



Responding to a chain reaction

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March 31, 2020



The impact of COVID-19

- The manufacturing sector is a big part of the Canadian economy, accounting for about 10% of our annual gross domestic products, 2nd in importance
- When you add transportation and warehousing combined they are the biggest drivers in the Canadian economy
- Severe suspension or suppression of business could last 60 days to a varying degree
- Monthly value of manufactured products is approximately \$60 billion and the sector employs over 1.7 million people
- About 68% of manufactured products are exported

Source: Statista and Bank of Canada

Trickle down effect

- The manufacturing supply chain is fairly integrated within Canada and North America
- Original Equipment Manufacturers (OEM) are reliant upon Tier 1, Tier 2 and Tier 3 suppliers for a variety of products
- The reliance on foreign markets for supply and the significant impact of a disruption has come into focus
- One interruption in the supply chain can stop the manufacturing process completely
- This is happening now

Source: Statista and Bank of Canada

What's going to happen

- Many businesses will likely breach their banking and credit covenants
- This will be no surprise to stakeholders
- It is best to communicate this clearly and thoughtfully to affected parties
- Consumer demand cannot be relied upon in the near term so cost containment is the order of the day, combined with preserving liquidity
- Ability to access debt capital will be critical, but some accommodations will need to be made given current environment

The aftermath

- The spotlight is on manufacturing capacity as governments fight the COVID-19 pathogen
- New manufacturing opportunities will emerge for the North American region in the aftermath
- The USMCA will be a catalyst to a further review of the manufacturing supply chain and with a view of reducing dependency on foreign states for some products
- Reshoring is top of mind for the US Administration given the impact on the economic welfare and trade deficits

Thank you

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