CM&E

CANADIAN MANUFACTURERS & EXPORTERS

2018 MANAGEMENT ISSUES SURVEY

MIKE HOLDEN
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

EXECUTIVE SUMMARY

MIKE HOLDEN
Chief Economist
Canadian Manufacturers & Exporters

CME's biannual Management Issues Survey (MIS) is one of our most important tools for taking the pulse of the manufacturing community. It provides valuable insight into the mindset, aspirations and concerns of manufacturers – both in terms of their day-to-day struggles as well as their longer-term strategic goals.

Once again, survey respondents represented a broad cross-section of Canadian industry. We heard from small businesses with only a handful of employees, all the way up to large, multi-national companies. Responses came from a wide range of industries and spanned every part of the country.

In spite of these differences, two clear and distinct themes emerged from our 2018 survey results: Canadian businesses are struggling to find workers with the right skills; and they are deeply concerned about Canada's eroding business competitiveness.

On the first point, our survey results show that a full 69 per cent of respondents face immediate labour and/or skills shortages, and three quarters expect such shortages within the next five years. In both cases, shortages are most acute in skilled production fields. These figures are up considerably from our 2016 survey and are the cumulative result of a combination of demographic, economic and technological pressures.

First, the manufacturing workforce is ageing and as those men and women retire, not enough students are choosing careers in manufacturing-related fields. To expand the labour supply pipeline, more work needs to be done to promote careers in the skilled trades for secondary students – especially for girls who have typically not pursued those career paths in the past.

Second, Canadian manufacturers have, on the whole, enjoyed solid growth in 2017 and 2018. Buoyed by a stronger US economy and robust demand, manufacturing sales are up, new orders are strong and the backlog of unfilled work orders is growing. Running all-out to meet current demand, businesses are telling us that they cannot afford the down time needed to provide additional training.

Finally, 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 entrants need up-to-date specialized training, but also the ability to adapt and evolve in time with future technological advancements. Respondents tell us that existing post-secondary training programs do not always suit current industry needs and that more direct funding is needed to support on-the-job training.

The implications of labour and skills shortages are widespread and crop up throughout our survey results. Skills shortages were identified as the top barrier to new product innovation, and the number one factor that businesses consider when making strategic decisions about where to make their next major investment.

The second recurrent theme in the 2018 MIS was growing concern about business competitiveness: the rising cost of doing business in Canada; tax and regulatory policies that do not prioritize business growth; and the impacts of US tax reform on Canadian investment.

Survey respondents were clear: they need more from their governments. More than half of businesses felt that the federal government was not supporting their efforts to invest, grow, and build a strong manufacturing sector in Canada. The level of dissatisfaction was about the same provincially and even higher at the municipal level. Not only that, but manufacturers believe that tax and regulatory policies are getting worse, not better. Only four to five per cent of respondents said that government policies at any level had improved over the last three years.

Manufacturers are calling for a more competitive business tax regime and for enhanced supports for investing in machinery, equipment and technologies. As with labour and skills shortages, this theme re-emerged throughout the survey results. Improving business tax competitiveness and incentive programs like the Accelerated Capital Cost Allowance was identified as the most important step governments could take to support export market penetration; encourage investment in new advanced manufacturing technologies; and expand manufacturing output in Canada.

As a final point, the 2018 Management Issues Survey was in the field through the summer and into the early fall of 2018. Because of this timing, readers will see a third theme in the survey results: businesses were deeply concerned about Canada-US trade uncertainty and the outcome of NAFTA renegotiations. With the new USMCA deal signed – and provided it enters into effect – Canadian manufacturers and policy-makers can scratch one item off their to-do list. With that done, attention must turn to addressing the other issues identified in this survey, beginning with labour and skills shortages, and improving the business tax environment.

PARTNER MESSAGES

FCPC
Food & Consumer Products of Canada

MICHAEL GRAYDON
Chief Executive Officer
Food & Consumer Products of Canada

Food & Consumer Products Canada (FCPC) is proud to partner with Canadian Manufacturers & Exporters (CME) to once again sponsor the Management Issues Survey (2018). The results of this survey will greatly assist manufacturers – along with government, academic and research partners – to advance a strategic roadmap for accelerating innovation and economic growth in Canadian manufacturing.

Food processing is Canada's largest manufacturing employer, providing approximately 300,000 Canadians with high-quality jobs in over 6,000 manufacturing facilities in every region of the country. FCPC's membership is truly national, providing value-added jobs to urban and rural Canadians in more than 200 ridings in every region of the country, and is well-positioned to play an even greater role.

The 2018 Management Issues Survey underscores the many challenges facing food and consumer products manufacturers across Canada. Efforts by the US to repatriate manufacturing are shifting the North American landscape and creating growing pressure on our highly integrated industry. At home, food and consumer product manufacturers continue to face challenges with a consolidated retail market, access to labour, rising costs (e.g. energy) and a growing cumulative regulatory burden as new regulations are introduced at an accelerated rate.

Many of these challenges are further exacerbated by the impact of Canada's retaliatory tariffs on imports of food and consumer products from the United States. We were disappointed that with the signing of the USMCA, the US tariffs on Canada's steel and aluminum were not lifted, and in turn these retaliatory tariffs remain. We urge the government to make lifting them a priority. Canadian importers, which include distributors, grocers, brokers and manufacturers, are all now dealing with the fallout, including increased costs and reduced choice for consumers and negative impact on our highly integrated North American supply chain.

Notwithstanding these challenges, the 2018 MIS reconfirms several critical themes impacting the manufacturing sector and in doing so provides a clear and consistent direction for increasing the long-term competitiveness of Canadian manufacturing. We are also pleased to see this report is closely aligned with the challenges and opportunities identified by the government's Economic Strategy Table reports, which we fully support.

It is noteworthy that the report clearly identifies the need for greater government support for manufacturing investment, innovation and growth. FCPC, on behalf of our members, remains consistent in its calls for diversification in our markets, investment in innovation and development of a modern regulatory and infrastructure network, supported by a skilled workforce. These are not "nice to haves" but rather critical recommendations central to ensuring Canada's manufacturing competitiveness in the years to come.

The adoption of advanced technologies like automation and robotics is especially important to our industry, and there remains significant growth potential in this area, particularly when measured against the need to address labour shortages highlighted in the MIS report. We look forward to working with government to ensure our members can benefit from programs like the Strategic Innovation Fund and commit to our fair share of funding from Agriculture and Agri-Food Canada.

The report also notes that manufacturers are consistent in their call for a more competitive business tax regime. Expanding and improving the Accelerated Capital Cost Allowance depreciation in Canada to mirror US rules would be a positive step, and we are fully aligned with the Canadian Manufacturers & Exporters in supporting immediate action to address this issue. This would encourage investment by allowing an immediate one-year depreciation of capital purchases, and be an improvement from the current 2.5 years.

Overall, Canada's food, beverage and consumer goods manufacturers share in CME's desire to advance the many issues raised through MIS 2018. Strong leadership and collaboration between government and industry are needed to improve the competitiveness of the manufacturing sector in Canada and support value-added employment across the country. We look forward to working in partnership with government and other stakeholders to further advance discussion and action aimed at increasing the productivity, the efficiency and the long-term competitiveness of Canadian manufacturing. There is no limit to what we can achieve together.

MIKE GILLESPIE

Partner, National Manufacturing Leader
BDO Canada

Canadian manufacturers these days are investing in themselves to manage the evolving crop of business challenges.

Industry 4.0 drives much of this push. The next generation of technology fuels the next round of opportunities — but it all depends on next-generation investment. By committing funds to advanced technology, companies can upgrade their factories: with automation on the shop floor; insights gleaned from Big Data; and remote monitoring made possible by the Internet of Things. Modern manufacturing helps companies cut costs and remain competitive.

This year's Management Issues Survey bears out this reality. The biennial study, conducted by Canadian Manufacturers & Exporters in concert with BDO, once again illustrates the future-focused mindset shared by many manufacturers.

Two-thirds of respondents plan to invest in new machinery and equipment in the coming years, according to the study, and 60 per cent are exploring options to boost innovation and commercialization. About half of respondents plan to invest in new production capacity in the next three years. This is encouraging.

Who will run the machinery of the next generation? Skilled labour remains a key challenge for manufacturers — and an opportunity.

On their list of the most pressing challenges, 47 per cent of respondents cited the supply of skilled labour — by far the most common response. What's more, that figure is up 15 per cent from the 2016 survey results. To meet the shortage, many manufacturers are adopting a do-it-yourself approach. Almost 80 per cent of respondents say they will be investing in workforce training in the coming years.

These results are even more encouraging than they seem. The survey was conducted when NAFTA's future was still in doubt. Almost a third of respondents were pessimistic about the Canadian economy; 27 per cent were optimistic. Since then, trade negotiators agreed to a new deal, the United States-Mexico-Canada Agreement. It is likely that the stability that a new agreement brings will spur investment by Canadian manufacturers.

Manufacturers can do only so much on their own. With business now a global affair, competitors can arise in the United States — or as far afield as Germany or China. To compete in this global landscape, Canadian manufacturers need a domestic business climate that rewards their willingness to take risks.

We talked about the government's role earlier this year, when CME and BDO advocated for Canadian tax reform. For a long time, Canadian manufacturers enjoyed lower corporate rates than their competition in the US — and other countries. This advantage helped make up for higher costs in other crucial areas. When US tax reform lowered rates south of the border earlier this year, it also ended the Canadian tax advantage.

Governments can also help in other areas: 54 per cent of respondents said Ottawa is not supporting business investment and growth. That figure is up 8 per cent over the 2014 results. Along the same lines, 31 per cent think government bodies at all levels need to do more to support business capital investment.

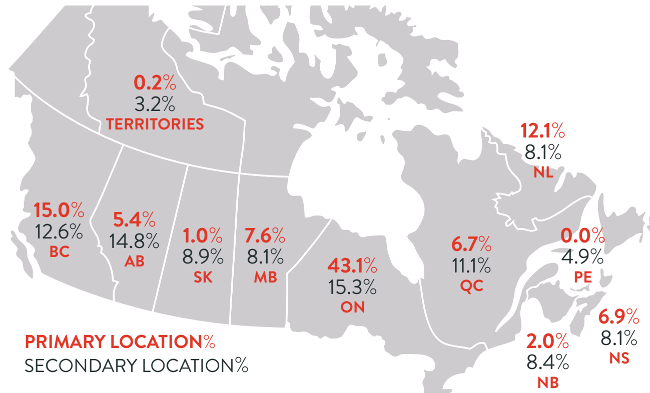
This year's Management Issues Survey provides a window into the experiences of manufacturers around the country. For manufacturers, the survey also offers an opportunity to take stock of their business as they meet the challenges of the next generation. We at BDO look forward to helping them rise to these challenges.

RESPONDENT PROFILE

WHERE IN CANADA DOES YOUR COMPANY OPERATE?

CME received 540 responses to our 2018 Management Issues Survey (MIS), representing all regions of Canada. The largest share of responses – about 43 per cent – came from Canada's manufacturing heartland in Ontario. About 30 per cent had their primary operations in Western Canada, while about 21 per cent were headquartered in Atlantic Canada. Approximately seven per cent of responses came from Quebec.

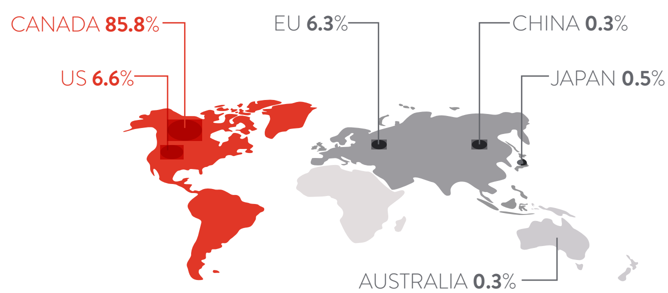
Many survey respondents – about 30 per cent of the total – worked for companies that had facilities in more than one province. Companies were most likely to have additional operations in Ontario, Alberta, BC and Quebec.



WHERE ARE YOUR COMPANY'S GLOBAL HEADQUARTERS?

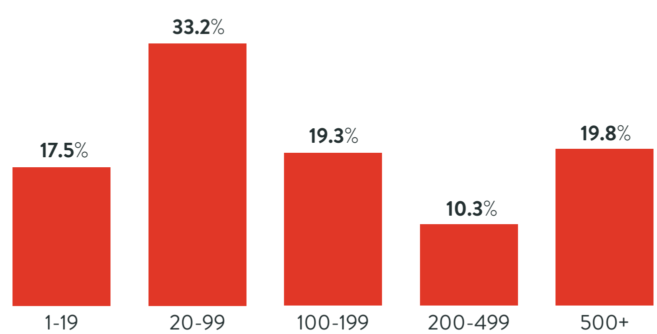
The vast majority of survey respondents (86 per cent) worked for Canadian-based companies. Of those with international headquarters, about 46 per cent had their head office in the United States, while 45 per cent were based out of the European Union or other non-EU countries in the region. Compared to the results of our 2016 and 2014 surveys, this represents a notable increase in the number of European companies operating in Canada.

The remaining survey responses came from businesses with head offices in China, Japan and Australia.



APPROXIMATELY HOW MANY PEOPLE WORK AT YOUR COMPANY?

Survey respondents tended to be small- and medium-sized businesses. Nearly 51 per cent of all reporting businesses had fewer than 100 employees. About 30 per cent were mid-sized companies, while about 20 per cent were large companies with more than 500 employees. Compared to our 2016 survey, these figures represent a small decrease in the share of small-business respondents and a modest increase in responses from mid-sized and larger companies.



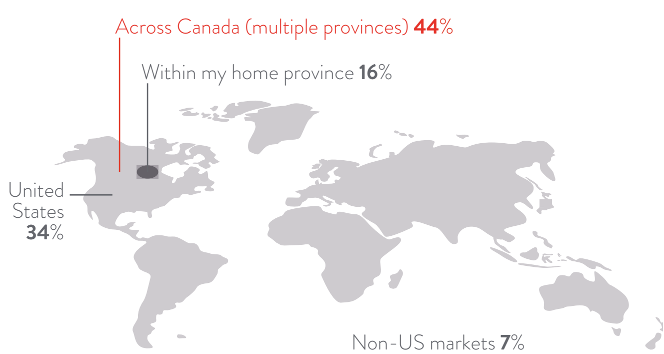
WHICH CATEGORY BEST DESCRIBES THE GOODS YOUR COMPANY PRODUCES?

The 2018 MIS reflected the views of respondents from across the manufacturing spectrum. The largest representation was from companies in fabricated metals production at about 25 per cent of total responses. A significant share also came from businesses that produce machinery and equipment (14 per cent), as well as food and beverage products (12 per cent). The remaining responses were relatively evenly spread across a wide range of business activities.

Fabricated metal products	25%	Machinery & equipment	14%
Food & beverage products	12%	Forest products	5%
Consumer goods (other than food & beverage products)	5%	Automobiles, parts & components	5%
Computers, electronics & advanced technologies	5%	Petroleum &/or chemical products	5%
Building & construction products	4%	Other transportation equipment	4%
Plastics & rubber products	4%	Aerospace vehicles, parts & components	3%
Furniture & related products	3%	Primary metals/minerals	3%
Clothing, textiles & fabrics	2%	Printing & related	1%
Other misc. goods	1%		

WHAT IS THE PRIMARY MARKET FOR YOUR BUSINESS?

Most manufacturers focus their activities on the domestic market. About 16 per cent stated that they sold primarily within their home province, while about 44 per cent reported that they sell across the country. However, a significant share – just over one third of respondents – focus their efforts on the United States. Finally, about seven per cent produce goods primarily for overseas markets.



ECONOMIC & BUSINESS CONDITIONS

HAVE BUSINESS CONDITIONS FOR YOUR COMPANY IMPROVED OR DETERIORATED OVER THE PAST THREE YEARS?

Respondents had mixed views about how business conditions have changed for their companies in recent years. On the bright side, the plurality of respondents (43 per cent) believe that conditions have improved. At the same time, however, about 27 per cent reported that conditions have deteriorated while 30 per cent said that the business environment was more or less unchanged.

IF BUSINESS CONDITIONS HAVE IMPROVED, WHAT ARE THE MAIN REASONS WHY?

In the 2018 MIS, participants were asked to elaborate on their responses to the previous question: if they thought business conditions had improved, we wanted to know why; if they thought conditions had deteriorated, we wanted to know why.

For participants who thought that business conditions had improved, one response clearly stood above the rest; their companies are enjoying an uptick in consumer demand. Three quarters of respondents cited growing demand as one of the reasons they were doing better.

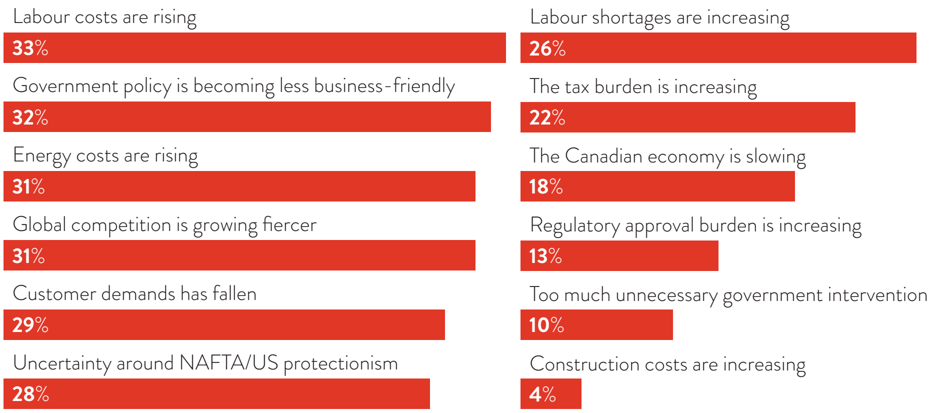
The second and third most common responses relate to the first. Forty per cent of respondents stated that strong economic growth in the United States was the reason their business conditions had improved, while about 31 per cent said the same about economic growth in Canada.

The down side is that survey participants clearly felt that strong demand growth was compensating for a general deterioration in their operational cost structure. Almost no one stated that tax or non-tax business costs were falling, or that the regulatory burden was easing.

IF BUSINESS CONDITIONS HAVE DETERIORATED, WHAT ARE THE MAIN REASONS WHY?

Participants who thought that business conditions had deteriorated had more mixed views about why that was the case. There was little separation between no fewer than six different responses. However, the prevailing cost environment is clearly a concern. One third of respondents said that the price of labour was an issue, while 31 per cent said the same about energy costs. Meanwhile, 32 per cent stated that government policies were becoming less business-friendly.

Outside from cost concerns, the ability to access and compete in foreign markets is also top-of-mind for manufacturers. About 31 per cent of participants felt that global competition was making it harder to do business, while 28 per cent pointed to NAFTA uncertainty and US trade protectionism as a problem (the 2018 MIS was conducted over the summer when NAFTA negotiations were still ongoing).

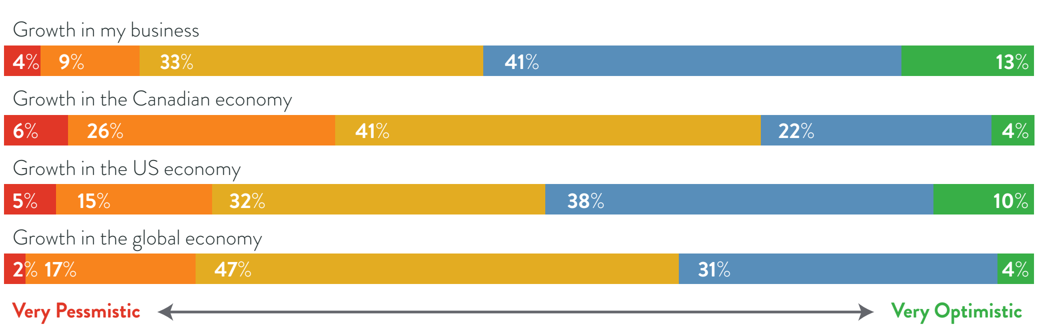


WHAT IS YOUR BUSINESS' OUTLOOK FOR THE NEXT THREE YEARS?

The 2018 MIS asked participants to rate their economic expectations for the next three years on a scale of 1-5, where 1 was "very pessimistic" and 5 was "very optimistic." They were asked about their own business, and the Canadian, US and global economies.

In general, respondents were more optimistic about their own business than they were about the Canadian or global economies. About 54 per cent ranked their business growth prospects as a 4 or a 5, while only 13 per cent ranked them as a 1 or a 2. By contrast, more respondents were pessimistic about the Canadian economy (32 per cent) than optimistic (27 per cent).

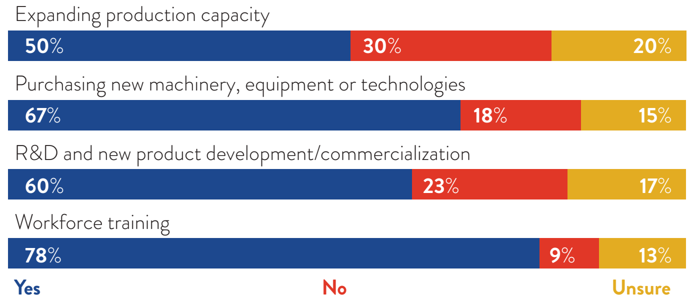
Meanwhile, survey participants were considerably more optimistic about growth prospects south of the border. Nearly half of respondents thought the US economy would be strong, compared to just one in five who expected weaker growth. Finally, businesses were largely neutral about the global economy.



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

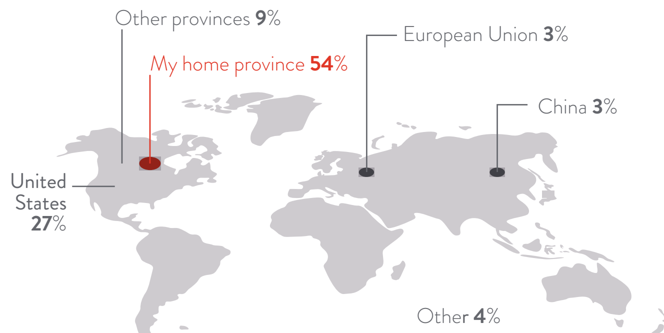
Business optimism fuels investment. Even though manufacturers are concerned about the Canadian economy and about their overarching cost structure, they are still planning to invest in their future success.

In particular, they intend to address the chronic labour and skills shortages that plague the sector. Close to 80 per cent of participants report that they will be investing in workforce training in the coming years. Two thirds plan to invest in new machinery and equipment, while 60 per cent are exploring options to boost innovation and commercialization. Finally, about half 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?

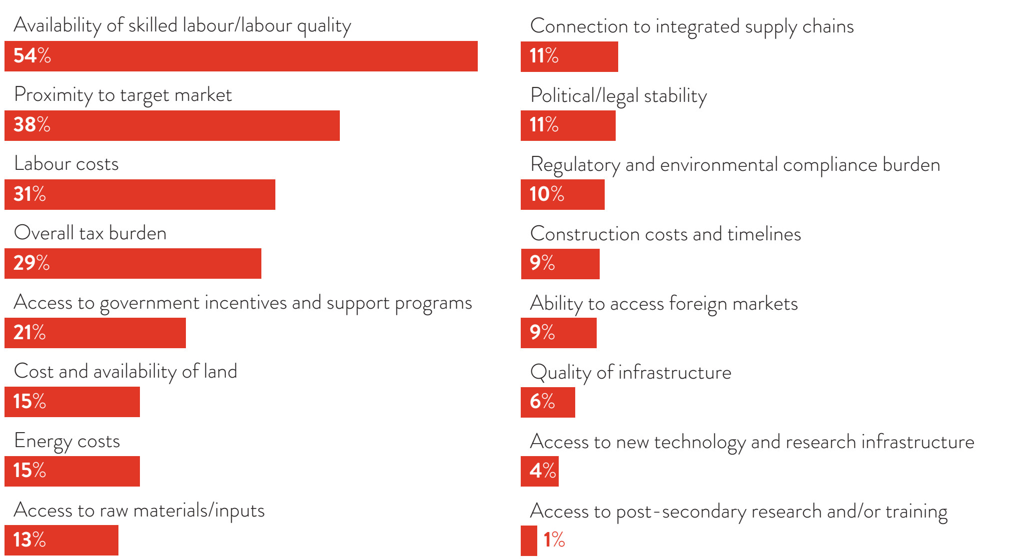
At first glance, the responses to this question appear to endorse Canada as an investment destination. More than half of participants would invest in their current province of operation and 63 per cent would remain in Canada. However, there is much about which to be concerned in this result. Effectively the MIS tells us that, given the choice, 37 per cent of Canadian businesses would choose to make their next major investment outside the country; and, of those, 73 per cent would choose the United States.



WHAT ARE THE MOST IMPORTANT CONSIDERATIONS WHEN CHOOSING A LOCATION TO BUILD A NEW PLANT OR FACILITY?

Choosing a location for a new production facility is one of the most important decisions a manufacturer can make. While businesses weigh many factors when making such a decision, the results of the 2018 MIS indicate once again that the availability of skilled labour is a top-of-mind consideration. While access to high-quality workers topped the list in our 2016 survey as well, it is clearly a growing concern for Canadian manufacturers. In 2016, 32 per cent of respondents pointed to labour supply as an important investment consideration. In this year's survey, that share rose to 54 per cent – far higher than any other factor.

Aside from access to reasonably-priced, high-quality labour, two other factors clearly influence business investment decisions: proximity to their target market (38 per cent of respondents); and a competitive tax burden (29 per cent).

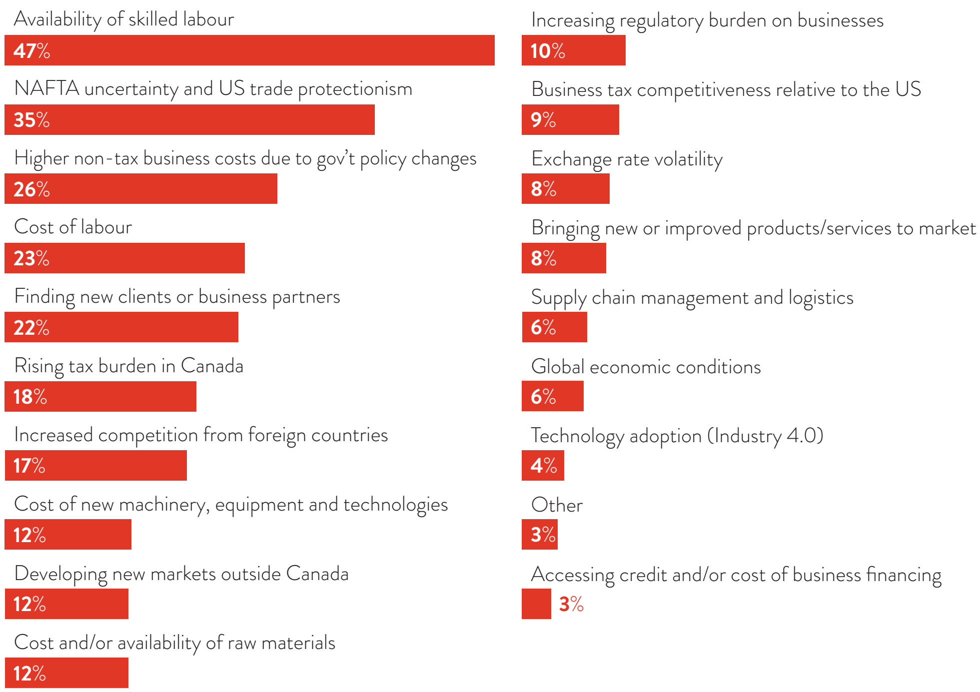


WHAT ARE THE MOST PRESSING CHALLENGES FACING YOUR COMPANY TODAY?

Picking up on the results from the previous question, Canadian manufacturers are clearly concerned about finding the workers they need. When asked about their most pressing challenges, 47 per cent of respondents pointed to labour and/or skills shortages – by far the most common response. While this issue perennially tops the list of concerns for businesses, it is obviously a growing problem; that 47 per cent response rate is up from 32 per cent in our 2016 survey.

The other major challenge that stood out in our 2018 survey was the uncertainty surrounding NAFTA and rising US trade protectionism at the time the survey was in the field. Given that the US is by far our largest trading partner, businesses were understandably concerned about their ongoing access to that market.

Finally, businesses pointed to a range of cost-related concerns that are becoming a problem. Labour costs, taxes and non-tax business costs resulting from government policy changes all scored highly in our 2018 survey.



WHAT DO YOU BELIEVE ARE YOUR COMPANY'S GREATEST STRENGTHS?

Canadian manufacturers are confident that they make high-quality products and have an excellent reputation as a result. When asked what they thought were their greatest strengths, a full 91 per cent of businesses pointed to customer satisfaction as one of their top three – far and away the most common response. With customer satisfaction comes strong brand recognition – something 68 per cent of respondents believed was a major strength.

At the other end of the spectrum, few respondents gave themselves high marks for workforce training and making good hiring decisions. Also close to the bottom of the list was their ability to expand their global market presence. In other words, Canadian manufacturers feel they are well-known for making good products, but their ability to succeed is hampered by labour supply, training and competitiveness concerns.

TAXATION & REGULATORY POLICY

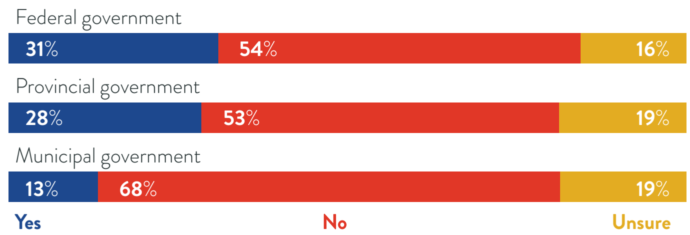
DO YOU BELIEVE THAT GOVERNMENTS ARE SUPPORTING INVESTMENTS IN, AND GROWTH OF, YOUR COMPANY?

Governments play a critical role in establishing the economic environment in which businesses operate. However, our survey once again shows that respondents are largely dissatisfied with the government policy support they are receiving.

At the federal level, this dissatisfaction is on the rise. In our 2014 survey, 46 per cent of respondents felt that Ottawa was not supporting business investment and growth. In our 2016 survey, that share rose to 48 per cent and in 2018, it jumped to 54 per cent.

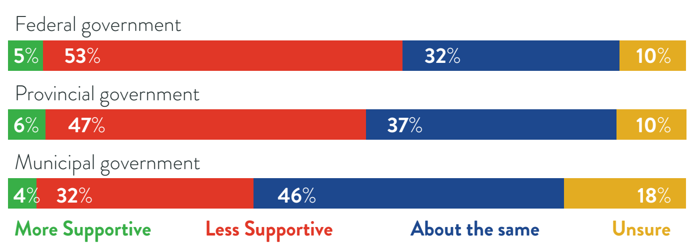
For the first time since the MIS began asking this question, survey participants were more dissatisfied with the federal government than their provincial governments. About 53 per cent of respondents were unhappy with provincial policy support – about the same level as in 2016.

Finally, respondents once again reserved their most pointed criticism for their local governments. A full 68 per cent of participants believed that their local governments were not supporting investment and growth – up from 60 per cent in our 2016 survey.



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

Survey participants do not believe that tax and regulatory policies are improving at any level of government. Only four to five per cent of respondents said that government policies at any level had improved over the last three years. At the federal level, more than half of those surveyed thought that tax and regulatory policy had deteriorated over that time, while the comparable figures at the provincial and municipal levels were 46 per cent and 32 per cent, respectively.



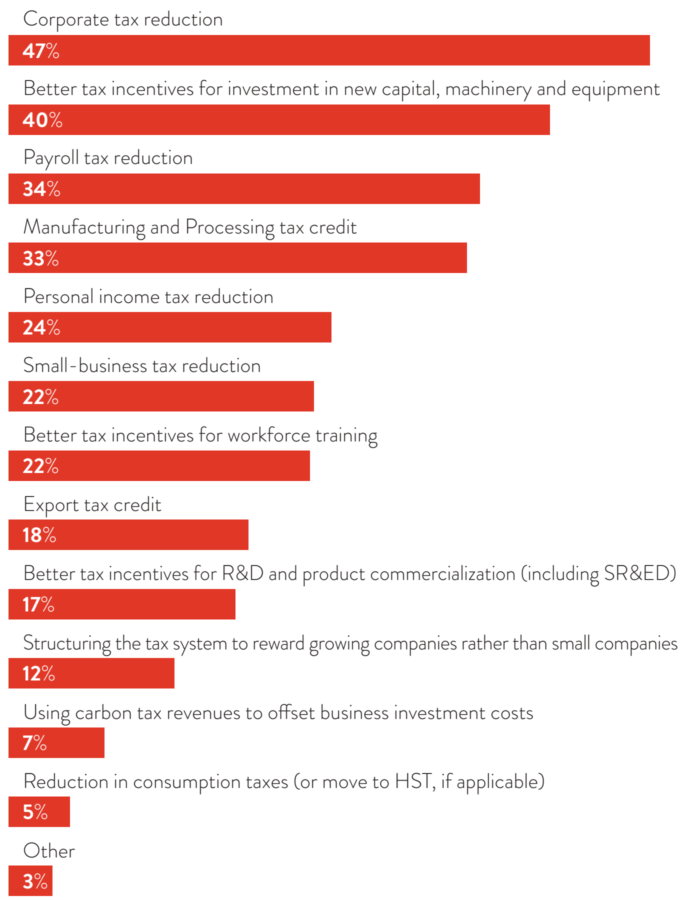
WHICH GOVERNMENT ACTIONS WOULD BE MOST HELPFUL IN SUPPORTING AND EXPANDING YOUR BUSINESS?

As noted earlier, manufacturers see labour and skills shortages as their most pressing concern. But when it comes to the most important role for government in supporting business growth, they prioritize tax competitiveness and securing access to the US market. Influenced in no small part by recent US tax reform, 45 per cent of survey respondents said that action to improve Canadian tax competitiveness should be at the top of governments' agendas – up from 37 per cent in our 2016 survey. Meanwhile, 38 per cent prioritized modernizing NAFTA and resolving Canada-US trade disputes.

Businesses do still see a role for government in addressing labour and skills shortages, however. Thirty-four per cent of respondents believe that more government action is needed in this area. A significant share (31 per cent) also believe that governments should do more to support business capital investment.

WHICH TAX MEASURES WOULD BENEFIT YOUR COMPANY THE MOST?

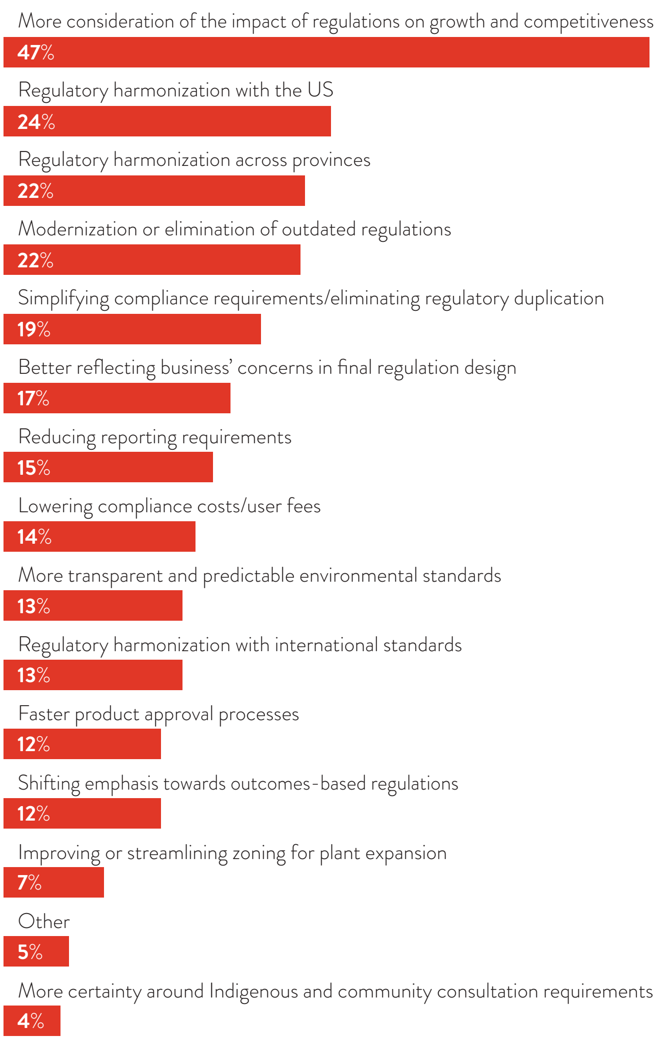
Given that tax competitiveness is a top business priority, what specific actions would survey respondents like to see? Two stand out from among the rest. First, businesses are calling for a reduction in their headline corporate tax rate – a clear reaction to the fact that Canada's business tax advantage over the US has been eliminated. Also related to US tax reform, manufacturers would like to see an improvement in government support for investment in new capital, machinery and equipment. Not only is this support needed to rekindle lagging capital investment in Canada, it is also needed to match the superior tax incentives currently in place in the US.



WHICH REGULATORY CHANGES WOULD BENEFIT YOUR COMPANY THE MOST?

Businesses are also concerned about Canada's regulatory burden and 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 business they are in.

In general, however, survey respondents are concerned that governments are not paying enough attention to the impact that regulatory changes can have on business growth and competitiveness. Our survey shows that to be far and away their biggest concern with respect to regulation. More attention needs to be paid to developing smart, effective, outcomes-based regulations that do not hamper our companies' ability to compete at home and abroad.



INNOVATION, COMMERCIALIZATION & TECHNOLOGICAL ADOPTION

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-emerged. Almost 36 per cent of survey respondents identified the availability of skilled workers as one of the most significant obstacles they face when looking to innovate – up from 30 per cent in our 2016 survey. Skilled workers are critically important not only for their expertise, but also their ideas and ability to translate those ideas into new products and services. Respondents also cited the lack of adequate incentives and support programs as an obstacle to innovation.

These results are different from our 2016 survey when respondents pointed to the cost of building and developing prototypes as their biggest obstacle to innovation. However, production costs are still clearly an issue. Twenty-three per cent of survey respondents said that the cost of building prototypes was an obstacle, while 23 per cent said the same about production costs generally.

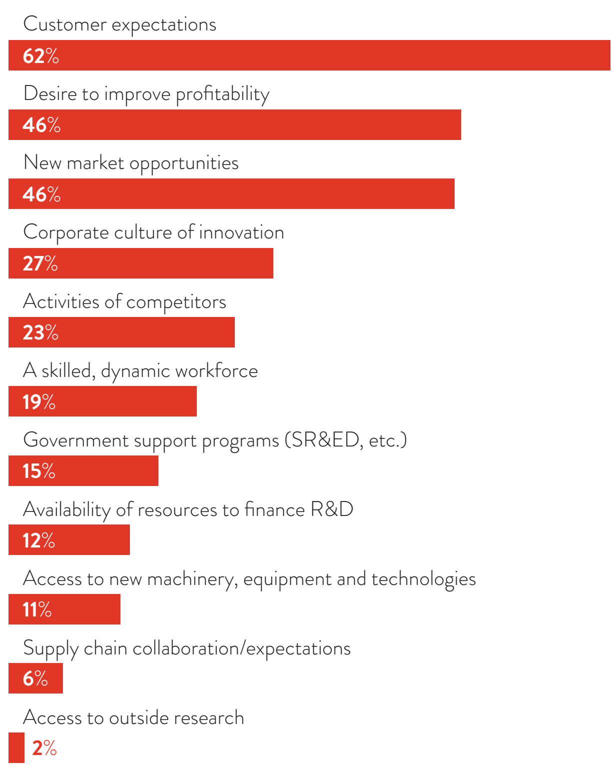
Availability of skilled personnel	36%	Lack of incentives/ programs to invest in new technologies	27%
Cost of manufacturing the final product	24%	Intense price competition leaves little room to invest in new products	23%
Lack of internal funding/resources	21%	Cost of building/ developing prototypes	20%
Lack of necessary machinery, equipment or plant capacity	19%	Risk that development costs will exceed projected sales	18%
Process engineering/ production scale-up	15%	Regulatory impediments	13%
Rapid pace of technological change	11%	Lack of customer demand	10%
Emergence of new competitors makes new product development risky	8%	Product design	6%

WHAT ARE THE MOST IMPORTANT FACTORS DRIVING INNOVATION IN YOUR COMPANY?

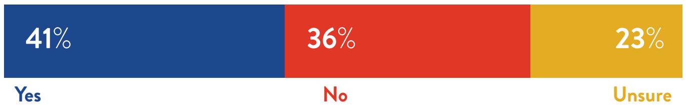
Echoing the results from our 2016 survey, when it comes to triggering innovative activity there is no greater motivator than customer satisfaction. Nearly 62 per cent of respondents indicated that customer expectations were a primary innovation driver, while 46 per cent pointed to the potential generated for new market opportunities.

Customer satisfaction and new market opportunities create the potential for higher value-added sales and profits. About 46 per cent of respondents said that the potential for higher profits motivated their innovation efforts.

At the opposite end of the spectrum, businesses' innovation agendas are clearly not motivated by external drivers. Outside research and supply chain collaboration scored the fewest responses to this question.



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



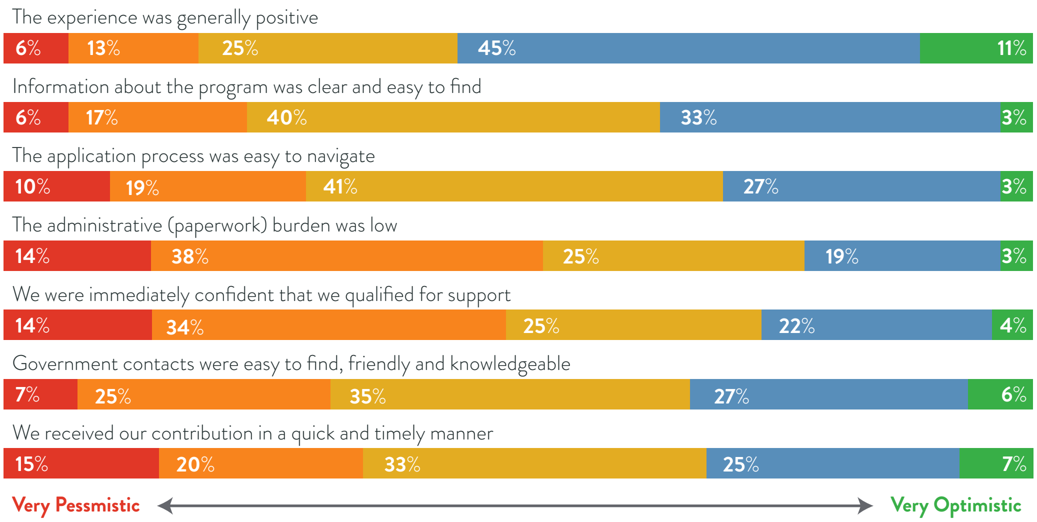
Manufacturers are clearly ambivalent about the value of government support programs to encourage investment in new machinery, equipment and technologies. Only 41 per cent of survey respondents said that their company has used these programs, compared to 36 per cent who had not. It is worth noting that a significant share (23 per cent) were unsure. That figure suggests that either businesses have not used government support programs or that their impact was not especially significant.

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

Survey respondents who indicated that they had used government investment support programs in the past were asked about their experience with them. Participants were asked a series of questions and ranked their experience on a scale of 1-5 where 1 was “strongly disagree” and 5 was “strongly agree.”

The good news is that a clear majority of respondents rated the overall experience as positive. However, there are areas where improvement is clearly needed. More than half of participants disagreed with the statement that the administrative burden was low. And only about a quarter felt immediately confident that their applications would be successful.

This points to a critical issue in improving Canada’s poor record on business investment. Businesses do not wait to see if they are successful in receiving government support before they begin the process of purchasing new capital equipment. As such, support programs offer limited incentives to increase investment because companies often must make their final investment decision before knowing if any of their associated costs and risks will be offset.



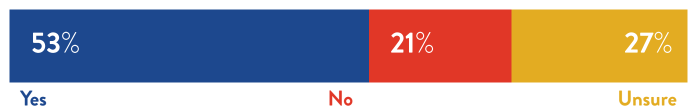
DOES YOUR COMPANY PRESENTLY USE ADVANCED MANUFACTURING TECHNOLOGIES?

The adoption and integration of new advanced technologies is critical to the long-term competitiveness of manufacturing in Canada. However, according to our survey results, only 40 per cent of respondents use these technologies in their operations while 55 per cent said they do not.

The silver lining is that these results are a small improvement over our 2016 survey. Two years ago, 38 per cent of respondents said they use advanced manufacturing technologies while 60 per cent said they did not.

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, businesses are acting to change that. More than half of respondents said they plan to invest in new technologies within the next three years. Only one in five participants had no intention of so doing.

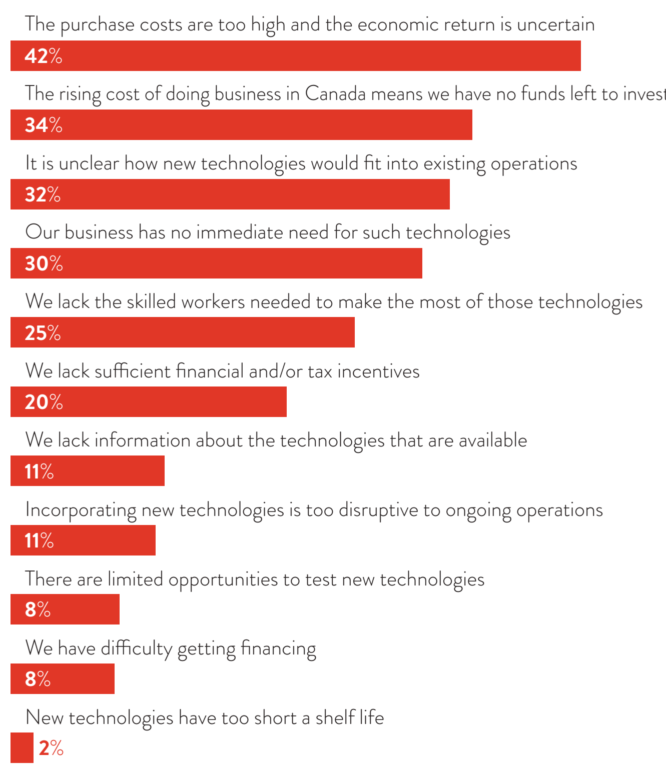


WHAT ARE THE MAIN OBSTACLES PREVENTING YOUR COMPANY FROM INVESTING MORE IN ADVANCED TECHNOLOGIES?

As was the case in our 2016 survey, the clearest obstacles to adopting new technologies are linked to cost and uncertainty. Forty-two per cent of businesses stated the price tag and uncertain economic return was a major obstacle to purchasing new equipment.

Two other results from this question are worth highlighting. First, respondents pointed the finger at the rising cost of doing business in Canada as an obstacle to increasing investment. One third of participants said that cost pressures were chipping away at the funds they would normally have available to invest.

Second, survey findings point to an information gap about the application and implementation of new technologies. Respondents do not feel they lack knowledge about new technologies themselves, but they do lack information about how to integrate them into their existing operations.



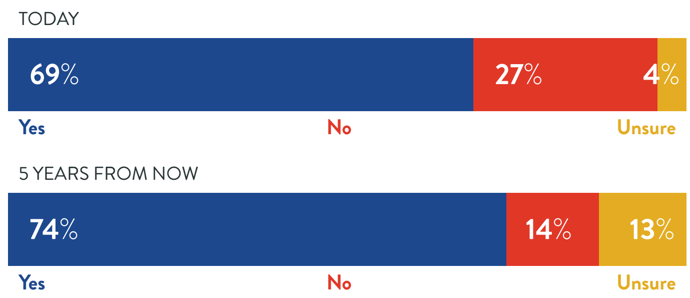
LABOUR, SKILLS & WORKFORCE TRAINING

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 2018 MIS even before participants came to this specific question. Even so, the results were startling. In our 2016 survey, close to 40 per cent of companies said they were dealing with present-day labour shortages. In this year's survey, that number rose all the way up to 69 per cent.

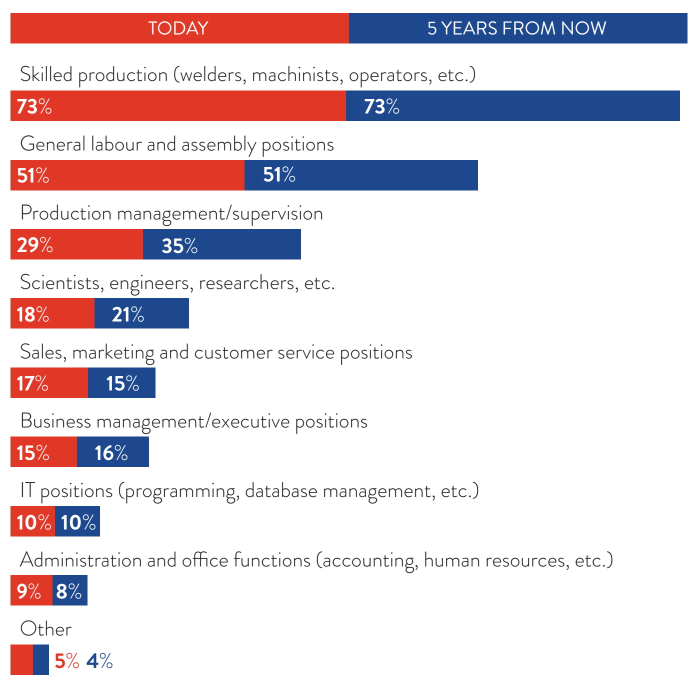
There is no hyperbole in saying that this finding points to a looming crisis in Canadian manufacturing. Nearly seven out of ten respondents cannot find the workers they need. Without the right people in place, production, innovation, technology adoption and productivity all suffer.

To make matters worse, businesses expect their workforce challenges to deteriorate even further in future. Nearly three quarters of respondents say that they expect labour/skills shortages to arise within the next five years. That number is up from 59 per cent in our 2016 survey.



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

There was remarkably little difference in where businesses see present-day labour shortages and where they expect them to be down the road; there is a clear and urgent need for workers in production-related occupations. Almost three quarters of businesses that report labour shortages today said that they specifically could not find enough workers in skilled trades professions. Meanwhile, just over half have trouble filling general labour and assembly positions. The figures were nearly identical for businesses that expect labour shortages five years from now.



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

Manufacturers have a clear solution in mind to their problem of labour and skills shortages. Specifically, fifty-five per cent of survey respondents believe that governments need to work closely with post-secondary institutions to develop more relevant training programs. That result is up from 36 per cent of respondents in our 2016 survey, and points to two likely issues: the pipeline of new skilled workers is insufficient to meet business demand; and that today's graduates are lacking the specific skills that businesses are looking for. The first of these issues is reinforced by the fact that 34 per cent of respondents thought that governments need to more effectively promote careers in the skilled trades to secondary students.

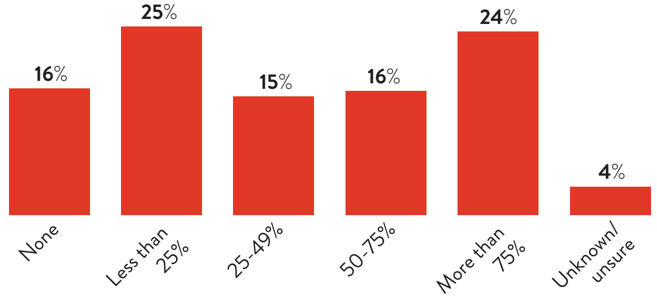
In addition to improving the quality and number of post-secondary graduates, businesses also see the need for additional support for training programs to upskill their existing workforces. Just over 36 per cent of respondents thought that governments need to provide more direct funding for on-the-job 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. Two responses stood out. First, a combination of strong economic growth, rising customer demand, and growing capacity constraints have Canadian manufacturers running all-out to complete their order sheets. As 38 per cent of survey respondents reported, they are too busy to afford the down time to train their workers.

The second issue is poaching. Thirty-six per cent of respondents were concerned that when training was completed, they might lose the worker to a more attractive job offer. In such a case, they would bear the cost of training, but receive none of the benefit from having done so. This, of course, creates something of a Catch-22 for Canadian manufacturers: if they train their workers, they might leave; but if they do not, they might stay.

TRADE & GLOBAL BUSINESS DEVELOPMENT

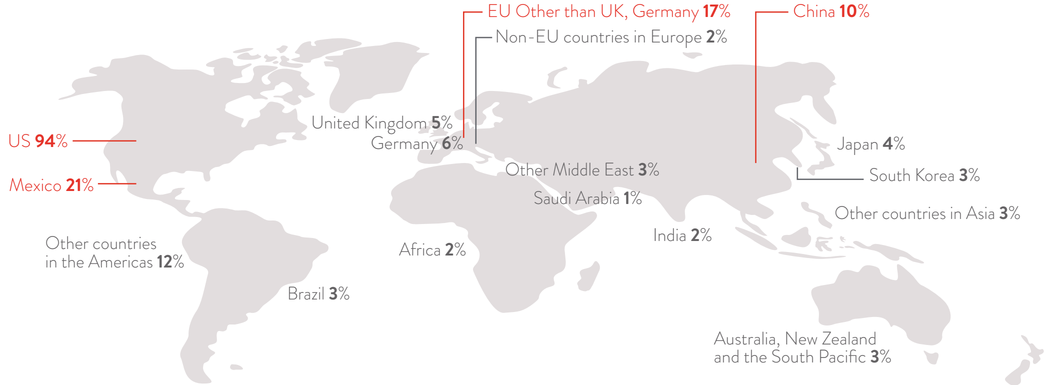


APPROXIMATELY WHAT SHARE OF YOUR TOTAL CANADIAN PRODUCTION IS EXPORTED?

Most survey respondents have at least some experience exporting. Only 16 per cent reported that they produced goods exclusively for the Canadian market. Meanwhile about 40 per cent sell at least half of their total output to foreign buyers.

WHAT ARE YOUR COMPANY'S MOST IMPORTANT EXPORT MARKETS?

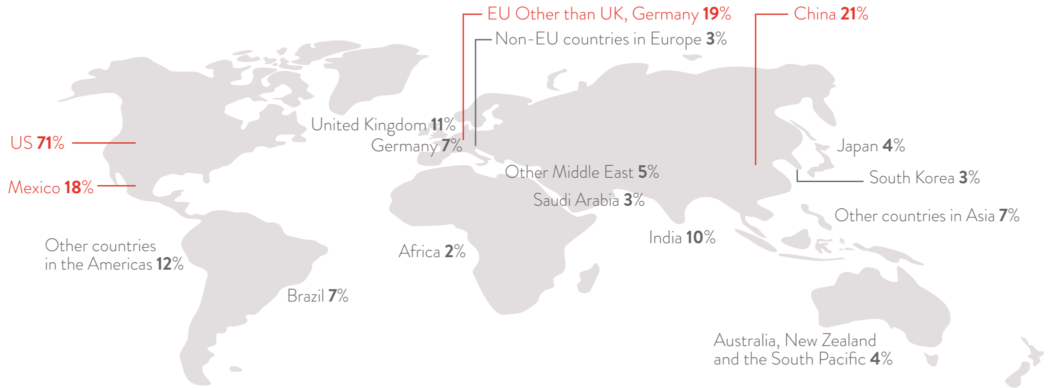
Unsurprisingly, the United States is by far the most common export destination for Canadian manufactured goods. More than 94 per cent of respondents that export sell directly into the US. However, a significant share – nearly 30 per cent – identified the UK, Germany and other EU countries as important markets. One in five survey respondents said that Mexico was a major export destination, while China and South/Central America also scored relatively highly.



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. More than 70 per cent reported that the US offers the greatest opportunity for export growth over the next five years.

That said, manufacturers are clearly beginning to shift their attention elsewhere. Likely a result of NAFTA-related uncertainty over the summer, the share of companies that believe the US holds significant export growth potential is down from 78 per cent in our 2016 survey. Meanwhile, a greater share of respondents sees growth opportunities in the European Union (37 per cent compared to 24 per cent in 2016) and China (21 per cent compared to 18 per cent).



HAS YOUR COMPANY EVER USED GOVERNMENT TRADE ASSISTANCE PROGRAMS, TOOLS OR AGENCIES?

The federal and provincial governments offer a wide range of export-related support programs 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. A full 46 per cent of respondents stated that their company had never used such services. Another 22 per cent were unsure if they had, suggesting that either they had not, or the impact was minimal enough that they had no recollection of it.

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

The 32 per cent of survey respondents who had used government export support programs in the past were asked a follow-up question about their experiences with those offerings. Even for those individuals, awareness of some of Canada's most important trade assistance programs was low.

One result in particular stands out: Seventy per cent of respondents were unaware of, or had never used, the CanExport program, which provides financial assistance to SMEs looking to expand their business to overseas market.

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 EDC services, close to 87 per cent found them beneficial.

The 2018 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 seeking out new foreign market opportunities. In our 2018 survey, two responses stood out above the rest. First, a little over 32 per cent pointed to the cost/risk of seeking out new market opportunities as an obstacle to export growth. 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 who may not have the time or financial resources needed to do this advance work.

Second, just under 32 per cent cited difficulty competing with foreign producers. This speaks once again to the fact that Canadian businesses are concerned about the domestic business environment. If they cannot produce goods cost-competitively at home, they have little chance of succeeding in global markets.

Other common survey responses reinforce these two issues. About 24 per cent of respondents pointed to the cost of travel to develop business connections. Offsetting this cost/risk is precisely what the CanExport program is designed to address, suggesting there is a problem somewhere in the design, execution or marketing of that program.

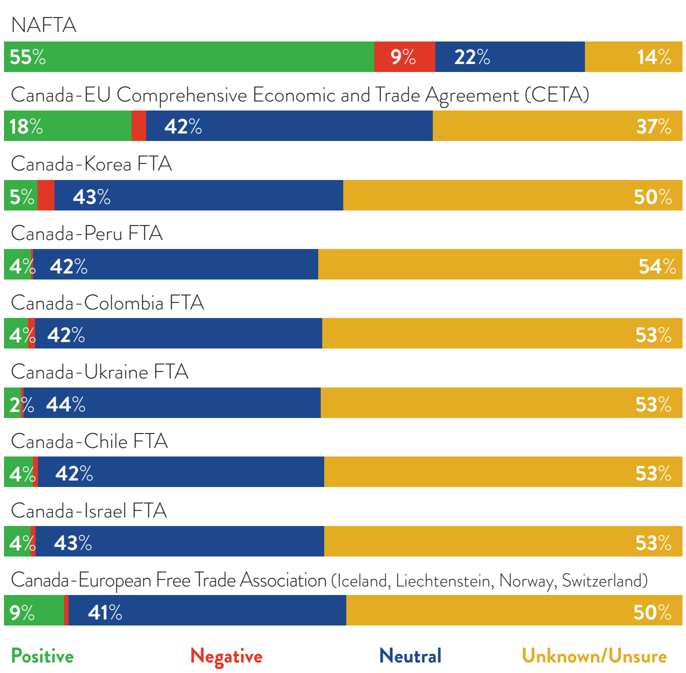
As well, about 23 per cent of respondents pointed to a lack of production capacity as an obstacle to increasing their exports. As above, this comes back to the issue of competitiveness. Canadians manufacturers are underinvesting in their domestic operations, leaving them little capacity to grow.

HAVE THE FOLLOWING TRADE AGREEMENTS HAD A POSITIVE OR NEGATIVE IMPACT ON YOUR BUSINESS?

The responses to this survey question once again highlight the gap between government action on trade and business' responses. The federal government has been working overtime to negotiate trade agreements that open new markets for Canadian businesses. But our survey results clearly show that they are not seeing the benefit.

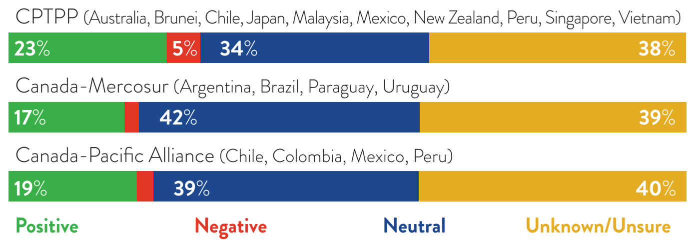
With the notable exception of NAFTA, businesses reported only minimally positive results from Canada's trade agreements. Nearly 80 per cent of respondents felt that CETA had a neutral impact on their business or did not know what impact it had at all. That figure rises to between 93 per cent and 97 per cent for Canada's other FTAs.

The reasons behind these results need to be investigated and addressed. Are Canada's FTAs resulting in real market access gains? Are we negotiating agreements with the right countries? Are businesses competitive in those markets? Are there barriers to overseas trade relating to information, culture and export-readiness that need to be addressed? One thing is clear: most Canadian businesses are not capturing the benefits of free trade.



DO YOU THINK THE FOLLOWING PROPOSED OR IMMINENT FREE TRADE AGREEMENTS WILL HAVE A POSITIVE OR NEGATIVE IMPACT ON YOUR BUSINESS?

Compared to most of Canada's existing FTAs, survey respondents were slightly more optimistic about the potential in new trade agreements. About 23 per cent of respondents thought that the CPTPP would have a positive impact on their business, while about one in five were optimistic about the Canada-Pacific Alliance talks. Seventeen per cent saw potential in a Canada-Mercosur agreement. Even so, the fact remains that a far larger share of respondents expects little impact from these agreements at the end of the day.



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

The final question of the 2018 MIS asked businesses how governments could help them improve their export success. The top response once again circles back to one of the overarching themes that arose throughout our survey results: business competitiveness. Just over 44 per cent of respondents said that the best thing governments could do would be to help them become more competitive at home – by expanding support for investing in new productive capacity, machinery, equipment and technologies.

The second-highest response was completing NAFTA renegotiations. Since the survey closed in September, Canada has succeeded at that objective. The new USMCA will remove a significant degree of uncertainty for Canadian manufacturers and allow them to focus more on their own export success.