cent of survey participants said that actions to improve Canadian tax competitiveness should be at the top of governments' agendas. Manufacturers prefer two specific measures: new and expanded tax credits to encourage machinery and equipment investment and lower headline corporate tax rates.

Finally, the rising salience of climate change as a policy issue prompted us to add related questions to this year's survey. When we asked manufacturers to rate the impact of government climate policies on their company's ability to compete globally, results were evenly split. About one-half reported that there was no impact or that it was relatively minor, while the other half said the impact ranged from moderate to severe.

Nevertheless, as governments ramp up their climate change policies in the years ahead, the negative effects on competitiveness will intensify unless offsetting actions are taken. Based on our survey findings, two measures are most popular among manufacturers: government support to help companies make GHG-reducing investments, provided either through direct funding or through a green tax credit, and the full recycling of carbon pricing revenue back to the manufacturing sector.

Now is not the time to be complacent. Once the current crisis has passed, Canada has an enormous opportunity to win back manufacturing investment. Due to the disruptions in supply at the beginning of the pandemic, almost half of those surveyed said they are looking to permanently diversify supply chains to avoid overreliance on a limited range of markets. This should elicit a strong response from Canada to step up its global competitiveness so it can attract investment from firms looking to reshore manufacturing. But to stand any chance of success, attention must turn quickly to addressing the main issues identified in this survey—labour and skills shortages and the overall business tax environment.

PARTNER MESSAGES

DAVID LINTON
Partner – National Manufacturing & Distribution Leader
BDO Canada LLP

In the 2018 CME Management Issues Survey, we drew attention to the future-focused mindset shared by many manufacturers. This mindset has become even more evident in the 2020 survey as many businesses adapt to the current situation and plan for the future.

This year has been a year like no other for Canadian manufacturers, with the combined impact of a rail blockade early in the year, U.S. tariff uncertainty, Brexit, and of course the wide-ranging impact of a global pandemic and the resulting recession. It has brought into sharp focus many of the issues that previous CME Management Issues Surveys have highlighted: the need to invest in technology to remain competitive, the challenge of attracting and retaining skilled workers, and the challenges of operating in a global economy.

Canadian manufacturers have lagged other G7 countries in investment in technology for several years. The report shows that many still have challenges deploying technology, citing cost, lack of skilled workers, and lack of sufficient financial and tax incentives. More respondents say that government tax and regulatory policies have become less rather than more supportive over the past three years. 60% of respondents are facing immediate labour and skills shortages, dropping only slightly to 56% in five years. Overall, less than one-third of respondents say their production level is at or above pre-pandemic levels, and they don't expect their production to fully recover until 2021 or 2022.

And yet there is cause for optimism; many of our manufacturing clients continue to adapt to the changing environment.

Some have pivoted to launch new products to replace revenues from existing products that have reduced demand. Many have expanded their sales channels by introducing or upgrading their ecommerce platform, and deployed tools to automate processes and enable collaboration internally and with partners while adhering to physical distancing requirements. Clients with an international supply chain have worked to improve resilience and reduce the impact of interruptions. Manufacturers have bolstered their staff communication plans to help reassure staff and keep them informed on operational issues.

The survey reflects some of the reasons for optimism. There are 38.4% of businesses reporting an increase in orders compared with 26.3% reporting a decrease, and more manufacturers are reporting an increased backlog. The majority of respondents don't anticipate liquidity or cash flow issues, and more than 40% are either optimistic or very optimistic for growth in their business in the next three years. Manufacturers have been impressed with federal and provincial government response to the pandemic, and more than 75% have taken advantage of government emergency support programs (one wonders about the other quarter).

The CME advocates for Canadian manufacturers at all levels of government, and member input through the biennial Management Issues Survey in 2020 is particularly timely. It provides vital information to allow the CME to focus on the challenges most relevant to members. We would like to recognize the CME's ability to pivot to ensure that its focus reflects the current challenges, and we look forward to continuing work with the CME and manufacturers across the country in 2021 and beyond.

FOOD, HEALTH & CONSUMER PRODUCTS OF CANADA

FHCP

MICHAEL GRAYDON

Chief Executive Officer

Food, Health & Consumer Products of Canada

Food, Health & Consumer Products Canada (FHCP) is proud to partner with Canadian Manufacturers and Exporters (CME) to once again sponsor the Management Issues Survey (2020). The results of this survey will greatly assist manufacturers – along with government, academic and research partners – to advance a strategic roadmap for addressing concerns while supporting the long-term economic growth of Canadian manufacturing.

As the country's largest manufacturing employer, Canada's food, health, and consumer products industry represents more than 350,000 workers across businesses of all sizes that manufacture and distribute the safe, high-quality products that are at the heart of healthy homes, healthy communities, and a healthy Canada.

The 2020 Management Issues Survey (MIS) underscores the many challenges facing food, health and consumer products manufacturers. As readers might have expected, concerns tied to Covid-19 moved into the spotlight this year, dramatically impacting our industry and Canada's business community. On this issue, it's noteworthy that respondents highlighted the cost impacts of Personal Protective Equipment (PPE) as well as costs tied to scaling up or retooling operations to fight the spread of Covid-19. Like many sectors, food, health and consumer goods manufacturers have invested heavily in keeping workers safe throughout the crisis, providing incentives to workers, and increasing employee engagement and appreciation initiatives.

We are pleased the MIS also highlights the dramatic impact of labour shortages. Almost 28,000 jobs in food manufacturing remain vacant right now, with one in ten jobs remaining unfilled. Considering that record numbers of Canadians are currently unemployed, we believe there's a unique opportunity to transition them into new careers and fill a much-needed labour gap. We need government support to incentivize Canadians to take these good manufacturing jobs and continue to help ensure predictable and timely access to workers outside of Canada to address the domestic labour crisis.

Given these labour shortages, manufacturers are re-thinking operations and considering less labour-intensive ways for running their businesses. government incentives for companies to invest in automation would go a long way. The MIS showed that manufacturers across the country are discouraged by the lack of government support for incentives and programs to invest in new technologies, and that the high cost of adopting such technology was ranked as a significant barrier. To compete in the 21st century, manufacturers need modern equipment and technology, a strong labour force and a government willing to support both manufacturers and workers.

On the issue of tax and regulation, FHCP shares the perception view of many respondents that policy has become less supportive over the past three years. Policy has a direct impact on where manufacturers choose to invest and expand. As countries around the world look to repatriate their manufacturing, they are offering generous tax packages to companies to re-locate, especially south of the border. This makes it harder to attract – and keep– investment in Canada. We join others in supporting greater government focus on tax competitiveness by, among other things, promoting 'Made in Canada' goods and introducing targeted tax incentives for capital investment and exports.

The MIS also highlights the need for greater government emphasis on growth and competitiveness when designing regulations; modernizing outdated regulations; and aligning regulations across provinces and the US. This is particularly important to Canada's food, health and consumer products industry. Pre-pandemic, Health Canada was proposing unprecedented changes to the way our industry makes, packages and sells products. While we support regulations that improve public health and product safety, we remain concerned that these costly proposals do not support these objectives, run counter to environmental sustainability and are irrelevant in our exploding e-commerce environment. It's time government undertake a comprehensive re-evaluation of the regulatory agenda to ensure new initiatives achieve balanced, effective and evidence-based policies that support measurable public health outcomes, environmental sustainability and economic growth.

A robust and competitive manufacturing sector in Canada requires rules-based trade to allow for the predictable flow of ingredients, products, packaging and people. Survey respondents recognize our highly-integrated industries and the need to export in order to grow. The greatest impact on export growth according to respondents includes incentives to invest in Canadian operations, an export tax credit and funding for business development.

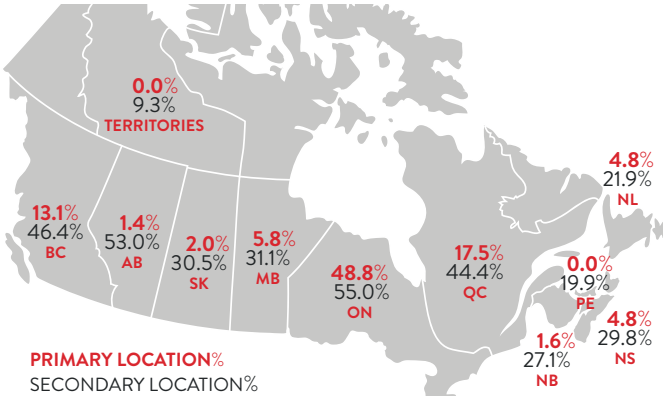
Notwithstanding these challenges, the 2020 MIS reconfirms several critical themes impacting the manufacturing sector and provides a clear and consistent direction for increasing the long-term competitiveness of Canadian manufacturing. We share CME's desire to advance the many issues raised through MIS 2020. Strong leadership and collaboration between government and industry are needed to improve the competitiveness of Canada's manufacturing sector and support value-added employment across the country. Today, more than ever, we must work together to ensure we capitalize on every opportunity.

RESPONDENT PROFILE

WHERE IN CANADA DOES YOUR COMPANY OPERATE?

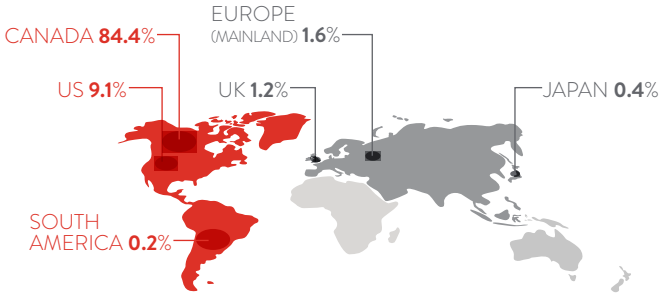
CME received 563 responses to our 2020 Management Issues Survey (MIS), representing all regions of Canada. The largest share of responses – about 49 per cent – come from Canada's manufacturing heartland in Ontario. About 22 per cent have their primary operations in Western Canada, some 18 per cent of respondents mainly operate in Quebec, and about 11 per cent are headquartered in Atlantic Canada.

Some survey participants – about 30 per cent of the total – work for companies that have facilities in more than one province. Companies are most likely to have additional operations in Ontario, Alberta, BC, and Quebec.



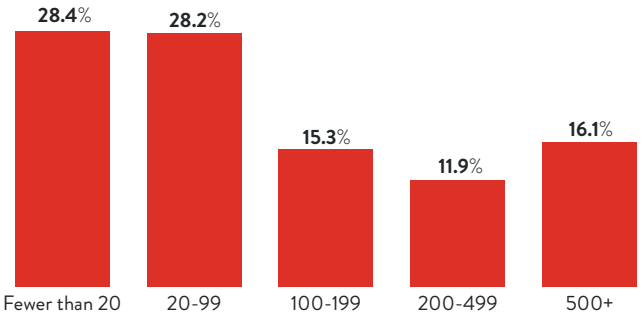
WHERE ARE YOUR COMPANY'S GLOBAL HEADQUARTERS?

Most survey respondents (about 84 per cent) work for Canadian-based companies. Of those with international headquarters, some 58 per cent have their head office in the United States, while 30 per cent and 8 per cent, respectively, are based in mainland Europe and in the United Kingdom. The remaining survey responses came from businesses with head offices in Japan and South America.



HOW MANY PEOPLE WORK AT YOUR COMPANY?

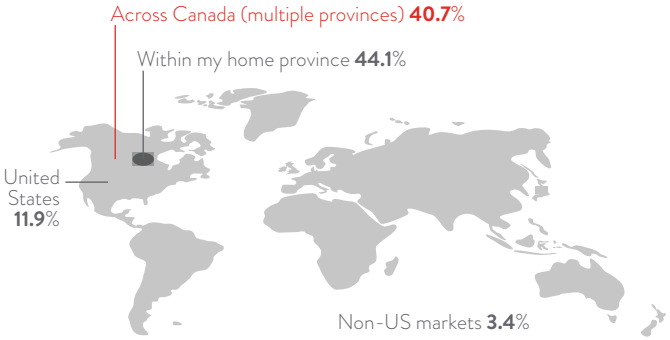
Survey participants tend to be small and medium-sized businesses. Nearly 57 per cent of all reporting businesses have fewer than 100 employees. Roughly 27 per cent are mid-sized companies with 100 to 499 employees, while the remaining 16 per cent are large companies with more than 500 employees. Compared to our 2018 survey, these figures represent a modest increase in the share of small-business respondents and a small decrease in responses from mid-sized and larger companies.



Food & beverage products	22%	Fabricated metal products	20%
Machinery & equipment	11%	Health & personal care products	8%
Computers, electronics & advanced technologies	6%	Plastics & rubber products	5%
Other transportation equipment	5%	Automobiles, parts & components	3%
Furniture & related products	3%	Wood products	3%
Other	3%	Petroleum &/or chemical products	3%
Aerospace vehicles, parts & components	2%	Non-metallic mineral product	1%
Textiles	1%	Household products (ie cleaning or paper products)	1%
Paper	1%	Machinery manufacturing	1%
Printing	1%	Leather & allied products	0.5%

WHICH CATEGORY BEST DESCRIBES THE GOODS YOUR COMPANY PRODUCES?

The 2020 MIS reflected the views of respondents from across the manufacturing spectrum. The largest representation was from companies in food and beverage products, with about 22 per cent of total responses, followed by fabricated metal products, at 20 per cent. The only other industry to crack the double digits was machinery and equipment, which accounted for 11 per cent of total responses. The remaining responses were relatively evenly spread across a wide range of manufacturing activities.



WHAT IS THE PRIMARY MARKET FOR YOUR BUSINESS ?

Most manufacturers focus their activities on the domestic market. About 44 per cent stated that they sold primarily within their home province, while just under 41 per cent reported that they sell across the country. About 12 per cent focus their efforts on Canada's largest trading partner, the United States, while about 3.5 per cent produce goods primarily for overseas markets. Compared to the 2018 survey, this edition of the survey features companies that are more domestically focused.

ECONOMIC & BUSINESS CONDITIONS

The Canadian economy continues to recover from the COVID-19 pandemic. While economic growth surged coming out of the lockdown, activity has cooled markedly since that time, and a second wave of infections threatens to stifle the recovery. The manufacturing industry has also been hit hard by the pandemic. Although it has recovered at a somewhat faster pace than that of the overall economy, it still faces numerous challenges heading into the fall and winter. In this context, the 2020 MIS asked Canadian manufacturers about current business conditions and about the outlook for the next three years.

WHAT IS THE PRESENT VOLUME OF PRODUCTION AT YOUR BUSINESS COMPARED WITH THE SAME PERIOD ONE YEAR AGO?

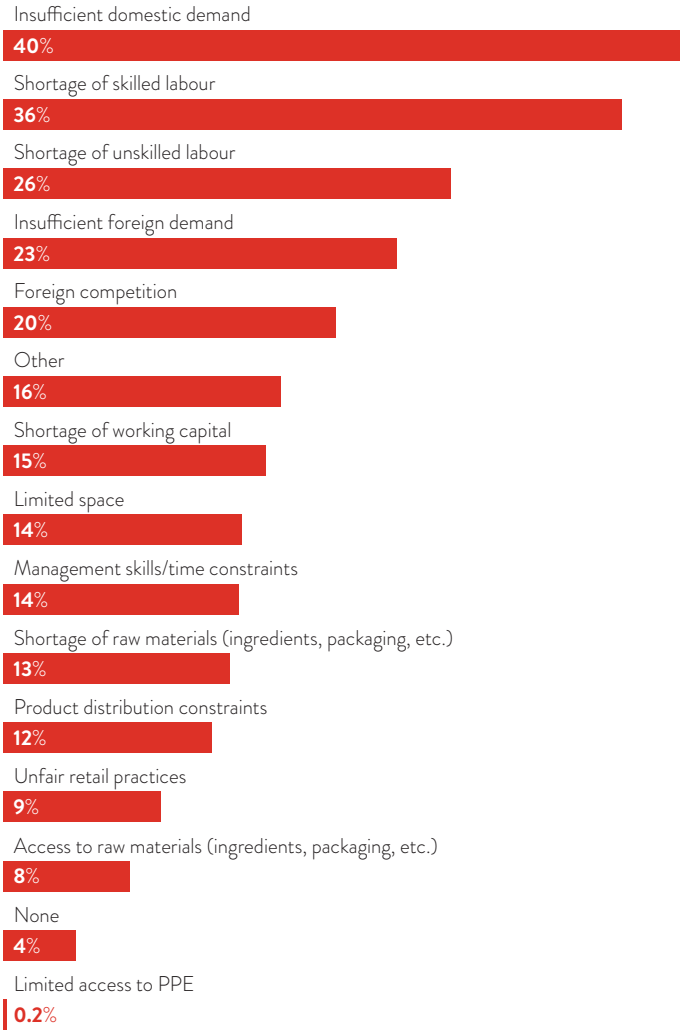
Given this year's economic turmoil, it should not be a surprise that a plurality of respondents had a negative view of current business conditions. A little less than 42 per cent of manufacturers reported that their current level of production was lower today than one year ago. About 32 per cent said production was higher, while the remaining 26 per cent said production levels were about the same.

WHAT ARE THE MOST IMPORTANT FACTORS THAT ARE LIMITING YOUR ABILITY TO INCREASE SALES OR PRODUCTION?

We also asked respondents to assess the most important factors that are limiting their ability to increase sales or production. With both the global and Canadian economies contracting this year, manufacturers ranked insufficient domestic demand (40 per cent) and insufficient foreign demand (23 per cent) as top factors. Again, this is not a surprise.

Canadian manufacturers are also clearly concerned about finding the workers they need, and this is limiting their ability to expand production. About 36 per cent of respondents rated a shortage of skilled workers as a key factor, while about 26 per cent cited a shortage of unskilled workers. Finding qualified workers has been a perennial concern of manufacturers.

Other important factors cited by respondents included foreign competition, a shortage of working capital, and space limitations. At the other end of the spectrum, very few manufacturers seem concerned about accessing PPE, suggesting that supply constraints that were posing challenges early in the pandemic have been largely resolved.



WHAT IS THE STATE OF YOUR COMPANY'S INVENTORY OF FINISHED GOODS, ORDERS RECEIVED, AND UNFILLED ORDERS?

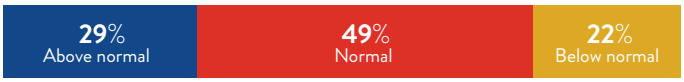
On a positive note, forward-looking indicators imply that the sector will continue to expand, although current economic conditions suggest that the pace of recovery will slow. Nearly 35 per cent of respondents said that their orders are rising, higher than the 26 per cent that said their orders were declining. More manufacturers also said their backlog of unfilled orders (29 per cent) was above normal than those that said it was below normal (22.0 per cent).

Finally, most manufacturers do not find themselves with an excess of inventory. According to the 2020 MIS, more than two-thirds of respondents reported that their inventory of finished goods is about right, while less than 15 per cent said they were too high, while 18 per cent expressed concern that they were too low.

THE INVENTORY OF FINISHED GOODS ON HAND IN YOUR BUSINESS IS:

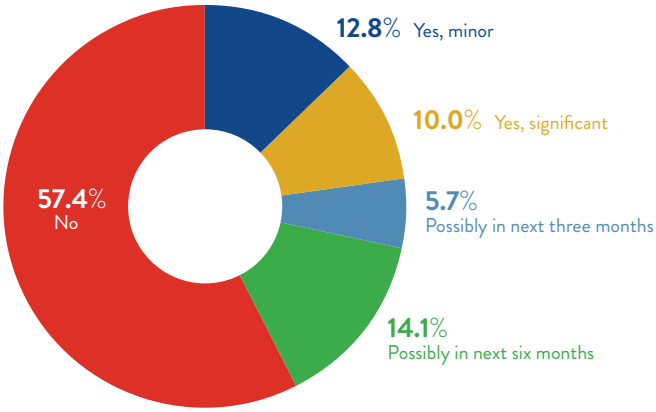
ORDERS RECEIVED BY YOUR BUSINESS ARE:

THE PRESENT BACKLOG OF UNFILLED ORDERS OF YOUR BUSINESS IS:



ARE YOU CURRENTLY OR DO YOU ANTICIPATE EXPERIENCING LIQUIDY/CASH FLOW ISSUES?

The COVID-19 crisis induced a sharp drop in cash flow among many firms, raising serious concerns about liquidity and the ability to comply with existing financial arrangements. Governments stepped in early in the crisis with several emergency measures to help keep companies afloat. With many of these programs still in place and with the economy still in recovery mode, the liquidity crisis seems to have largely passed, though not all companies appear to be out of the woods. More than half of respondents (57.4 per cent) reported that they were not experiencing or anticipating liquidity or cash flow issues, but 1 in 10 were still bracing for significant problems.



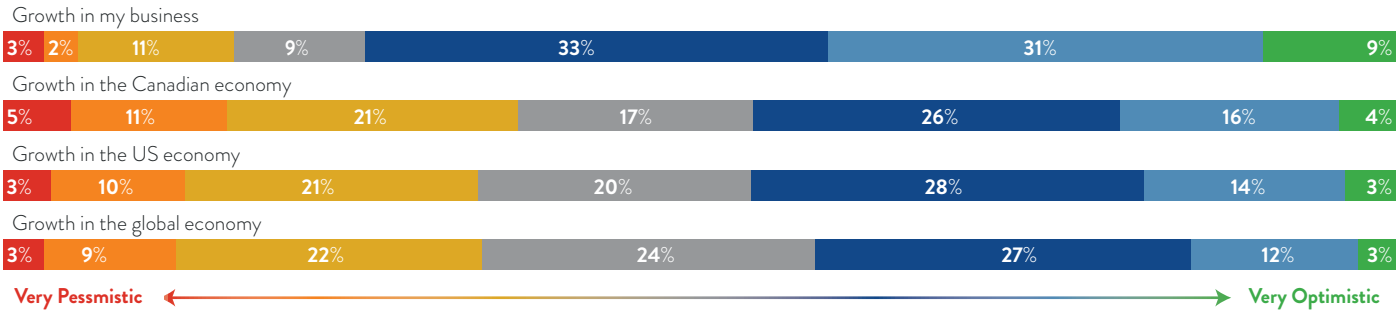
WHAT IS YOUR BUSINESS OUTLOOK FOR THE NEXT THREE YEARS?

The 2020 MIS asked participants to rate their economic expectations for the next three years ranging from 'extremely pessimistic' to 'extremely optimistic.' They were asked to judge the outlook for their own business along with that of the Canadian, US and global economies.

In general, respondents were more optimistic about the outlook for their own business than they were about the Canadian, US, and global economies. About 41 per cent were optimistic or extremely optimistic about their business growth prospects, while only 5.5 per cent were pessimistic or extremely pessimistic.

On the other hand, only about 20 per cent of respondents were optimistic or extremely optimistic about growth prospects for the Canadian economy, a touch higher than the 18 per cent who rated US economic growth prospects in the same light. But a higher share of respondents were more pessimistic about the Canadian economy than the US economy. Some 16 per cent of manufacturers were pessimistic or extremely pessimistic about growth prospects for the Canadian economy, higher than the roughly 13 per cent that gave the same rating to the US economic outlook.

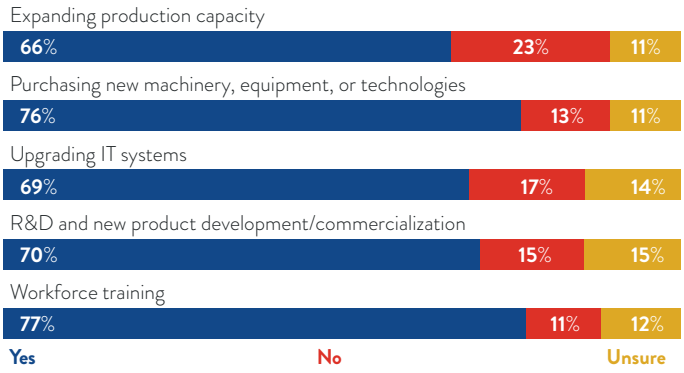
Finally, businesses were, in the aggregate, largely neutral about the global economy. According to the survey, 14.5 per cent were optimistic or extremely optimistic, just a touch above the 12.5 per cent that were pessimistic or extremely pessimistic.



DOES YOUR COMPANY PLAN ON MAKING ANY MAJOR NEW INVESTMENTS IN CANADA OVER THE NEXT THREE YEARS?

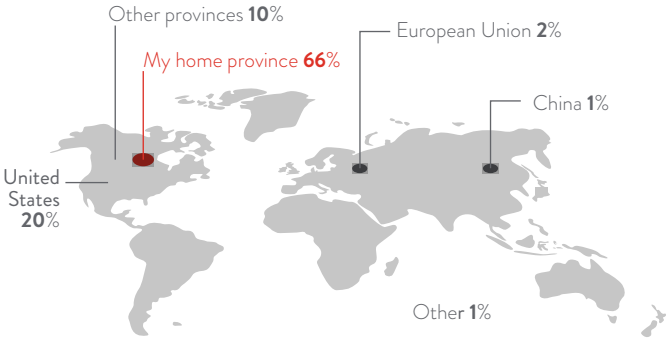
Business optimism fuels investment. Even though manufacturers are somewhat concerned about economic prospects, they are still planning to invest in their future success.

For example, they intend to take steps to mitigate the chronic labour and skills shortages that plague the sector, with 77 per cent of participants reporting that they will be investing in workforce training in the coming years. A similar proportion (76 per cent) plan to invest in new machinery and equipment, while some 70 per cent are exploring options to boost innovation and commercialization. Finally, two-thirds of respondents plan to invest in new production capacity in the next three years.



IF YOUR COMPANY WERE TO MAKE A MAJOR NEW INVESTMENT IN THE NEXT THREE YEARS, WHICH DESTINATION WOULD BE MOST ATTRACTIVE?

At first glance, it may appear that the responses to this question endorse Canada as an investment destination. Nearly two-thirds of participants would invest in their current province of operation and an additional 10 per cent would invest in another Canadian province. But instead, this result is fairly concerning. This is because the share of companies that consider the Canadian market as the most attractive place to invest (76 per cent) is lower than the share of Canadian-based firms participating in the survey (84 per cent). This tells us that some Canadian-headquartered companies think that they would be better off making major investments in other countries than at home.



COVID-19

COVID-19 has had a tremendous impact on all aspects of our lives, including on the economy and the manufacturing sector. To gauge short-term and potential long-term effects of the pandemic, we added a series of questions to this year's survey on the topic of COVID-19.

WHAT CHANGES HAS YOUR BUSINESS MADE TO ADAPT TO THE COVID-19 PANDEMIC?

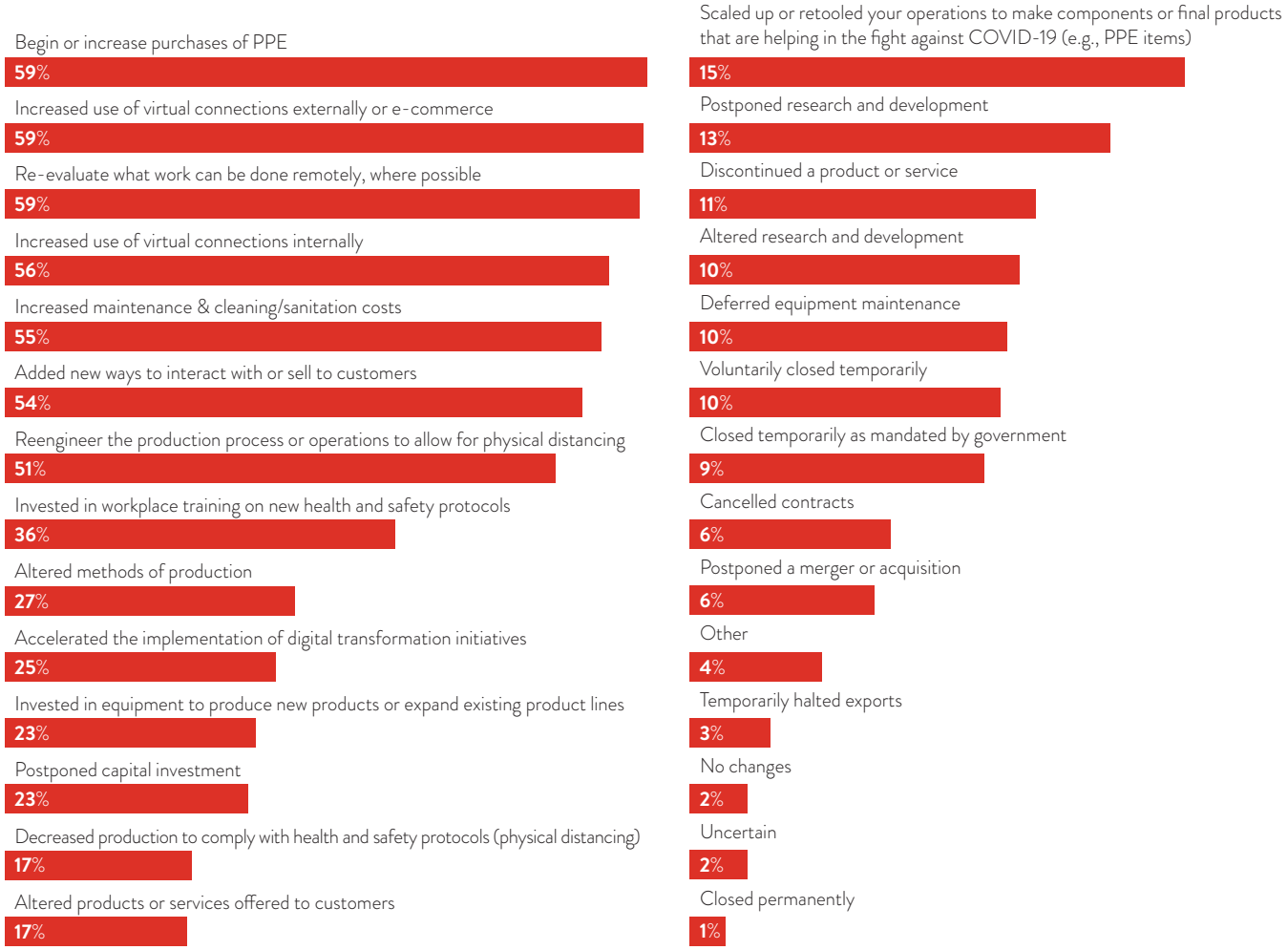
When the pandemic started, manufacturers were forced to adapt quickly to ensure operational continuity and employee safety. For example, 60 per cent of those surveyed began or increased purchases of personal protective equipment (PPE). We asked these firms what types of PPE they have been purchasing. Almost all are buying disinfectant and hand wipes, over three-quarters are buying disinfectant wipes and eye protection and face shields, while more than half are purchasing surgical masks, nitrile gloves, thermometers, and plexiglass or sneeze guards.

More than half of manufacturers have also adapted to the pandemic by taking the following steps: increasing the use of virtual connections and e-commerce, re-evaluating what work can be done remotely, increasing the frequency of cleaning and sanitation, adding new ways to interact with or sell to customers, and reengineering the production process to allow for physical distancing. Many of these changes are also happening across the wider economy.

At the same time, Canadian manufacturers have also stepped up during the crisis by scaling up or retooling their operations to make components and final products that are helping in the fight against COVID-19. According to our survey, some 15 per cent of manufacturers have made this switch, producing such products as eye protection and face shields, hand sanitizer, disinfectant and disinfectant wipes, and surgical masks. In other words, not only are manufacturers major purchasers of PPE, but they are also major producers.

Finally, at the other end of the spectrum, less than 2 per cent of respondents reported not making any changes that can be traced back to COVID-19, an indication of how disruptive the pandemic has been to the industry. A similar proportion were uncertain if any changes had been made.

WHAT CHANGES HAS YOUR BUSINESS MADE TO ADAPT TO THE COVID-19 PANDEMIC?



APPROXIMATELY, HOW MUCH HAVE YOU SPENT ON PPE SUPPLIES ACROSS ALL OPERATIONS TO DATE AND HOW MUCH DO YOU EXPECT TO SPEND FOR THE FULL YEAR 2020?

Staying on the topic of PPE, purchases of these health and safety products have clearly become a significant expense for manufacturers since the start of the pandemic. To find out how much PPE purchases have added to business costs, we asked respondents to estimate how much they have spent to date this year and how much they expect to spend for the full year. For the nearly 60 per cent of respondents that began or increased purchases of PPE this year due to COVID-19, average costs to date were estimated at $201,500. For the full year, average costs were expected to rise to $373,400.

WHAT GOVERNMENT EMERGENCY SUPPORT PROGRAMS HAS YOUR COMPANY RECEIVED OR IS RECEIVING?

Governments responded to the COVID-19 crisis by taking swift and unprecedented policy action. Numerous emergency programs have been introduced to support households and businesses since the start of the pandemic. Given that COVID-19 remains a serious threat, many of these programs are still ongoing. To gauge the popularity and usefulness of these programs, CME asked manufacturers which support programs they have received or are continuing to receive during the pandemic.

One thing clearly stands out: the Canada Emergency Wage Subsidy (CEWS) has been a vital lifeline for manufacturers. In fact, over half of respondents say they have received or are receiving CEWS payments, the most widely used COVID-19 emergency program among Canadian manufacturers.

At the same time, close to 22 per cent of respondents have participated in the Canada Emergency Business Account (CEBA). Two other programs have also seen double-digit uptake: about 18 per cent of respondents have sought tax relief in the form of a deferral of taxes, while about 16 per cent have accessed the federal government's 10% Temporary Wage Subsidy for Employers. On the other hand, about one-quarter of manufacturers say they have not participated in any government emergency support program since the beginning of the crisis.

WHAT IS THE LIKELIHOOD OF VARIOUS MEASURES BEING PERMANENTLY ADOPTED ONCE THE COVID-19 PANDEMIC IS OVER?

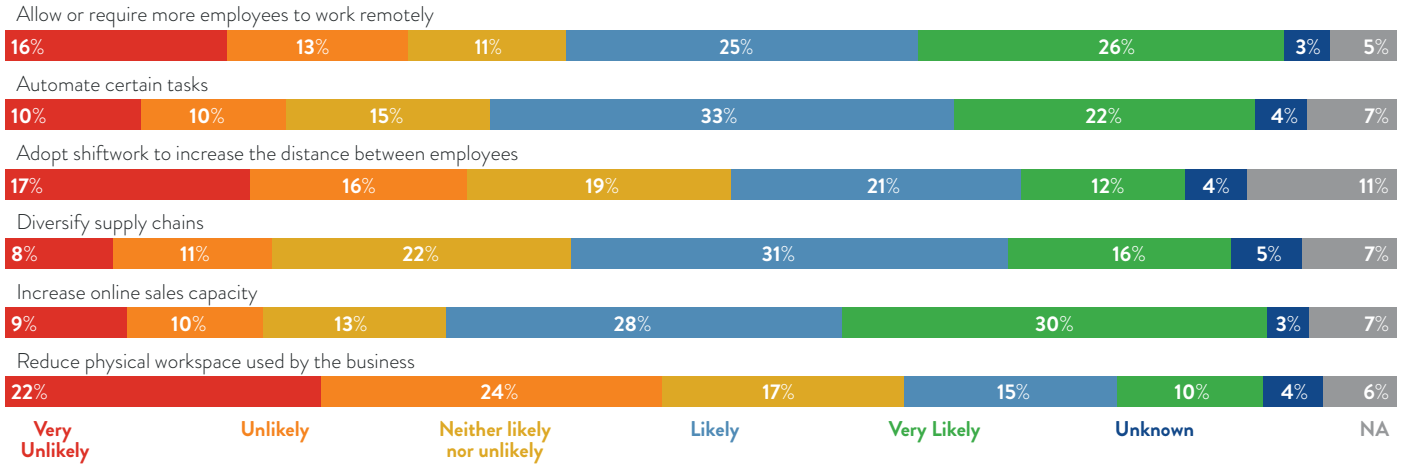
As discussed earlier, COVID-19 forced businesses to make significant changes in their operations. We asked manufacturers about the likelihood of these various changes being permanently adopted once the pandemic has ended.

Manufacturers appear most committed to increasing online sales capacity even after the crisis has passed. Close to 60 per cent of respondents said they are likely or very likely to adopt this measure permanently, compared to only 18.4 per cent who said it was unlikely or very unlikely.

Given the high cost of health-and-safety compliance and the disruptions to production caused by COVID-19, about 55 per cent of survey participants signalled that they would continue to look for ways to automate certain tasks, while just 20 per cent said that was unlikely.

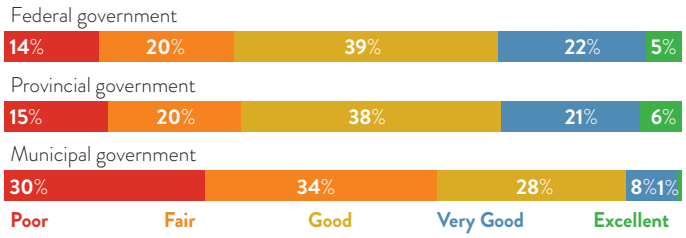
At the same time, just under half of manufacturers said it was likely or very likely that they would diversify supply chains even after the pandemic was over, while less than 20 per cent thought this was unlikely or very unlikely. ¡This could present opportunities for Canada to attract investment from firms looking to reshore manufacturing.

On the other hand, manufacturers are sceptical about two specific measures being permanently adopted at the conclusion of the crisis: reducing the physical workspace used by the business and adopting shiftwork to increase the distance between employees. Those two trends are likely to end with the pandemic.



OVERALL, HOW WOULD YOU RATE THE RESPONSE TO DATE FROM THE FOLLOWING LEVELS OF GOVERNMENT IN THEIR SUPPORT OF MANUFACTURING OPERATIONS DURING THE COVID-19 PANDEMIC?

We also asked survey participants to rate governments' response in supporting businesses during the pandemic. Industry generally gives high marks to the federal and provincial governments but is less enthusiastic about the response of municipalities. About two-thirds of respondents rated the federal and provincial governments' response as good, very good or excellent, while just one-third said it was poor or fair. On the other hand, the grades given to municipalities were almost the inverse: 36 per cent of manufacturers said the response by municipal governments has been good or better, with 64 per cent rating it as poor or fair.

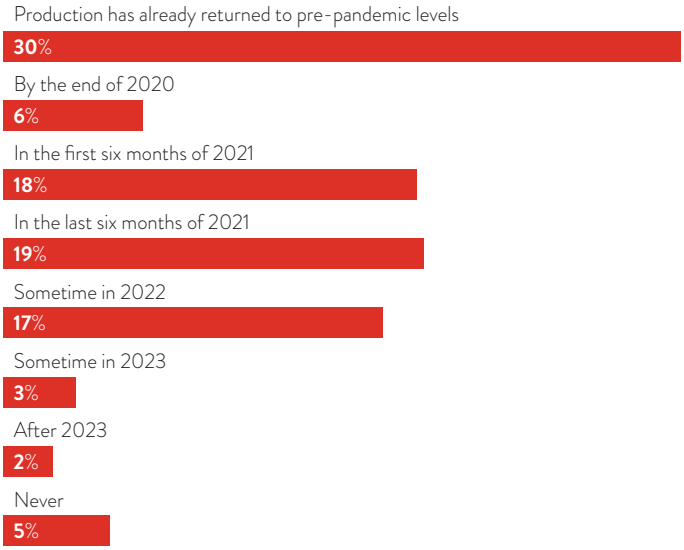


WHEN DO YOU EXPECT YOUR PRODUCTION TO RETURN TO PRE-PANDEMIC LEVELS (THE LEVEL OF PRODUCTION AS OF FEBRUARY 2020)?

A key question on many people's minds is how quickly the economy will fully recover from the COVID-19 crisis. To get a sense of what we should expect, we asked survey respondents for a timeline of when they think their operations will be back up to full speed if it has not happened already.

According to our survey, about 30 per cent of manufacturers have already seen their production return to the pre-pandemic levels of February 2020, while an additional 6 per cent think they will reach that threshold by the end of this year. Roughly 18 per cent think they will experience a full recovery in the first half of 2021, and a similar proportion expect that to happen in the second half of that year. Meanwhile, just under 17 per cent predict that a full recovery will be achieved sometime in 2022.

Unfortunately, about 10 per cent of respondents were much more pessimistic about the outlook. About 3 per cent think a full recovery is not in the cards until 2023, a further 2 per cent think it will not happen until 2024 or later, and nearly 5 per cent predict that their sales will never fully recover.

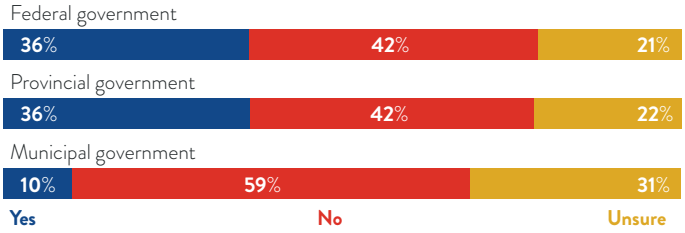


TAX & REGULATORY POLICY

There is widespread agreement within the business community and among analysts that Canada needs to improve its global investment competitiveness, a key foundation of economic prosperity. Past iterations of this survey show that many manufacturers agree with the assessment that Canada needs to step up its game and become more competitive. The 2020 MIS once again asks respondents to rate government tax and regulatory policy and to suggest actions that governments can take to promote investment and growth in the manufacturing sector.

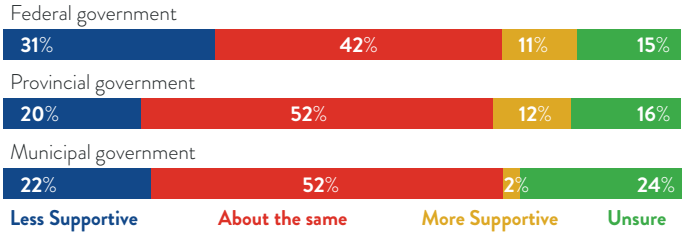
DO YOU BELIEVE THAT GOVERNMENTS ARE SUPPORTING INVESTMENTS IN, AND GROWTH OF, YOUR COMPANY?

When asked simply if governments are supporting investments in, and growth of, their company, more respondents said no than yes, and this was for all levels of government. Results for the federal and provincial governments were nearly identical: about 36 per cent said yes, 42 per cent said no, and 22 per cent were uncertain. In contrast, manufacturers were much more negative about municipalities: only 1 in 10 survey participants agreed that local governments were supporting investment and growth in their business.



HAVE GOVERNMENT TAX AND REGULATORY POLICIES BECOME MORE SUPPORTIVE OR LESS SUPPORTIVE OVER THE PAST THREE YEARS?

Most survey participants also do not believe that tax and regulatory policies are improving at any level of government. Only about 11 per cent of respondents feel that federal and provincial government policies have improved over the last three years. In contrast, more than 30 per cent of those surveyed think that federal government tax and regulatory policy has deteriorated over that time, while 20 per cent feel the same way about provincial government policy.



These results reflect progress compared to the 2018 survey when only about 5 per cent of respondents said that federal and provincial government policies had improved. This upgrade in assessment might be related to the numerous support measures introduced during the pandemic. That said, as in previous surveys, the 2020 MIS shows that manufacturers are generally dissatisfied with the government policy support that they are receiving.

Finally, respondents once again reserved their most pointed criticism for their local governments. A mere 2.5 per cent of survey participants said that policies at the municipal level have become more supportive over the past three years, down from about 4 per cent in 2018. At the same time, 1 in 5 respondents felt that support had deteriorated, down from nearly one-third in our previous survey.

WHICH GOVERNMENT ACTIONS WOULD BE MOST HELPFUL IN SUPPORTING AND EXPANDING YOUR BUSINESS?

As noted earlier, manufacturers see labour and skills shortages as one of their most pressing concerns. But, when it comes to the most important role for government in supporting business growth, they prioritize tax reform. There is little doubt that the major US tax reform measures implemented in 2018 still reverberate today. In fact, 37 per cent of survey participants said that action to improve Canadian tax competitiveness should be at the top of governments' agendas, down somewhat from the 45 per cent of respondents that selected this measure in 2018. Manufacturers also want governments to prioritize the promotion of "Made in Canada" manufactured goods at both home and abroad (30 per cent) and to introduce targeted tax incentives for capital investment and exports (29 per cent).

Not surprisingly, businesses see a role for government in addressing labour and skills shortages. Some 28.5 per cent of respondents believe that more government action is needed in this area. Over 1 in 5 respondents also believe that governments should do more to lower energy costs.

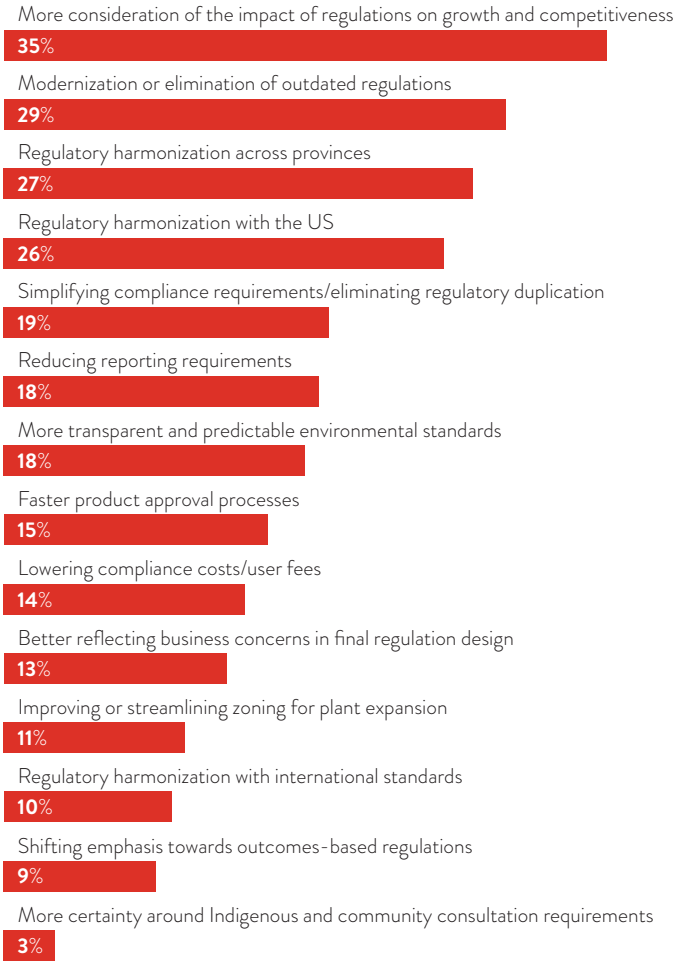
WHICH TAX MEASURES WOULD BENEFIT YOUR COMPANY THE MOST?

Given that tax competitiveness is a top business priority, we also asked survey participants to identify the three tax measures that would benefit their company the most. Two measures stood out from among the rest. First, businesses are calling for tax credits to encourage investment in new capital, machinery, and equipment. Not only is this support needed to rekindle lagging capital investment in Canada, but it is also needed to match the superior tax incentives currently in place in the US. Second, manufacturers would like to see a reduction in their headline corporate tax rate—another reminder that Canada's business tax advantage over the US has been eliminated. Both policy measures were selected by over 40 per cent of respondents.

WHICH REGULATORY CHANGES WOULD BENEFIT YOUR COMPANY THE MOST?

Businesses are also concerned about Canada's regulatory burden and the associated compliance costs. Addressing regulatory issues is more challenging than taxation because, while the tax regime is relatively uniform, companies are affected by a wide range of regulations depending on the industry in which they operate.

At the top of the list, 35 per cent of survey respondents want governments to prioritize the impact that regulations can have on business growth and competitiveness when regulations are being made, reviewed or revised. Next, close to 30 per cent of manufacturers would like governments to focus their attention on the modernization or elimination of outdated regulations, while more than one-quarter are looking for governments to make regulatory harmonization across provinces and with the United States a policy priority.



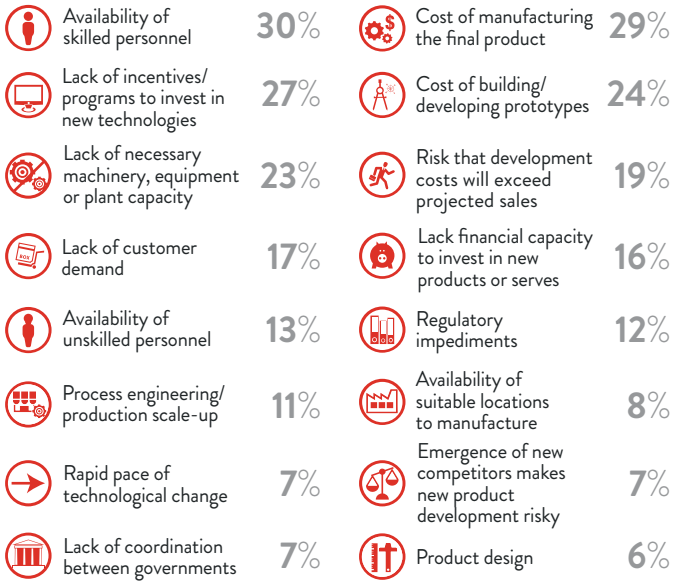
INNOVATION, COMMERCIALIZATION & TECHNOLOGY ADOPTION

Innovation, commercialization, and technology adoption are all essential elements to improve Canada's productivity and competitiveness. Unfortunately, Canada lags many other industrialized nations in all these areas, and these troubling trends will need to be reversed if we are to assure future prosperity. Just like the broader economy, Canada's manufacturing sector also struggles with these pillars of progress. Previous editions of our survey have detailed the obstacles that Canadian manufacturing firms face in their innovation and commercialization activities, while also offering potential solutions. We return to this topic again to see if any progress has been made or if more work needs to be done to put Canada on a path to creating a more modern and innovative economy.

WHAT ARE THE MOST SIGNIFICANT CHALLENGES YOUR COMPANY FACES WHEN BRINGING NEW PRODUCTS OR SERVICES TO MARKET?

In answering this question, the now-familiar theme of skilled labour shortages re-emerges. About 30 per cent of survey respondents identified the availability of skilled workers as one of the most significant obstacles they face when looking to innovate, down from 2018 but matching the results of our 2016 survey. Skilled workers are critically important not only for their expertise, but also for their ideas and ability to translate those ideas into new products and services.

Likewise, almost the same number of those surveyed flagged the cost of manufacturing the final product as an obstacle to innovative activities, perhaps another sign that Canada's economy is being held back by an uncompetitive business environment. As well, about 27 per cent cited the lack of incentives and programs to invest in new technologies. This latter obstacle could be overcome through measures such as an investment tax credit.



HAS YOUR COMPANY EVER APPLIED FOR A GOVERNMENT SUPPORT PROGRAM DESIGNED TO ENCOURAGE INVESTMENT IN NEW MACHINERY, EQUIPMENT OR TECHNOLOGIES?

Although the government offers several support programs to encourage investment in new machinery, equipment and technologies, our survey finds that few manufacturers ever apply for them. In fact, only one-third of survey respondents said that their company had used one of these programs, compared to close one-half that had not. It is worth noting that a significant share (20 per cent) was unsure, which suggests that either businesses have not used government support programs or that their impact was not especially significant.

Even more worrying, these uptake rates are lower than what we found when we asked the same question in 2018. In our previous survey, more than 41 per cent of respondents said they had applied for an investment support program, while 36 per cent had not.

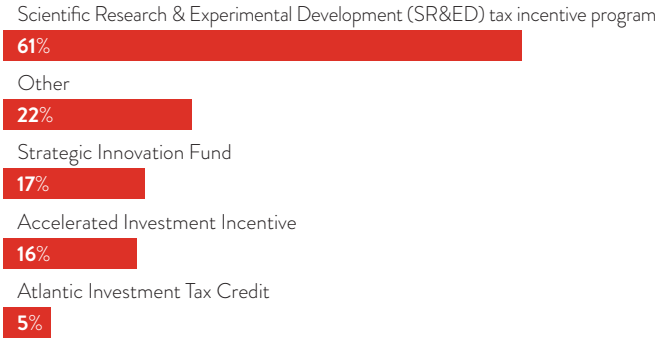
The main obstacles to higher participation may include low awareness of these programs and their benefits, long and difficult application processes, and the unpredictable nature of whether applications will even be successful.

WHAT SPECIFIC GOVERNMENT INVESTMENT TAX CREDITS HAVE YOU RECEIVED OVER THE PAST 12 MONTHS?

To the one-third of respondents answering 'yes' to the previous question, we asked two follow up questions. The first one asked them to select the specific programs in which they had participated. Among a group of four programs listed in the survey, the Scientific Research and Experimental (SR&ED) program was by far the most popular, with over 60 per cent of respondents saying they had tapped this program for investment support. This makes sense since the SR&ED program is the main mechanism through which the federal government supports business R&D. In fact, the SR&ED program provides over $4 billion in investment tax credits to over 18,000 claimants each year.

Unfortunately, utilization of other programs is much lower. For instance, only about 16 per cent of respondents say they have experience with the Strategic Innovation Fund (SIF).

Respondents were also able to manually input other programs that they had used in the past, with most mentioning those designed to support investment in specific regions or industries. Survey participants reported having experience with programs such as the Steel and Aluminum Program, which is administered through the SIF and designed to offset the impact of US tariffs; the Ontario Automotive Modernization Program (OAMP); and ESSOR, a provincial program that is administered jointly by Investissement Québec and the Ministère de l'Économie et de l'Innovation.

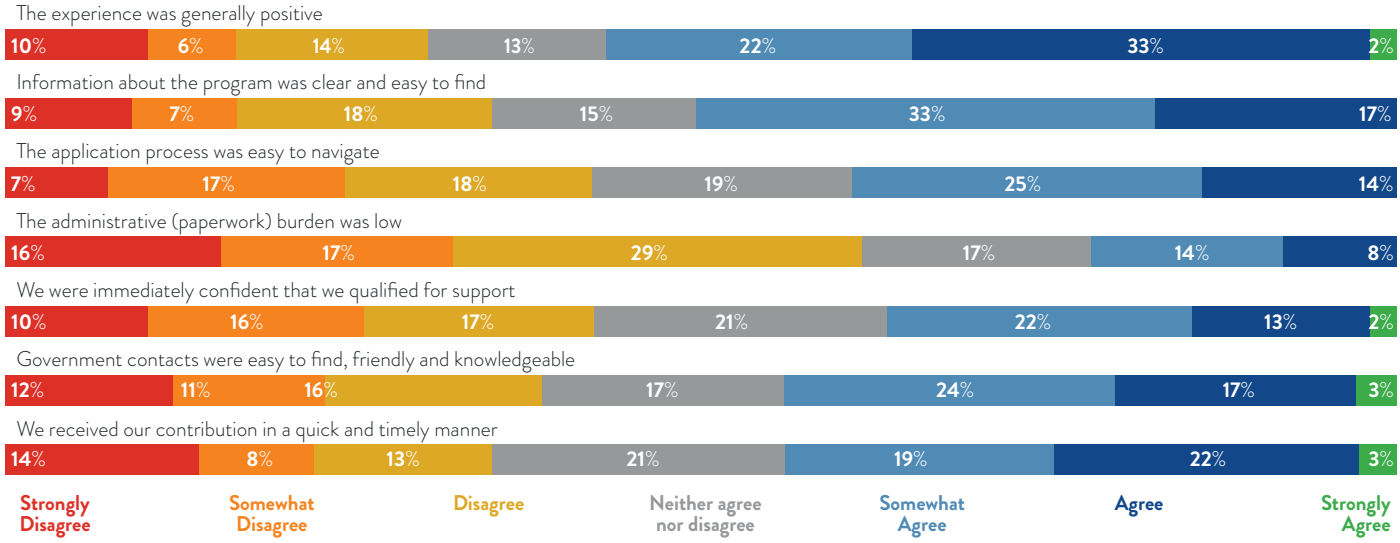


HOW WOULD YOU RATE YOUR EXPERIENCE WITH THESE GOVERNMENT SUPPORT PROGRAMS?

Survey respondents who indicated that they had used government investment support programs in the past were also asked about their general experience with them. Participants were given a series of statements and asked to rank their experience on a five-point scale that ranged from 'strongly disagree' to 'strongly agree.'

The good news is that a clear majority of respondents rated the overall experience as positive. That said, there are areas where improvement is clearly needed. For instance, only a little over 1 in 5 participants agreed with the statement that the administrative burden was low, while only about 2 in 5 thought that the application process was easy to navigate.

At the same time, only slightly over one-third of respondents felt immediately confident that their applications would be successful. Given this uncertainty about the prospects of approval, Canada's investment support programs may not be as effective as the could be at encouraging business investment, which is the main policy objective. This is because businesses typically do not have the time to wait and see if their application for investment support has been approved before beginning the process of purchasing new capital equipment. In other words, companies often must make their final investment decision before knowing if any of their associated costs and risks will be offset.

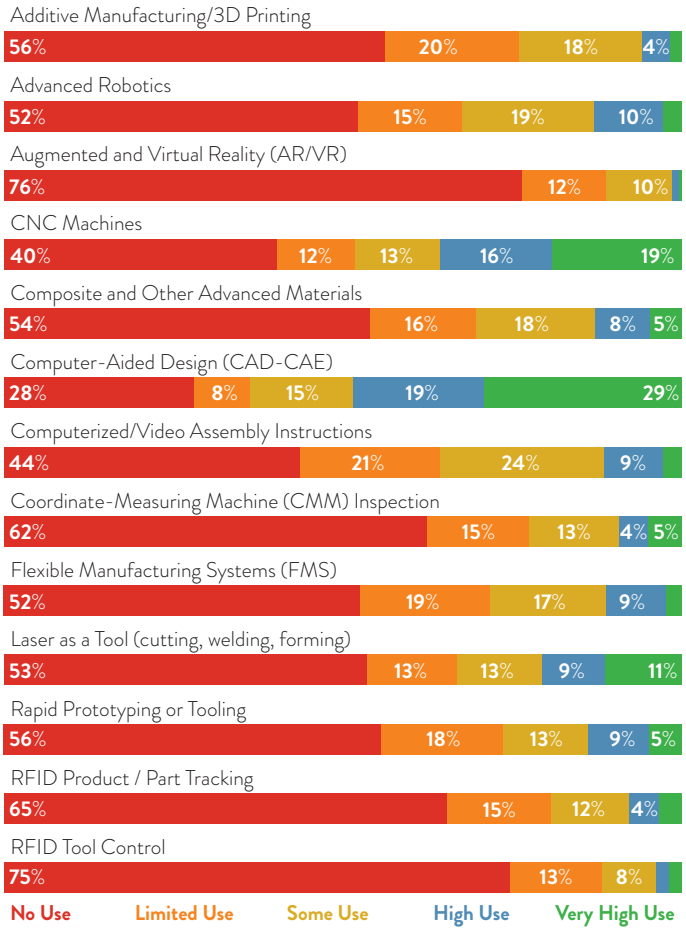


WHAT IS YOUR COMPANY'S LEVEL OF USE FOR ADVANCED AND EMERGING MANUFACTURING TECHNOLOGIES?

The adoption and integration of new advanced technologies is critical to the long-term competitiveness of manufacturing in Canada. We asked survey participants to rate their level of use for a series of advanced manufacturing technologies, based on a five-point scale that ranged from 'no use' to 'very high use.'

Unfortunately, of the 13 technologies listed, only 3 were in use by more than half of the respondents: computer-aided design (CAD-CAE), CNC machines, and computerized/video assembly instructions. And, for the vast majority that use computerized/video assembly instructions, it is only of limited or some use.

Technologies such as augmented and virtual reality (AR/VR), RFID tool control, and RFID product/part tracking had the lowest usage rates. Perhaps these are leading edge technologies, and their time is coming, but all in all, the results of this question reinforce the need for more government support to help businesses implement advanced technologies.



DOES YOUR COMPANY PLAN ON INVESTING IN ADVANCED MANUFACTURING TECHNOLOGIES WITHIN THE NEXT THREE YEARS?

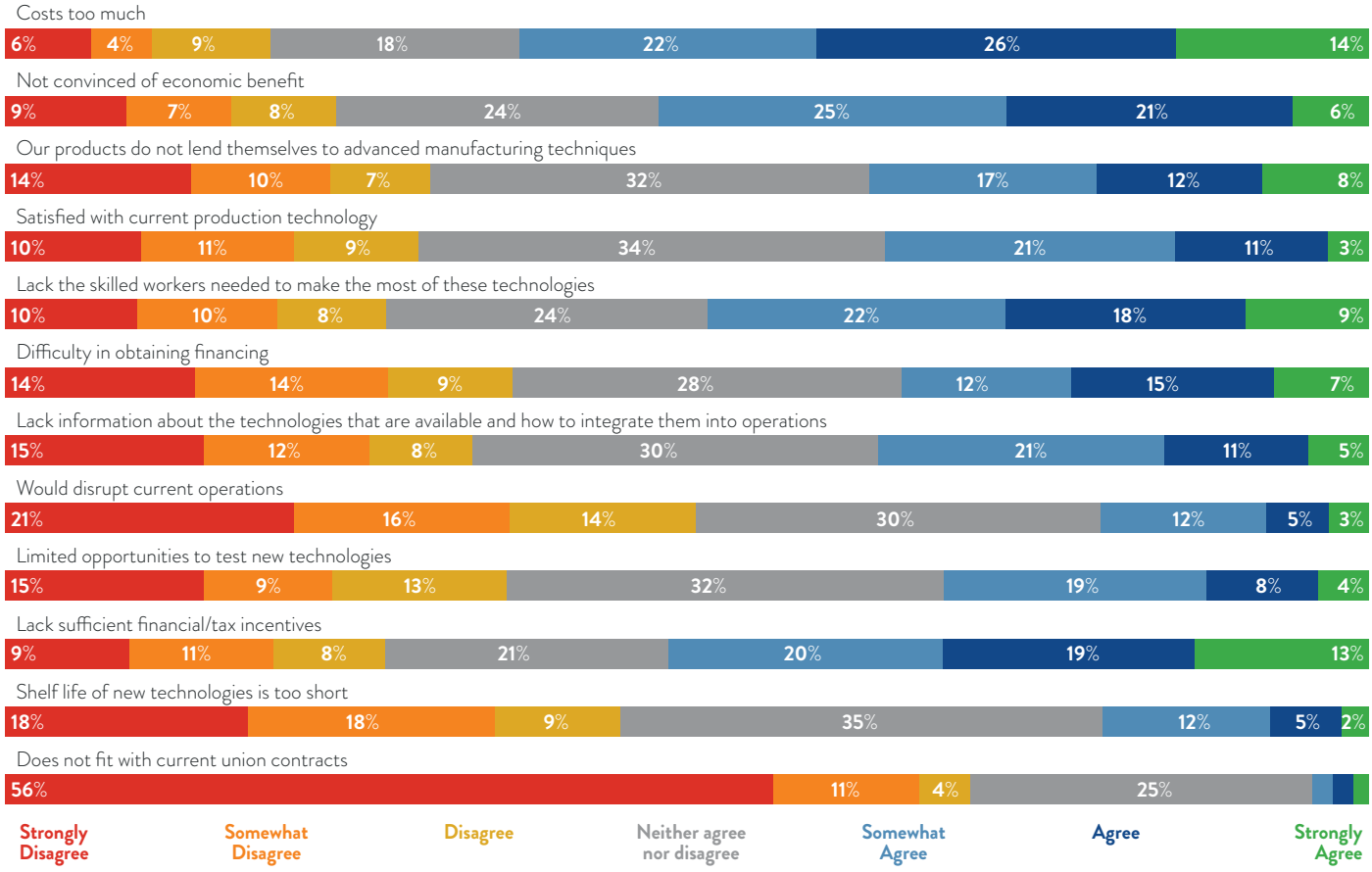
The good news is that even if uptake of advanced manufacturing technologies is low today, some businesses are acting to change that. More than half of respondents said they plan to invest in new technologies within the next three years, while only 1 in 5 have no intention of doing so. The remaining one-quarter of participants were unsure about their company's advanced manufacturing investment plans.

WHAT ARE THE MAIN OBSTACLES PREVENTING YOUR COMPANY FROM INVESTING MORE IN ADVANCED TECHNOLOGIES?

As was the case in previous surveys, the clearest obstacle to adopting new technologies is linked to cost. Over 60 per cent of businesses stated that the price tag was an important obstacle, of which 40 per cent said it was very or extremely important. Respondents also cited the lack of financial and tax incentives as an important hurdle. Both these statements provide yet further evidence of the need for stronger government support to offset costs.

Many survey participants also remain unconvinced about the economic benefit of investing in advanced technologies. This highlights the need for the government to work with industry associations and other stakeholders to develop awareness campaigns that demonstrate the benefits of technology adoption.

In contrast, respondents were less concerned about advanced technology adoption disrupting current operations or about the potential short shelf life of such technologies. Less than 1 in 5 businesses rated these obstacles as important.



CLIMATE & ENVIRONMENTAL POLICY

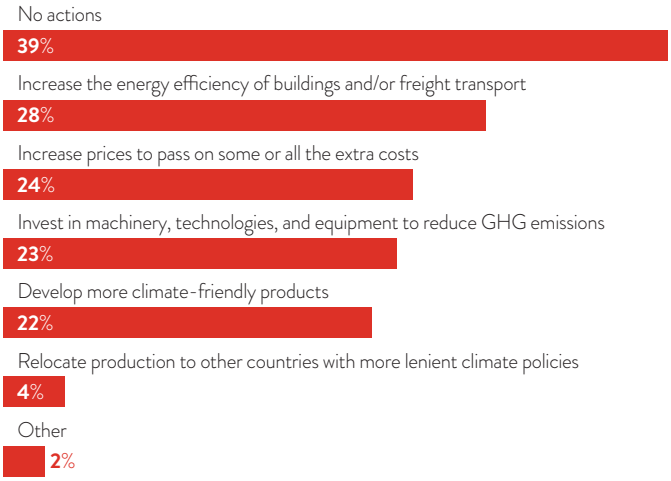
Given the rising salience of climate change as a policy issue, this year's edition of the MIS features various questions on this topic, including asking manufacturers to weigh the impact of Canada's climate policies on their competitiveness. Also, with the federal government recently releasing its list of single-use plastics to be banned by the end of 2021, we also ask survey participants about government measures that would be most effective at helping manufacturers reduce plastics waste in the environment.

HOW WOULD YOU RATE THE IMPACT OF FEDERAL AND PROVINCIAL GOVERNMENT CLIMATE POLICIES ON YOUR COMPANY'S ABILITY TO COMPETE GLOBALLY?

When we asked businesses about the impact of government climate policies on their competitiveness, the results were split relatively evenly. About half of survey participants said that there was either no impact or the impact was minor, while the other half said the impact ranged from moderate to severe. Of course, as governments ramp up their climate change policies in the years ahead, then we are likely to see a rising share of respondents reporting a more significant impact in subsequent survey cycles, unless the government introduces offsetting measures.

WHAT ACTIONS HAVE YOU TAKEN OR PLANNING TO TAKE TO MITIGATE THE IMPACT OF GOVERNMENT CLIMATE POLICIES?

We then asked respondents about the actions they were taking or planning to take to mitigate the impact of government climate policies. A little less than 40 per cent said they were not planning on taking any action, which is consistent with the fact that many businesses have yet to feel much of an impact. Of the firms that are acting or intending to act, 28 per cent were planning to increase the energy efficiency of buildings and/or freight transport. At the same time, some 23 per cent were looking at investing in machinery, technologies, and equipment to reduce GHG emissions. While a similar proportion were also planning to raise prices to pass on some or all the extra costs, most companies will find it difficult to do so given intense competitive pressures. On a positive note, very few manufacturers (3.6 per cent) are thinking about relocating to other countries with more lenient climate policies.



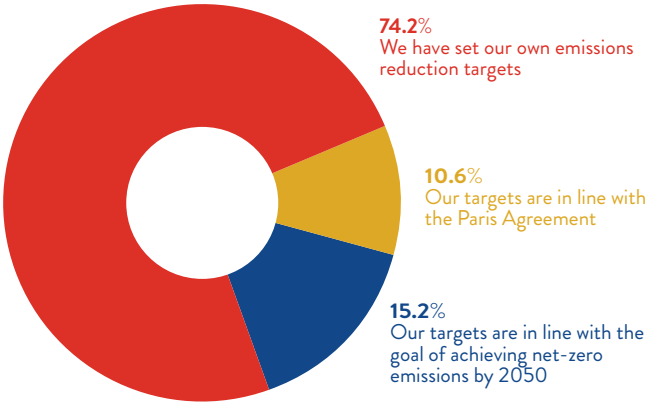
DOES YOUR BUSINESS HAVE EMISSIONS REDUCTION TARGETS IN PLACE?

The federal government has established ambitious GHG emissions reduction targets. Under the Paris Agreement, Canada is committed to reducing its GHG emissions by 30 per cent below 2005 levels by 2030. In addition, the government recently unveiled an accountability framework intended to set Canada on a path to achieve net-zero emissions by 2050.

Against this backdrop, we wanted to know how many businesses have set their own GHG emissions reduction targets. According to our survey, 1 in 5 manufacturers have established targets, 70 per cent have not done so, and the remaining 10 per cent are unsure.

WHICH STATEMENT BEST DESCRIBES YOUR EMISSIONS REDUCTION TARGETS?

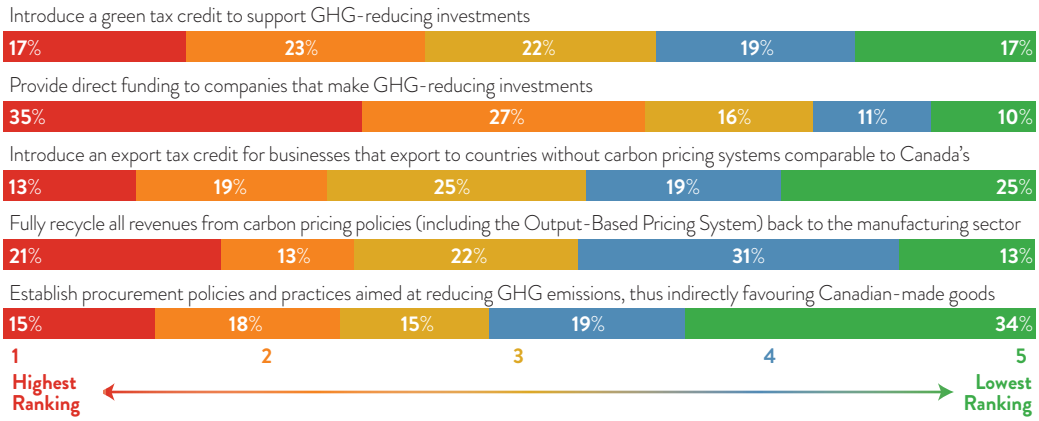
We then asked a follow-up question to those businesses that have established emissions reduction targets. We wanted to know if their targets are in line with the Paris Agreement, in line with the goal of achieving net-zero emissions by 2050, of if they are company-specific targets. Three-quarter of respondents said that their company has set its own internal targets, while 10 per cent have Paris Agreement-level targets, and 15 per cent are aiming to achieve net-zero emissions by 2050.



WHAT GOVERNMENT MEASURES DO YOU THINK WOULD BE MOST EFFECTIVE IN HELPING YOUR BUSINESS ADAPT TO THE IMPACT OF CLIMATE POLICIES?

As mentioned above, despite half of respondents saying that climate policies to date have not had much of an impact, that should change as policies tighten. As such, more and more Canadian businesses will be looking for governments to take offsetting actions to counter the harmful effects of climate policies on competitiveness. Therefore, we asked survey participants to rank, in order of preference, five specific measures that would reduce the costs to businesses of complying with climate change measures.

Based on our survey findings, two measures are most popular: government support to help companies make GHG-reducing investments, provided either through direct funding or through a green tax credit, and the full recycling of carbon pricing revenue back to the manufacturing sector.

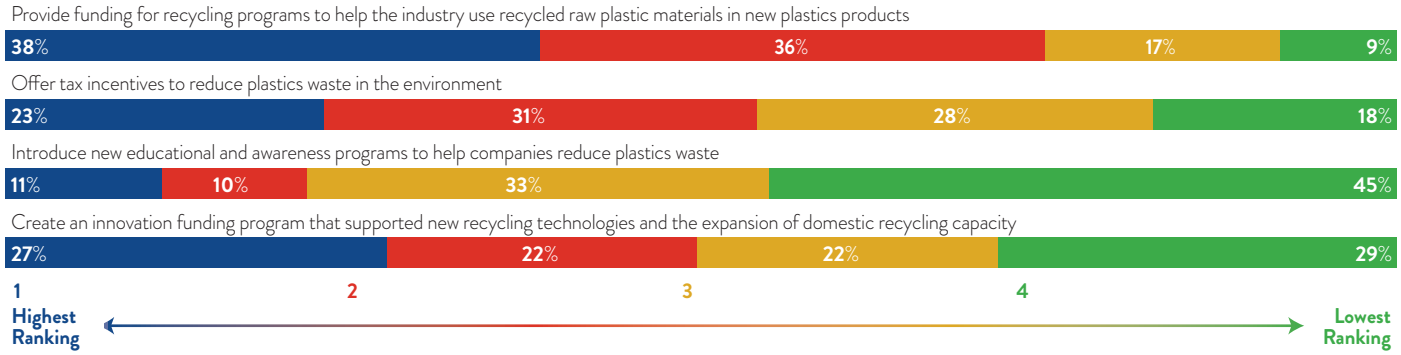


WHAT GOVERNMENT PROGRAMS WOULD BE MOST EFFECTIVE AT HELPING MANUFACTURERS REDUCE PLASTICS WASTE IN THE ENVIRONMENT?

A related topic to climate change is plastics pollution. The federal government's plan to ban single-use plastics by the end of 2021, though laudable in terms of its goal of reducing plastics waste in the environment, is a source of great uncertainty for manufacturers, and raises serious questions about how this policy will affect their operations and willingness to invest in Canada.

Like climate change, manufacturers are seeking government support to help them to adapt to the proposed ban on single-use plastics. So, once again, we asked survey participants to rank, in order of preference, four government programs that would be most effective at helping manufacturers reduce plastics waste in the environment.

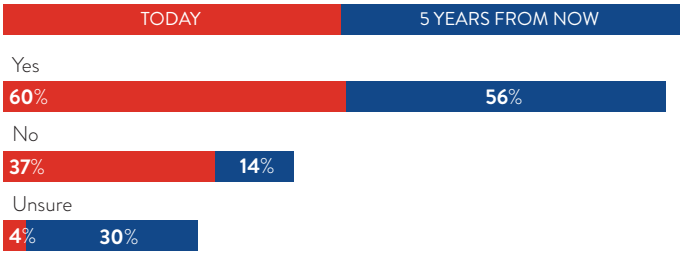
According to our findings, if the government was to provide support, manufacturers would prefer it to be in the form of funding for programs that would help them to increase the use of recycled raw plastic materials in new plastics products. This was the top choice of almost 40 per cent of respondents. Manufacturers would also like the government to offer tax incentives for businesses to reduce plastics waste. Another popular choice would involve the creation of an innovation funding program that supported new recycling technologies and the expansion of domestic recycling capacity.



LABOUR, SKILLS & WORKFORCE TRAINING

This section of the survey focuses on the manufacturing labour force. As mentioned previously, labour and skills shortages are a chronic issue for Canada's manufacturers, and an aging population is only exacerbating the problem. Also, not enough young Canadians are choosing to pursue a career in manufacturing, limiting the number of new entrants into the workforce. Manufacturers are also struggling to keep up with the cost of training. These issues, along with potential solutions, are covered below.

DOES YOUR COMPANY FACE IMMEDIATE LABOUR AND/OR SKILLS SHORTAGES TODAY? DO YOU ANTICIPATE SUCH SHORTAGES WITHIN THE NEXT FIVE YEARS?



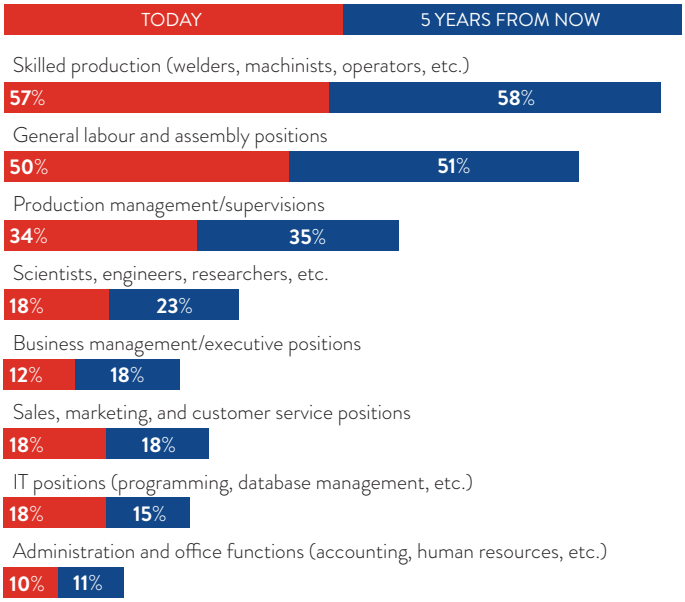
Labour and skills shortages had already emerged as a recurrent theme in the 2020 MIS even before participants came to this specific question, just as in past surveys. Therefore, the feedback we received on this question was unfortunately not surprising. In fact, 60 per cent of respondents said they have immediate labour and skills shortages today, down from nearly 70 per cent in 2018 but up from 40 per cent in 2016. Companies in Quebec, BC, and Ontario are having the most trouble finding the workers they need, and less so for those in Atlantic Canada and the Prairies.

While this year's finding could be unsettling because the survey was conducted in a time of economic crisis and high unemployment, it is conceivable that the extreme circumstances of the COVID-19 pandemic may be exacerbating ongoing labour challenges. There is anecdotal evidence that firms have had a hard time finding the staff they need to operate because the Canada Emergency Response Benefit (CERB) and its successor, the Canada Recovery Benefit (CRB), have acted as a disincentive to work. As well, there is evidence that people have pulled back from the labour force because they fear for their health and safety or because they have childcare obligations.

Nevertheless, even when these temporary factors are behind us, there is no doubt that Canada's manufacturing sector will continue to struggle with labour shortages. Indeed, the proportion of those surveyed that expect labour and/or skills shortages five years from now was still high—but less elevated—at 55.6 per cent, with an additional 30 per cent unsure. If not addressed, these shortages will continue to act as a serious impediment to growth. This is because without the right people in place, production, innovation, technology adoption, and productivity all suffer.

IN WHICH OCCUPATIONS DOES YOUR COMPANY FACE THE MOST URGENT LABOUR/SKILLS SHORTAGES TODAY? FIVE YEARS FROM NOW?

According to our survey respondents, many of the occupations that face the most acute shortages today will also face them down the road. And, as in past surveys, the findings point to a clear need for workers in production-related jobs. Nearly 57 per cent of businesses that report labour shortages today said that they could not find enough workers in skilled trades professions, an almost identical proportion expect these shortages to persist five years from now. Meanwhile, about one-half have trouble filling general labour and assembly positions today. The figures were nearly identical for businesses that expect labour shortages in this occupation group in five years.



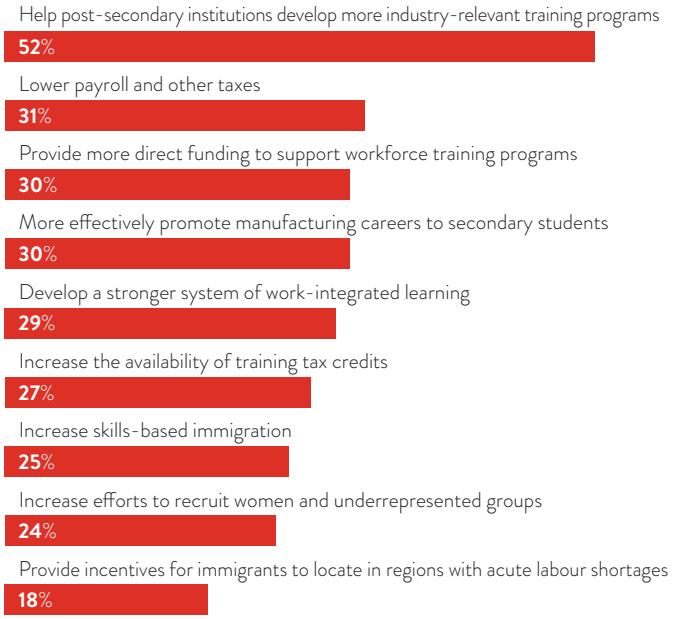
HOW IS YOUR BUSINESS RESPONDING TO CURRENT LABOUR SHORTAGES?

Manufacturers were then asked about the strategies they are using to respond to current labour shortages. Two responses stood out above the rest. About 46 per cent of survey participants are paying higher wages to attract and retain workers and roughly 42 per cent of businesses are increasing their operational efficiency, both rational responses to tight labour market conditions. The third most popular strategy, outsourcing work, is being used by 29 per cent of survey respondents. This is a worrying sign that Canada is losing out on manufacturing opportunities due to its labour supply challenges.

WHAT ROLE SHOULD GOVERNMENTS PLAY IN HELPING MANUFACTURERS ADDRESS LABOUR AND SKILLS SHORTAGES?

While businesses have some ability to mitigate labour shortages, there is only so much they can do. Instead, the nature of this problem requires governments to take the lead on this chronic and growing issue. According to our survey, manufacturers far prefer one government action above all the rest. About 52 per cent of respondents believe that governments need to work more closely with post-secondary institutions to develop more relevant education and training programs that support industry needs. In other words, manufacturers are telling us that existing post-secondary training programs do not always suit current industry needs.

At the same time, three other government actions are favoured by at least one-third of respondents. According to our survey, governments could help ease the burden of labour and skills shortages by lowering payroll and other taxes, by more effectively promoting skilled trades and other career opportunities to secondary students, and by providing more direct funding to support on-the job training.



WHAT ARE THE MAIN ISSUES PREVENTING YOUR COMPANY FROM INVESTING MORE IN WORKFORCE TRAINING?

CME also asked businesses why, if labour and skills shortages were such a pressing issue, they were not investing more in their own training. Three responses were singled out by one-third or more of respondents. First, 34 per cent of manufacturers reported that they are too busy to afford the downtime to train their workers. This was also the top ranked response in the 2018 survey.

The second issue is poaching. Some 31 per cent of those surveyed were concerned that when training was completed, they might lose the worker to a more attractive job offer. In such cases, they would bear the cost of training, but receive none of its benefits. This, of course, creates something of a Catch-22 for Canadian manufacturers. On the one hand, providing employee training increases worker effectiveness, but it also increases the risk of employee turnover. On the other hand, foregoing training may increase employee retention, but it also increases the risk of poor job performance.

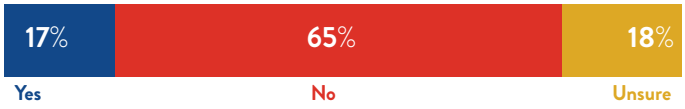
The third issue, raised by 31 per cent of survey participants, is that no existing training programs fit their specific business needs. This response is consistent with manufacturers' call for governments to provide more direct funding to support workforce training programs.

HAVE YOU DEVELOPED RECRUITING METHODS AND ADVERTISED JOB POSITIONS THAT SPECIFICALLY TARGET UNDERREPRESENTED GROUPS? DOES YOUR LEADERSHIP TEAM INCLUDE ANY INDIVIDUALS FROM UNDERREPRESENTED GROUPS?

An aging population is one of the key factors affecting the ability of businesses to attract and retain workers. Besides encouraging older workers to delay retirement, there are three ways in which Canada can replenish the workforce: reskill and upskill the existing workforce, raise immigration levels, and increase the labour market participation of underrepresented groups (women, Indigenous peoples, persons of disabilities, and visible minorities). Given the twin trends of an aging population and rising immigration levels, immigration is expected to account for all of Canada's net labour force growth between 2018 and 2040. This means that the country's labour force will continue to become more culturally and ethnically diverse every year. Accordingly, attracting and hiring a diverse workforce will become an increasingly important strategy for recruiters and hiring managers.

This raises the question if manufacturers are also taking steps to recruit or retain individuals from underrepresented groups. Therefore, this year's survey included two questions related to this topic, and the results were mixed. On the one hand, two-thirds of respondents say they have not developed recruiting methods and advertised job positions that specifically target underrepresented groups. But, on the other hand, almost three quarters of manufacturers say their leadership team includes at least one individual from an underrepresented group.

HAVE YOU DEVELOPED RECRUITING METHODS AND ADVERTISED JOB POSITIONS THAT SPECIFICALLY TARGET UNDERREPRESENTED GROUPS (WOMEN, INDIGENOUS PEOPLES, PERSONS WITH DISABILITIES, AND MEMBERS OF VISIBLE MINORITIES)?



DOES YOUR LEADERSHIP TEAM INCLUDE ANY INDIVIDUALS FROM UNDERREPRESENTED GROUPS?

HOW WOULD YOU RATE YOUR LEVEL OF SUPPORT OR OPPOSITION TO A PERMANENT GUARANTEED BASIC INCOME (GBI) PROGRAM MODELED AFTER THE CANADA EMERGENCY RESPONSE BENEFIT (CERB) AND CANADA RECOVERY BENEFIT (CRB)?

COVID-19 sparked an unprecedented labour market crisis over March and April when more than 3 million Canadians lost their jobs and 2.5 million more worked less than half their usual hours. The Employment Insurance system could not handle the rapid influx of new applicants, provoking the federal government to introduce the CERB, which has now transitioned into the CRB. The creation of this temporary income support program has led to calls from some corners to make it permanent, thus creating a de facto guaranteed basic income (GBI).

We wanted to give manufacturers' the opportunity to express their opinion on this matter, and they made their thoughts clear. When we asked them if they supported the creation of a permanent GBI, the predominate response was "no." In fact, nearly half of all survey participants were opposed, with about 30 per cent of those being strongly opposed. In contrast, only slightly more than 22 per cent were in favour, with just 1 in 10 being strongly in favour.

TRADE & GLOBAL BUSINESS DEVELOPMENT

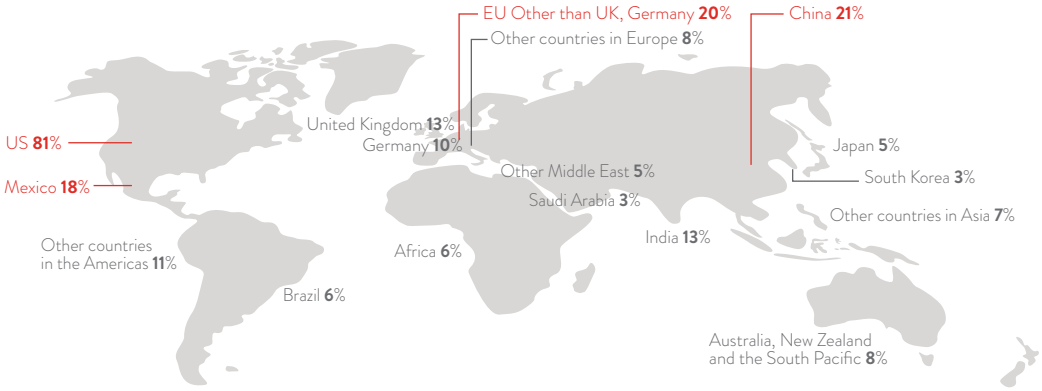
Canada is a trading nation. This is evidenced by the fact that exports account for over 30 per cent of the country's GDP. The manufacturing sector is a key reason why Canada has earned this reputation: it is responsible for roughly two-thirds of the country's outbound goods. Also, of the 45,500 Canadian firms that export goods or services, 16,300 or about 35 per cent are manufacturers. Against this backdrop, this section asks survey participants questions related to international trade and global business development.

WHICH INTERNATIONAL MARKETS DOES YOUR COMPANY BELIEVE OFFER THE GREATEST OPPORTUNITIES FOR GROWTH IN THE NEXT FIVE YEARS?

When Canadian companies look abroad for market opportunities, their focus, as in surveys past, is on the United States, our dominant trading partner. More than 80 per cent reported that the US offers the greatest opportunity for export growth over the next five years. This is 10 percentage points higher than the previous survey, perhaps a reflection of the reduced uncertainty that comes with the ratification of the Canada-United States-Mexico Agreement (CUSMA).

Second on the list was China, with about 21 per cent of respondents choosing it as one of the greatest opportunities for growth in the coming years. This selection makes sense: China has been one of the fastest growing economies for many years, and it is expected to remain a major contributor to global economic growth for the foreseeable future. Also, China has recovered rapidly from the coronavirus pandemic, and it is on track to be the only major nation to post positive economic growth in 2020.

The European Union ranked third, with 20 per cent of respondents singling out another major global economic player. In fact, our survey participants chose the three largest economies in the world as offering the greatest opportunity for growth in the next five years. Other popular choices included Mexico (18 per cent), the UK (13 per cent), and India (13 per cent).



WHAT HAS BEEN YOUR EXPERIENCE WITH TRADE ASSISTANCE PROGRAMS, TOOLS OR AGENCY SERVICES?

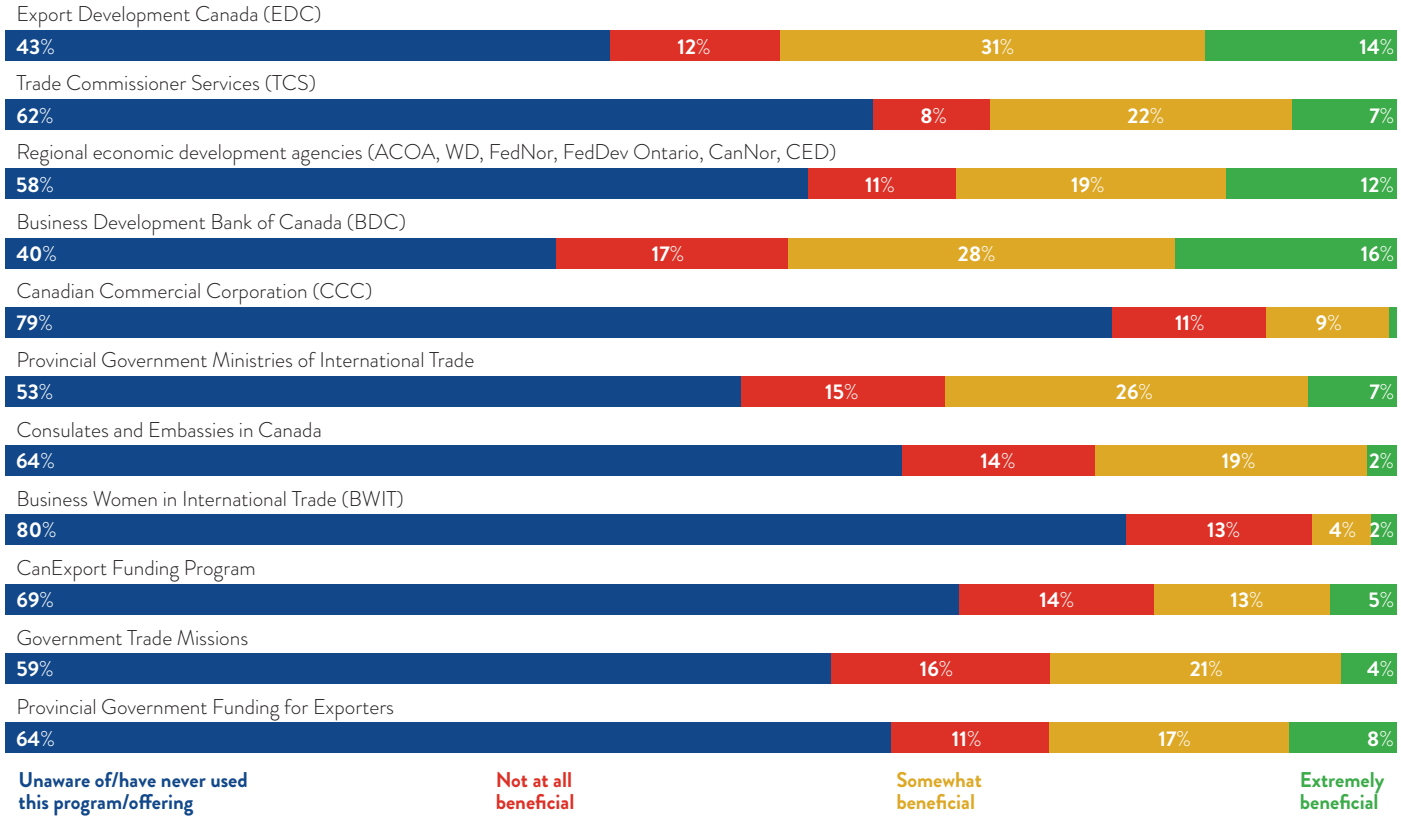
The federal and provincial governments offer a wide range of export-related support programs and services designed to make it easier for Canadian businesses to seek out new foreign market opportunities. However, our survey results show a concerning lack of uptake of these offerings. Those taking part in the survey had four options to choose from when describing their experience with 11 such programs, tools, or agencies: unaware of or have never used the program or offering; not at all beneficial; somewhat beneficial; and extremely beneficial. For every program or offering that we listed, the most frequently selected option by respondents was that they were unaware or had never used it. And, to make matters worse, for 9 of the 11 programs, over half of all respondents gave this answer.

As an example, 68.5 per cent of those surveyed said that they were unaware of or had not used the CanExport funding program, which provides financial assistance to SMEs looking to expand their business to overseas markets. Other programs or agencies had even lower uptake, including the Canadian Commercial Corporation (CCC) and Business Women in International Trade (BWIT), though the latter is clearly serving a specific market niche.

The most positive response was for the services offered by Export Development Canada. Not only was uptake/awareness of EDC services far higher than other offerings, but the level of satisfaction was high as well. Of those who had used or were aware of EDC services, close to 80 per cent found them somewhat or extremely beneficial.

Services offered by the Business Development Bank of Canada (BDC) received a similar reaction. Along with EDC, it was the only other export development tool in which more than half of respondents said they had engaged their services. Of those who had used BDC services, 72 per cent found them somewhat or extremely beneficial.

Unfortunately, these results are not surprising, as they are consistent with the results of previous MIS surveys. Once again, the 2020 MIS points to a clear and urgent need to improve the linkages between government support programs and business needs. Whether the issue is awareness, relevance, or overly rigid eligibility requirements, the simple fact of the matter is that Canadian businesses are not using government export support programs. More work is urgently needed to better understand why and how this can be improved.



WHAT ARE THE BIGGEST OBSTACLES PREVENTING YOUR COMPANY FROM EXPANDING EXPORTS?

Canadian businesses face a host of challenges and obstacles when looking to start or expand their export activities. In our 2020 survey, the most frequently cited obstacle was the cost and risk of seeking out new market opportunities. This was selected by some 39 per cent of respondents. Finding new international customers requires significant up-front market research, analysis, planning and business development activity, with no guarantee of success. This issue can be especially a concern for SMEs that may not have the time or financial resources needed to do this advance work.

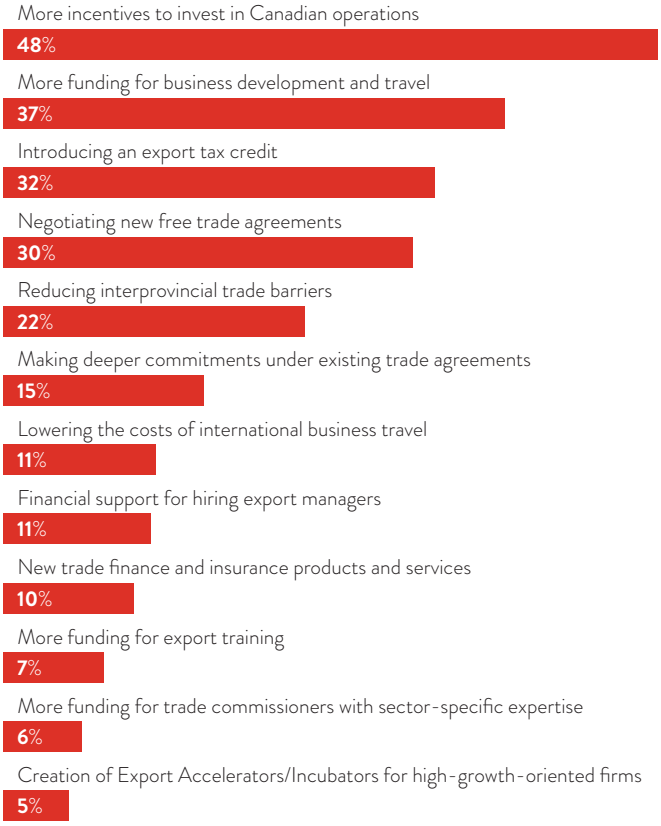
Second, some 32 per cent cited difficulty competing with foreign producers. This speaks once again to the fact that Canadian businesses are concerned about the country's ability to compete internationally. If they cannot produce goods cost-competitively at home, they have little chance of succeeding in global markets.

Respondents also pointed to the difficulty in joining established supply chains (28 per cent), the difficulty in finding customers (25 per cent), the lack of information about prospective markets and market opportunities (21 per cent), and the cost of travel to develop business connections (20 per cent). Solving this latter problem is precisely what the CanExport program is designed to address, suggesting there is an issue somewhere in the design, execution or marketing of that program.

WHICH OF THE FOLLOWING GOVERNMENT ACTIONS WOULD HAVE THE GREATEST IMPACT ON YOUR COMPANY'S EXPORT GROWTH?

The final question of the 2020 MIS asked businesses how governments could help them improve their export success. The top response once again circles back to one of the recurring themes of our survey results: supporting domestic investment. Indeed, just under 48 per cent of respondents said that the best thing governments could do to promote export growth would be to provide more incentives for firms to invest in Canadian operations.

The second-highest response was for the governments to provide more funding for business development and travel, and this was followed by the recommendation that governments introduce an export tax credit that would help reduce the cost of entering overseas markets. Other popular suggestions included negotiating new free trade agreements (30 per cent), reducing interprovincial trade barriers (22 per cent), and making deeper commitments under existing FTAs (15 per cent).



PARTNER MESSAGES

Royal Bank

GREG GRICE
Executive Vice-President
Business Financial Services
RBC

Through the uncertainties and unprecedented scale of disruptions caused by COVID-19 in 2020, many Canadian manufacturers made the best of the worst circumstances. We heard countless stories of manufacturers who pivoted their operations to produce PPE and other products to respond to the needs of our nation. These inspiring stories became the cornerstone of Canadian pride and demonstrated the incredible agility, innovation and collaborative spirit of our manufacturing sector.

As manufacturers and businesses look toward recovery and future growth, one question remains top of mind: how do we sustain this momentum of agility and innovation in a way that is scalable, sustainable and competitive in the longer term?

To help the industry become a more resilient and globally competitive powerhouse, three common themes emerged in this year's *Canadian Manufacturers & Exporters (CME) report*: a stronger focus on critical investments in the sector; the need for workforce training and skilled labour; and greater government support in the areas of tax, regulation, climate and trade. This year, we were encouraged to hear that at least two-thirds of manufacturers are planning to make major new investments in Canada over the next three years, with a particular emphasis on providing workforce training, purchasing new equipment and standard technology, and conducting R&D. But there are still some challenges in adopting more advanced technologies to help modernize the sector and unlock greater efficiencies.

Only 55.2% of respondents have plans to invest in advanced technologies such as AI, computer-aided design, product tracing, security and others in the next three years. That's only a slight improvement from 52.7% in 2018, despite how much the world and technological innovations have evolved since then.

While the sector has acknowledged the importance of digital transformation for years, there is an urgent need for Canadian manufacturers to invest in the modernization of their businesses, or risk falling behind competitors in Asia, Europe or the U.S. where there has been an aggressive effort to embrace digital transformation for years. Advanced technologies and digitally-enabled experiences will increasingly shape and dominate the way we live, work and do business. In that sense, digital transformation is no longer a nice-to-do but rather a business imperative for those who wish to competitively scale and lead in this brave new world.

Manufacturers may be facing some big questions and significant changes along this journey, but they're not alone. RBC remains committed to supporting the advancement of the sector and we're proud to partner with *Canadian Manufacturers & Exporters (CME)* on this report to highlight some of the actions needed by industry, government and private sectors to support the resiliency and growth of Canadian manufacturers. *RBC's Go Digital*™ program is also one of the many ways in which we're helping them begin their digital transformation journey with greater ease and confidence.

There have been many discussions around the need for our manufacturing industry to prepare for a new, digitally advanced era over the last few years. In many ways, the pandemic has been an unexpected catalyst to turn those discussions into concrete plans and actions, and accelerate the industry's efforts to modernize for the future. But success cannot be achieved by manufacturers alone; we are in this together. By sharing insights, developing innovative programs and resources, and collaborating with industry and government partners, we hope to build a stronger, more innovative and globally competitive Canadian manufacturing sector.

CERIDIAN

ADAM AGUZZI
Partner
VP Manufacturing, Industry Advisory
CERIDIAN

The acceleration of change we experienced over the course of 2020 will only continue into the future, and the agility shown by the sector during the past year will need to be embedded in the DNA of the workforce in order to thrive in the years to come. And while emerging technologies will assist manufacturers as we continue to revolutionize the factory floor at an unprecedented pace, the workforce must be equipped to transform alongside it. It's been estimated that as much as 47% of today's jobs might be gone in the next few years, including 20% of assembler roles, and many of these roles will evolve to require deeper technology skills. Meanwhile, this report found that while the majority plan to invest in advanced manufacturing technologies, many also cited a lack of skilled personnel as the main barrier to bring new products to market. Taken all together, one thing is clear: the factory of the future cannot thrive with the workforce of the past, and flexible training programs driven by modern, intelligent technology will only become more essential to the sector as we move forward. Upskilling the workforce is a win for everyone.

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