



CANADIAN
MANUFACTURERS
& EXPORTERS

CME SURVEY ON SUPPLY
CHAINS

Canada

March 2022



PARTNER MESSAGE



CME surveys are an important tool to gain a pulse on the industry, and the format introduced in 2021 of more frequent, targeted surveys allows for a deeper dive into the data surrounding key issues for manufacturers. This is the second survey in the new format, and focuses on supply chain challenges - areas that Canadian Manufacturers will need to continue to address into 2022 and beyond.

The industry has seen increasing lead times, material shortages, labour shortages, and increasing cost of direct materials. Underlying causes range from container and microchip shortages, global and regional pandemic restrictions, rising energy costs and inflation generally, and increased consumer demand. As evidenced by this survey, manufacturers are forecasting a raise in prices to combat the mounting margin pressure.

This survey shows how manufacturers are working to overcome supply chain challenges with a range of actions. The majority of respondents are working to increase inventory levels in the supply chain, but this increases carrying costs and adds upstream demand, leading to additional stress on supply chains; most respondents are also working to dual-source or near-shore with the goal of increasing resilience, but this is not typically

achieved overnight, and need to be balanced with the impact of any potential cost increases.

With pandemic restrictions being eased across the country, discretionary consumer spending is likely to shift from products to services, so manufacturers need to continually review their demand planning to ensure their production and inventory plans are adjusted appropriately.

To help overcome Supply Chain challenges, BDO has seen increased requests for services related to procurement planning, transportation management, network optimization and HR services. BDO is also seeing more manufacturers taking into account resilience and sustainability factors as they work to stabilize and optimize their supply chain to ensure that supply chain plans achieve their goals.

BDO recognizes the important work CME does on behalf of members and the industry as a whole, advocating for Canadian manufacturers with all levels of government. BDO is pleased to support CME and looks forward to continuing our collaboration in 2022 and beyond.

INTRODUCTION

The outlook for Canada's manufacturing sector continues to be clouded by ongoing supply chain, workforce, and pricing pressures.

The pandemic has disrupted nearly every aspect of the global supply chain, resulting in shortages and price hikes across a whole range of products. The most prominent example of this is the global semiconductor shortage, which has severely dented auto production. But there are countless other examples.

Unfortunately, even though the Omicron wave is subsiding, future waves cannot be ruled out. As such, the pandemic's effect on supply chains is expected to linger for months to

come. Until these issues are sorted out, the economic recovery will remain bumpy.

Against this backdrop, CME surveyed its members about the extent to which supply chain issues are affecting their operations, the strategies they are implementing or planning to implement to mitigate them, and recommendations on short and long-term solutions.

SURVEY OBJECTIVES

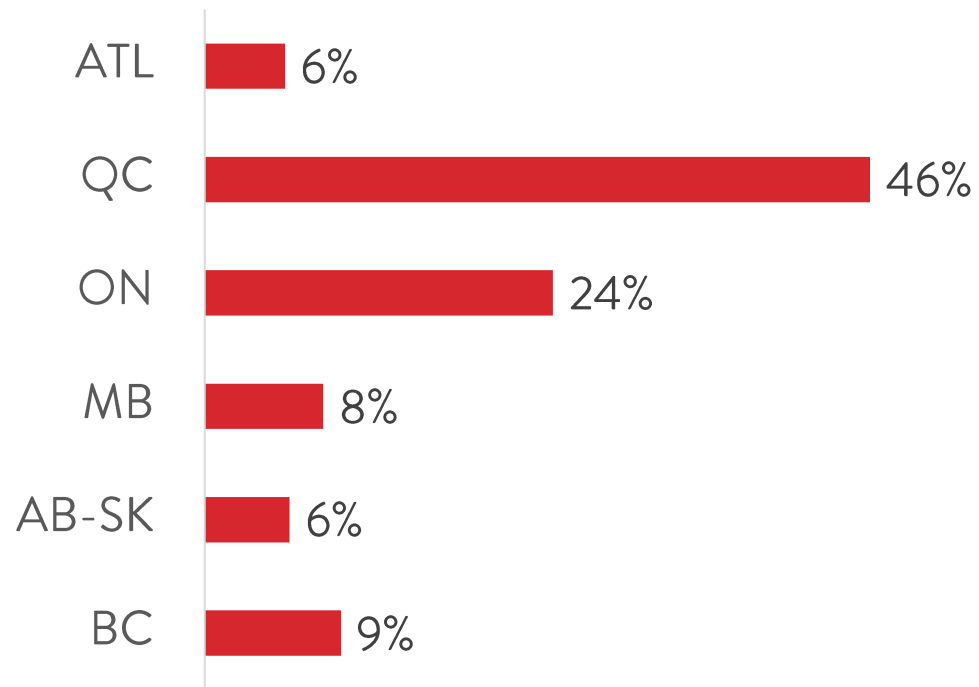
The survey has two objectives:

1. To understand the major supply chain issues affecting Canadian manufacturers, how companies are trying to address them, and potential solutions
2. To inform our engagement strategy with governments as they seek to implement policies to help ease pandemic-strained supply chains and prevent future disruptions

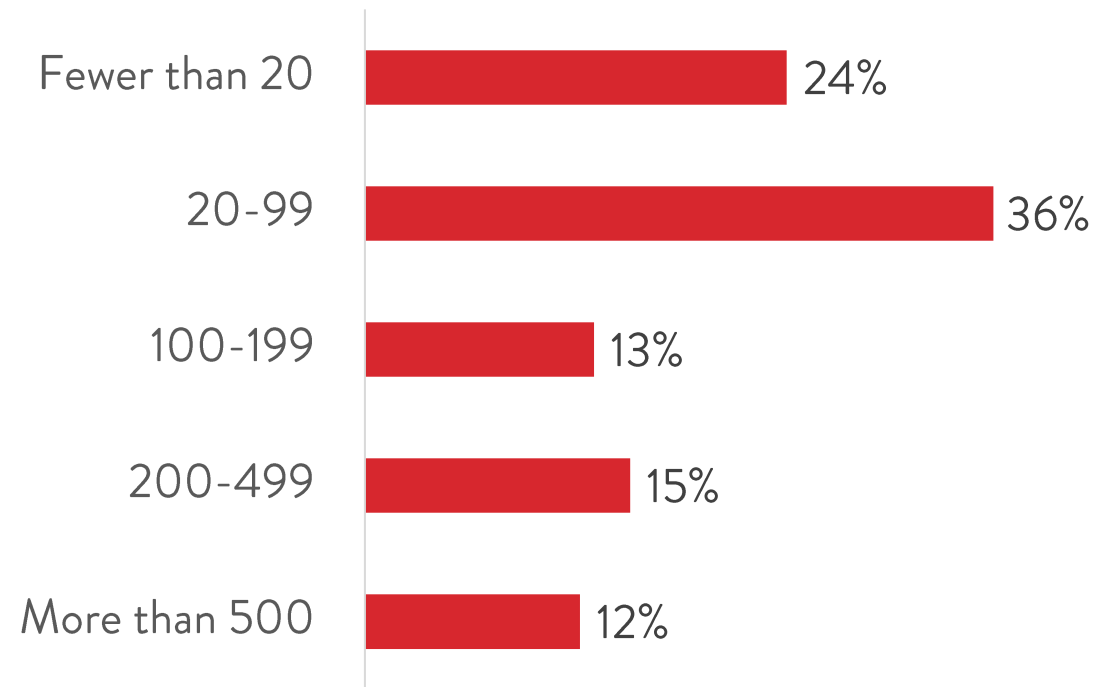
RESPONDENT PROFILE

We surveyed 890 manufacturers with a diverse range of business sizes from across the country:

Regional Distribution

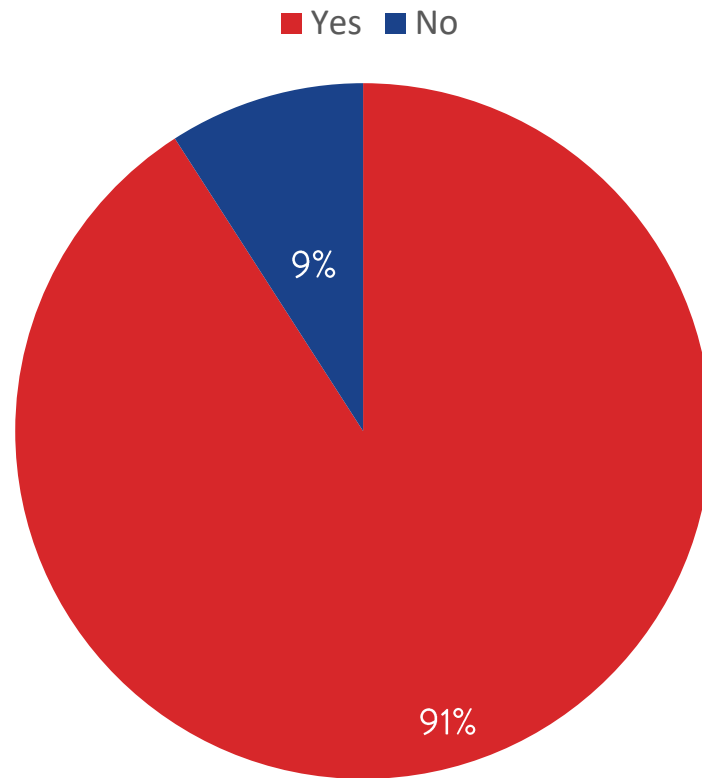


Firm Size Distribution (no. of employees)



ARE YOU CURRENTLY EXPERIENCING PROBLEMS IN YOUR SUPPLY CHAIN THAT ARE IMPACTING THE PRODUCTION AND/OR SALES OF PRODUCTS AT YOUR CANADIAN FACILITIES?

Canada



Source: CME.



Nine out of ten Canadian manufacturers say they are experiencing supply chain issues that are affecting their ability to produce and sell products.

Only a very few lucky manufacturers have managed to avoid such disruptions.

HOW WOULD YOU RATE THE SEVERITY OF SUPPLY CHAIN DISRUPTIONS ON YOUR COMPANY'S PRODUCTION AND/OR SALES? Canada



■ Insignificant ■ Minor ■ Moderate ■ Major ■ Severe

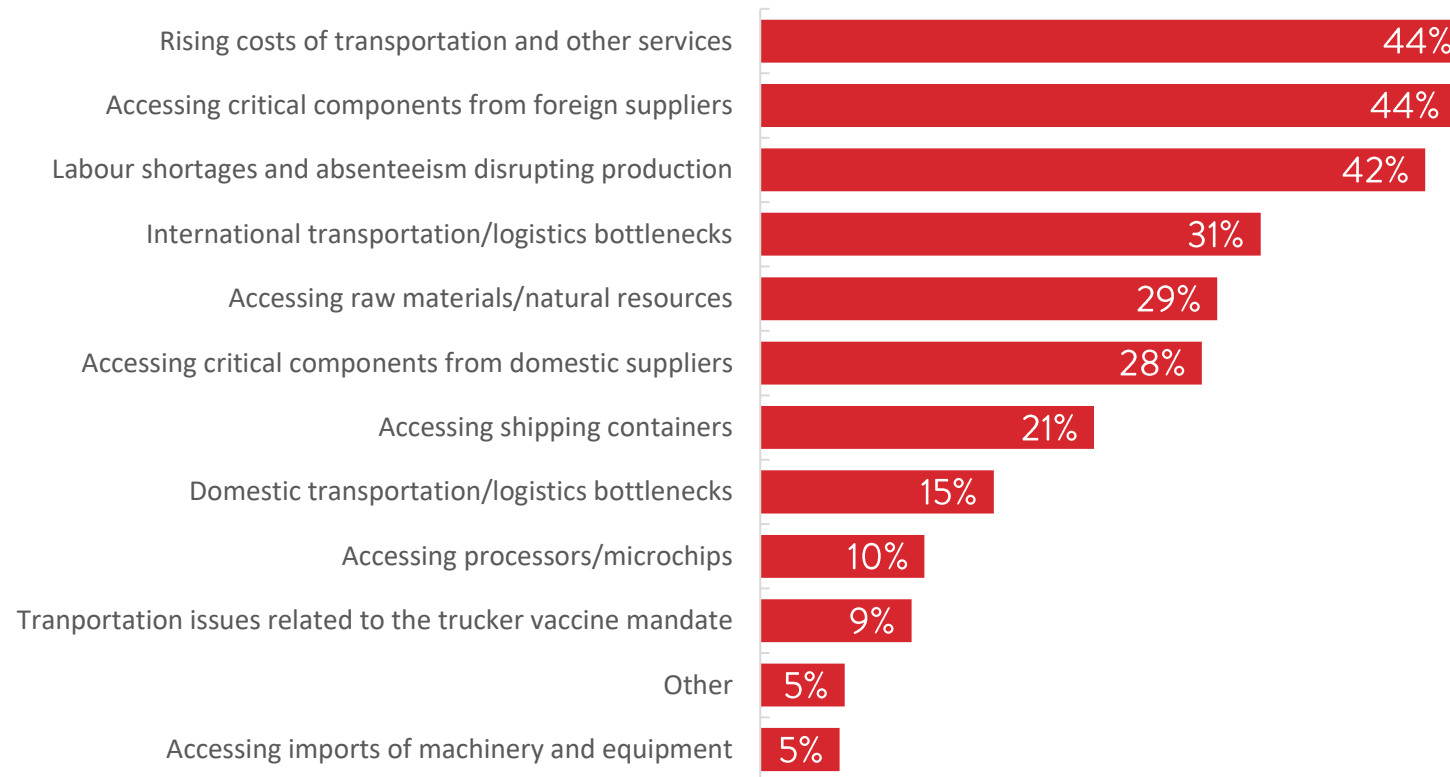


In addition, over 60% of those facing supply chain disruptions rated the impact on their operations as either major or severe.

In contrast, only 4% said such disruptions were insignificant or minor.

WHAT ARE THE BIGGEST BOTTLENECKS THAT YOUR BUSINESS IS FACING NOW?

Canada



Source: CME.

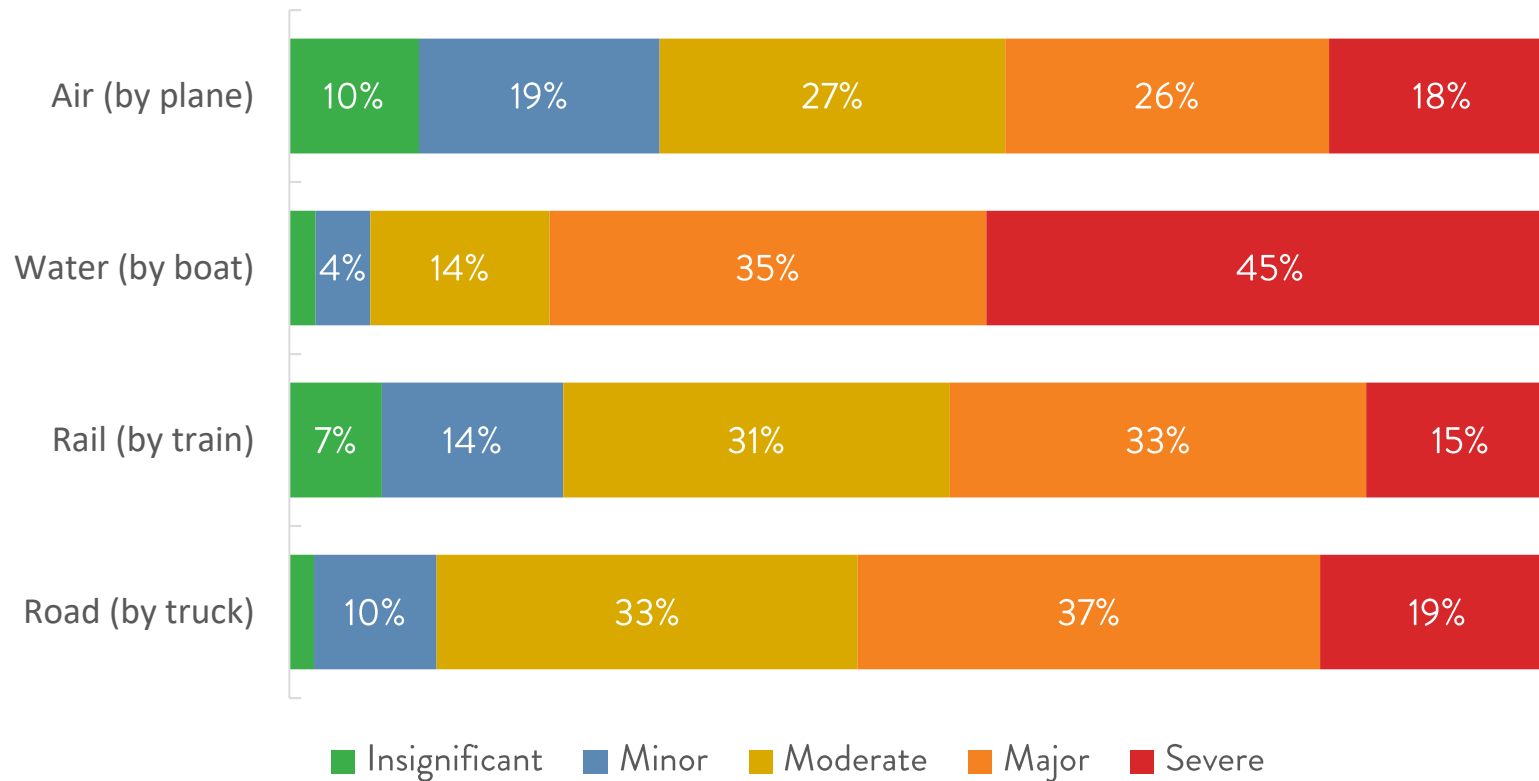


According to our survey, the top three supply bottlenecks facing manufacturers today are:

- 1) Rising transportation costs
- 2) Accessing critical components from foreign suppliers
- 3) Labour shortages and absenteeism disrupting production.

HOW WOULD YOU RATE THE SEVERITY OF THE DELAYS AND INCREASED COSTS IN EACH OF THE FOLLOWING TRANSPORTATION MODES?

Canada

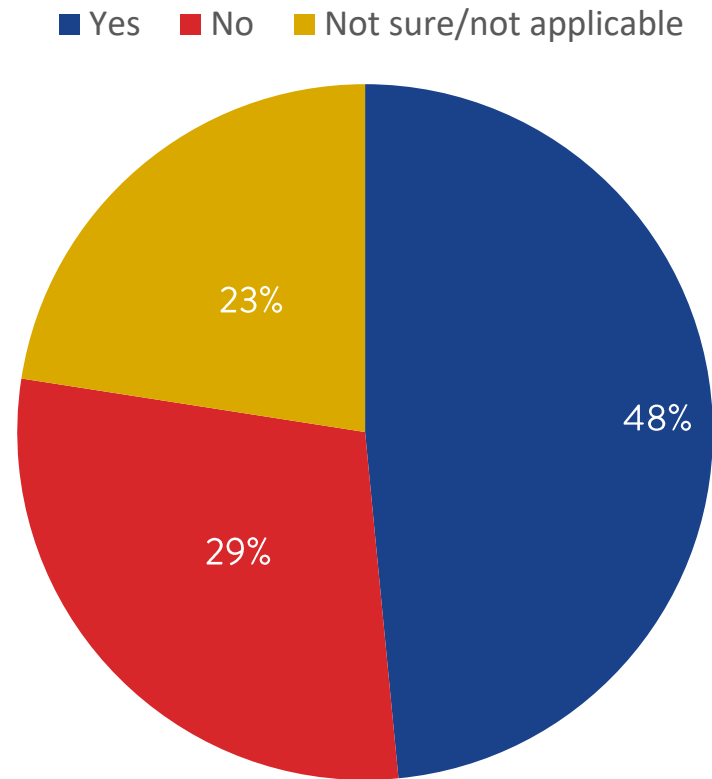


Shipping by boat is causing the biggest headaches for Canadian manufacturers. Of respondents that use this transportation mode, 80% rated delays and increased costs associated with water transportation as major or severe.

This was followed by shipping by truck, with 55% rating delays and increased costs as major or severe.

DO YOU EXPECT THE CROSS-BORDER TRUCKER VACCINE MANDATE TO LEAD TO A SIGNIFICANT INCREASE IN DELAYS, COSTS, AND DIFFICULTIES IN HIRING TRUCKS OVER THE COMING MONTHS?

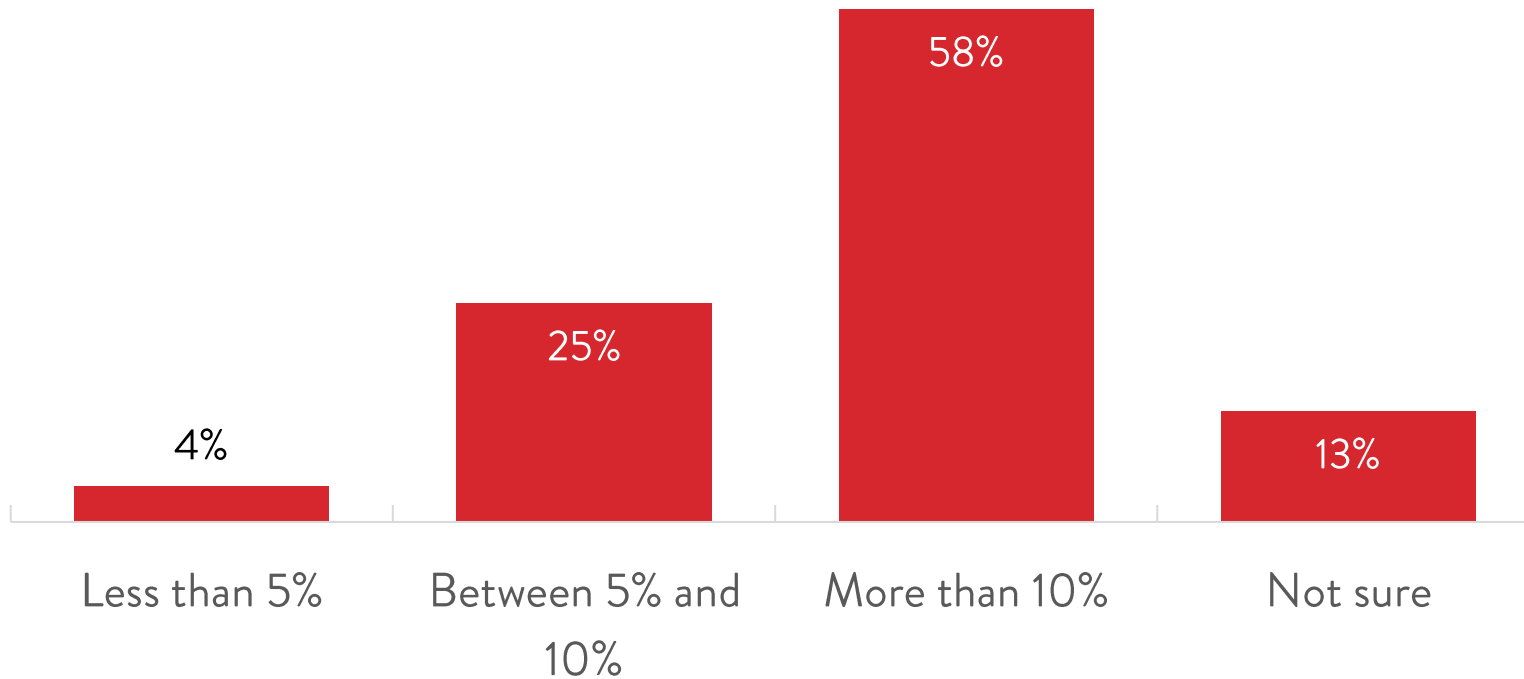
Canada



Just under half of respondents believe that the cross-border trucker vaccine mandate will lead to a significant increase in delays, costs, and difficulties in hiring trucks over the coming months.

OVER AND ABOVE THE IMPACTS OVER THE PAST TWO YEARS, HOW MUCH DO YOU EXPECT THE CROSS-BORDER VACCINE MANDATE TO INCREASE TRANSPORTATION COSTS ON INTERNATIONAL ROUTES?

Canada



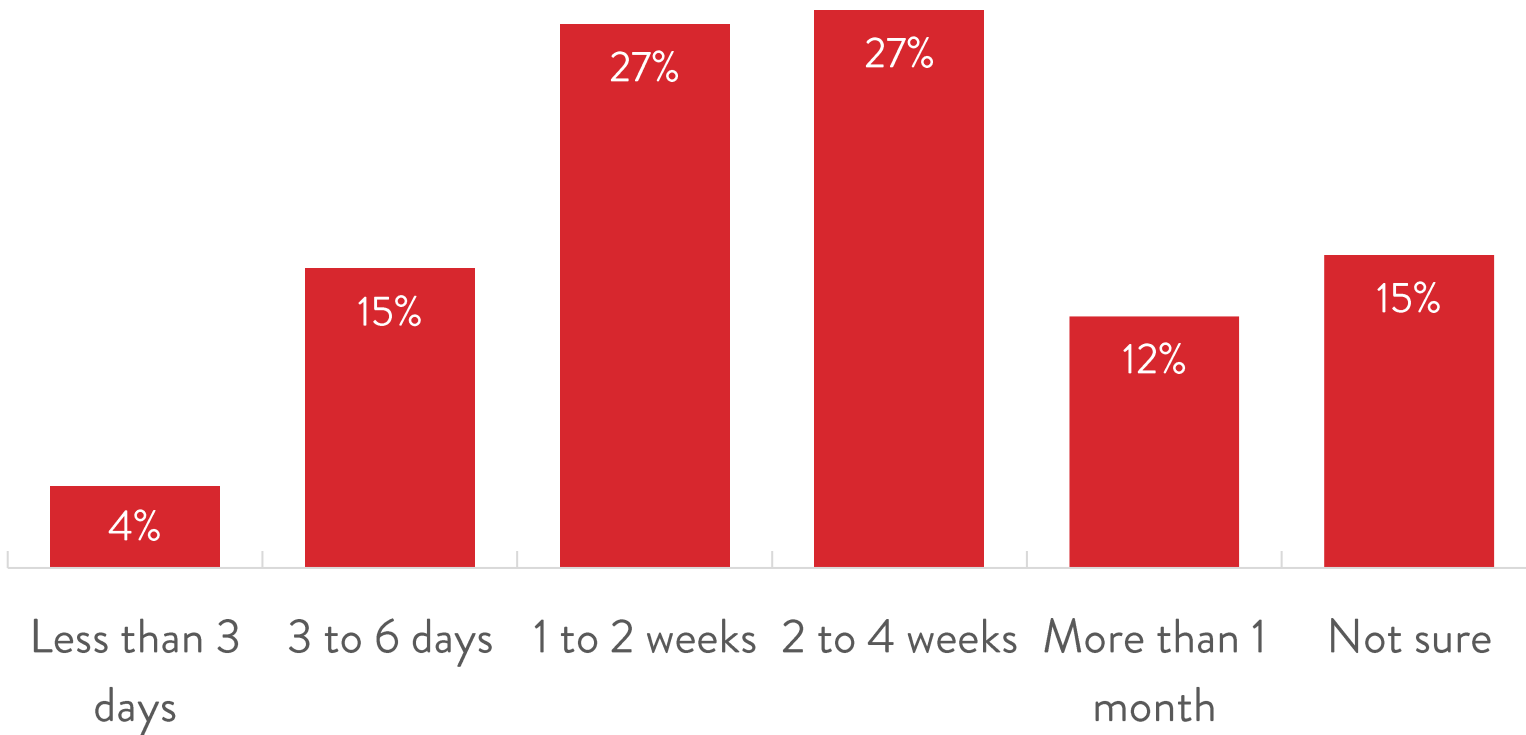
Source: CME.



Of those seeing or expecting significant issues associated with the trucker vaccine mandate, nearly 60% predicted that the mandate would increase transportation costs on international routes by more than 10%.

HOW MUCH DO YOU EXPECT THE CROSS-BORDER VACCINE MANDATE TO INCREASE DELIVERY DELAYS ON INTERNATIONAL ROUTES?

Canada



Source: CME.

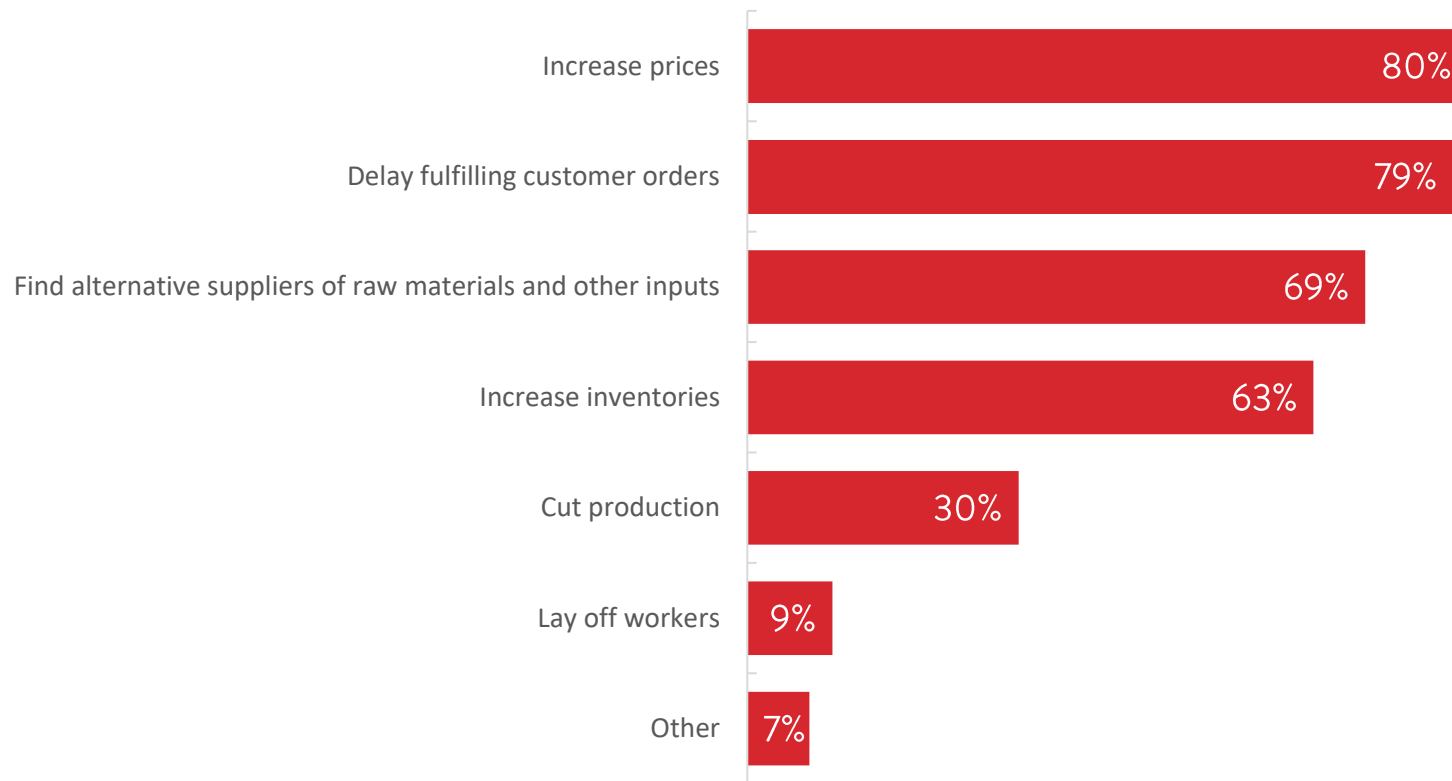


Also, of those seeing or expecting significant issues associated with the trucker vaccine mandate, 27% predicted that the mandate would increase delivery delays by 1-2 weeks, with the same proportion expecting even longer delays of 2-4 weeks.

Most worryingly, 12% of respondents think the vaccine mandate could cause delays of greater than one month.

SUPPLY CHAIN CHALLENGES HAVE FORCED OUR COMPANY TO:

Canada



Source: CME.

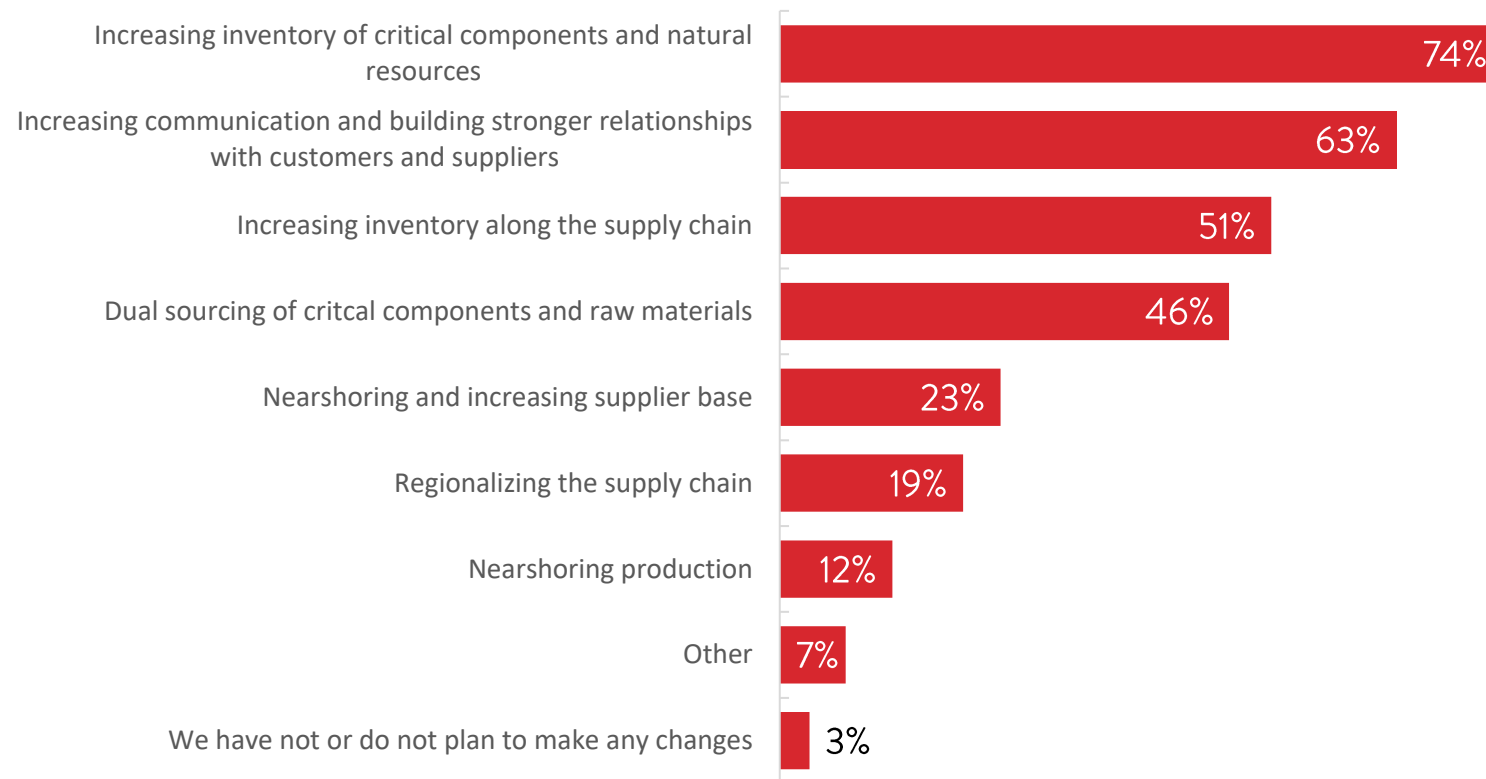


Eight out of ten manufacturers facing supply chain challenges have been forced to increase prices and delay fulfilling customer orders, while 70% have been forced to find alternative suppliers of key inputs.

On the positive side, less than one out of ten say they have resorted to laying off workers to cope with such disruptions.

WHAT ACTIONS HAVE YOU TAKEN OR ARE PLANNING TO TAKE TO REDUCE THE IMPACT OF SUPPLY CHAIN DISRUPTIONS?

Canada



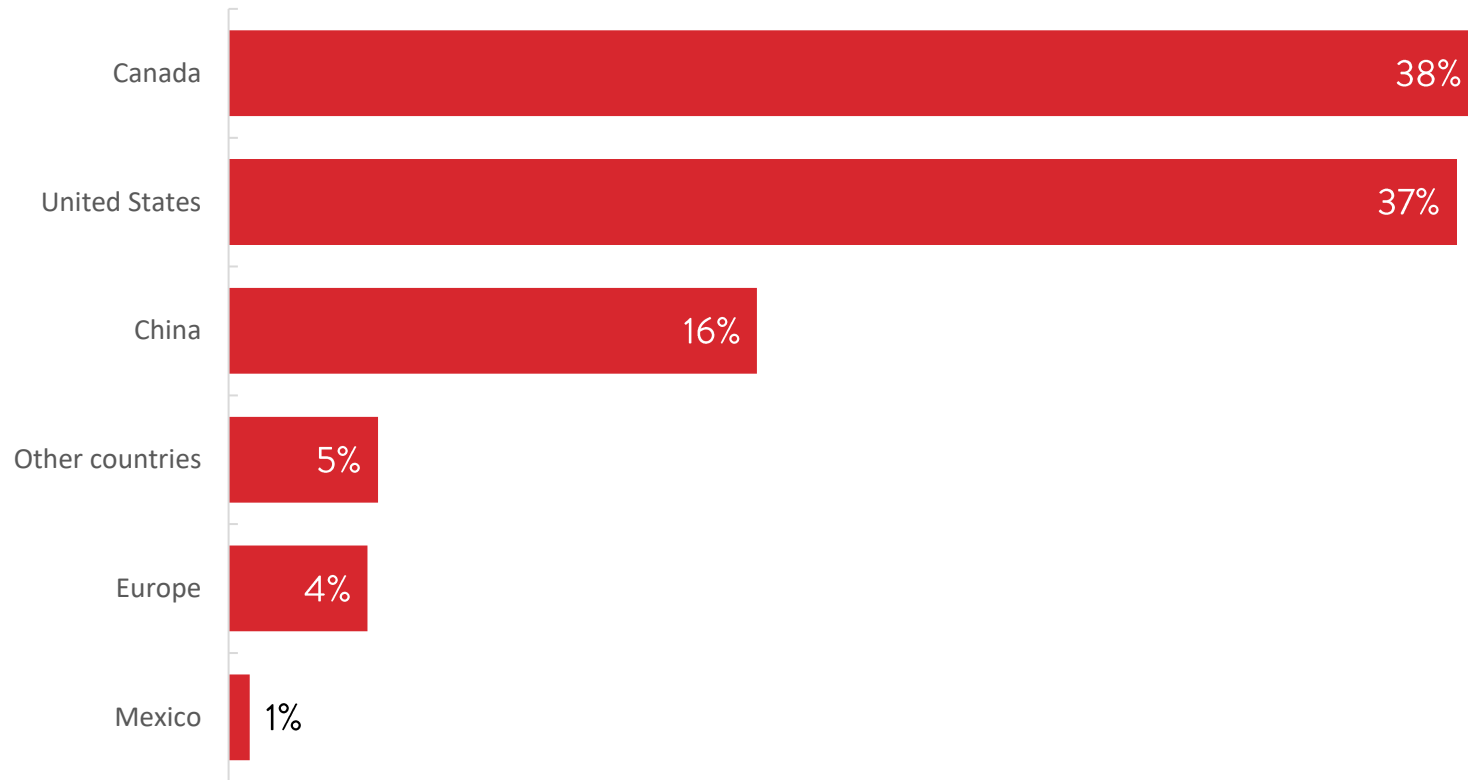
Source: CME.



Manufacturers are taking meaningful steps to reduce the impact of supply chain disruptions, including increasing inventories of critical components (74%), increasing communications with customers and suppliers (63%), and increasing inventories all along the supply chain (51%).

FROM WHERE DO YOU CURRENTLY SOURCE THE LARGEST SHARE OF YOUR SUPPLY CHAIN PRODUCTS?

Canada



Source: CME.

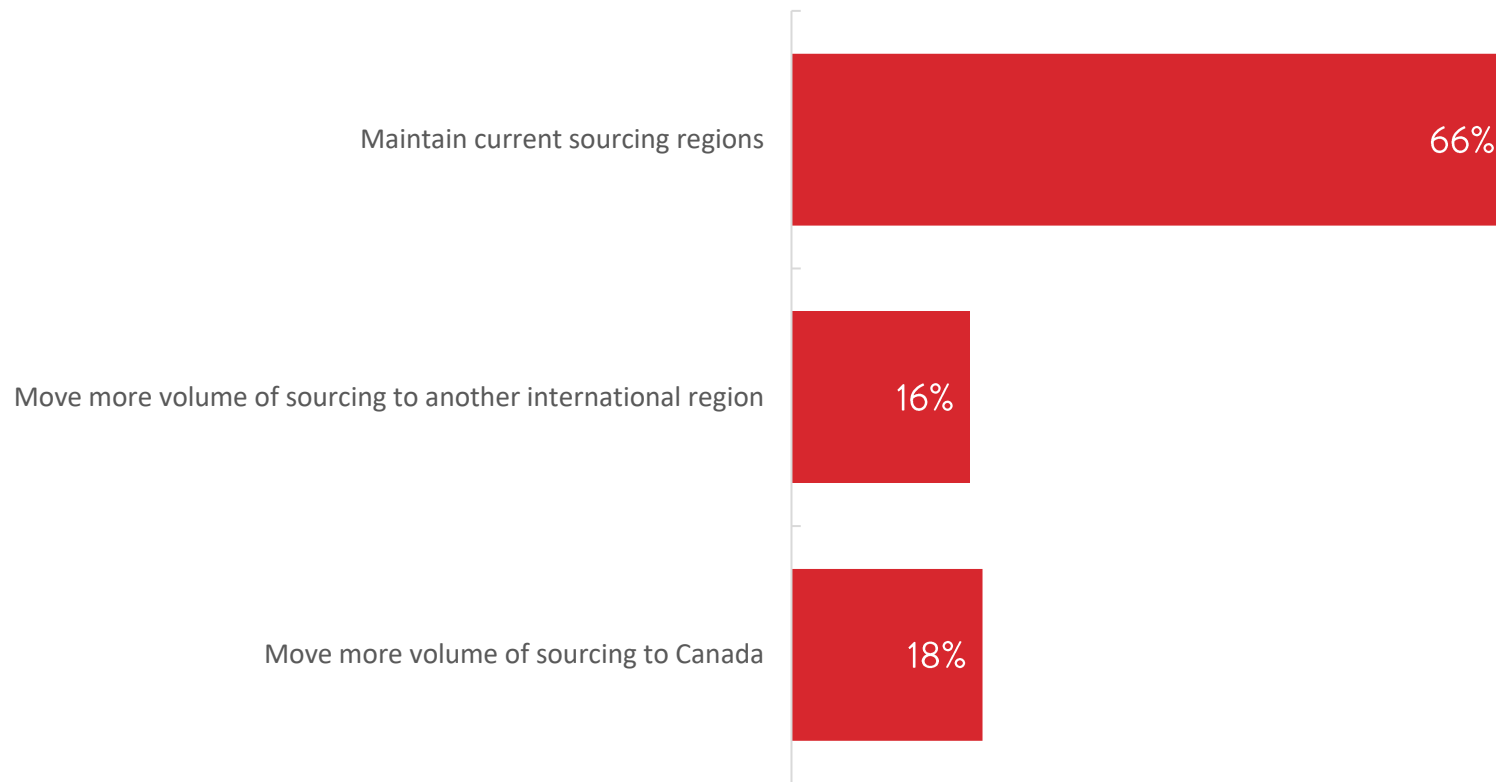


Survey participants are most likely to source their supply chain products in North America, either within Canada (38%) or from the U.S. (37%).

Outside of North America, the most popular supply chain source is China (16%).

WHERE DO YOU EXPECT TO SOURCE YOUR INPUTS FROM IN THE NEXT 3-5 YEARS?

Canada



Source: CME.

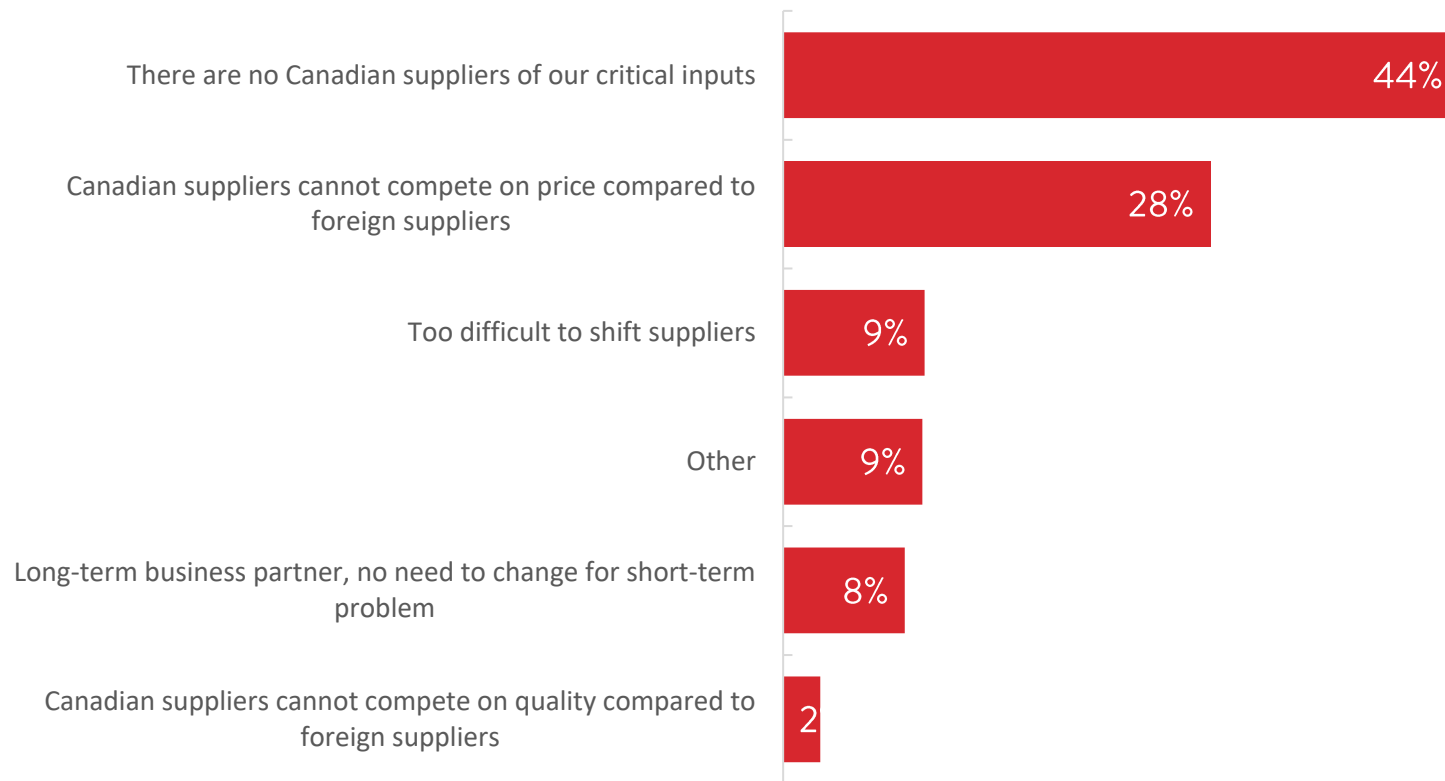


Two-thirds of respondents expect to maintain the location of their current sourcing of inputs over the next 3-5 years.

Of the remaining survey participants, 16% expect to move more volume of sourcing to another international region, while 18% expect to move more volume of sourcing to Canada.

WHAT WOULD YOU CONSIDER THE PRIMARY CHALLENGE OF MOVING MORE VOLUME OF SOURCING TO CANADA?

Canada



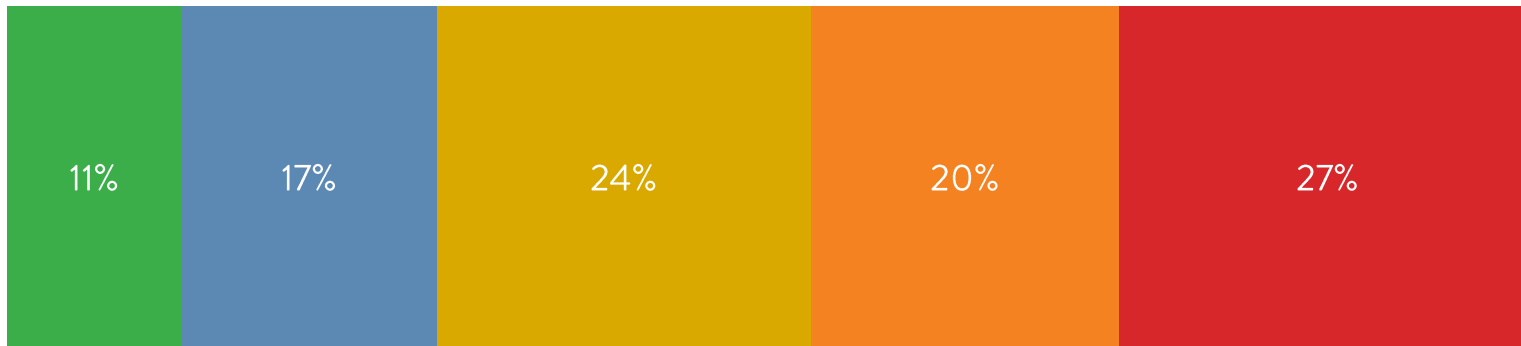
Source: CME.



When asked to identify the primary challenge of moving more volume of sourcing to Canada, 44% of manufacturers cited the fact that there are no Canadian suppliers of their critical inputs, or at least they are not aware of any.

Close to 30% also noted that Canadian suppliers could not compete on price compared to foreign suppliers.

OVER THE NEXT 3-5 YEARS, WHAT IS THE LIKELIHOOD THAT YOUR COMPANY WILL RELOCATE PRODUCTION TO OR SCALE UP PRODUCTION IN CANADA DUE TO SUPPLY CHAIN DISRUPTIONS?
Canada



■ Very likely ■ Likely ■ Neutral ■ Unlikely ■ Very unlikely

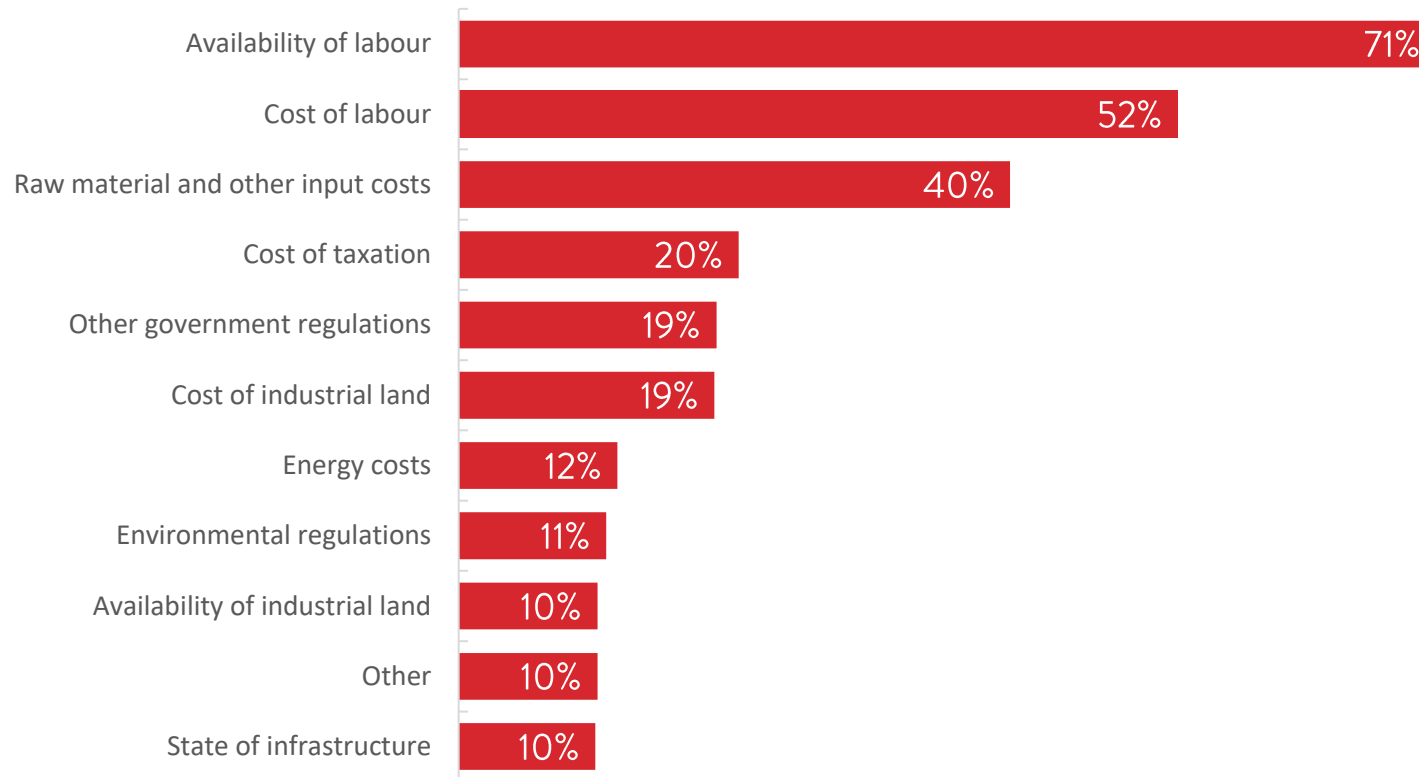
Source: CME.



Relatedly, just 28% of manufacturers said that they are likely or very likely to relocate or scale-up production in Canada in response to supply chain disruptions, compared to 47% that said this was unlikely or very unlikely.

WHAT WOULD YOU CONSIDER THE TOP THREE CHALLENGES OF RELOCATING PRODUCTION TO OR SCALING UP PRODUCTION IN CANADA?

Canada



Source: CME.

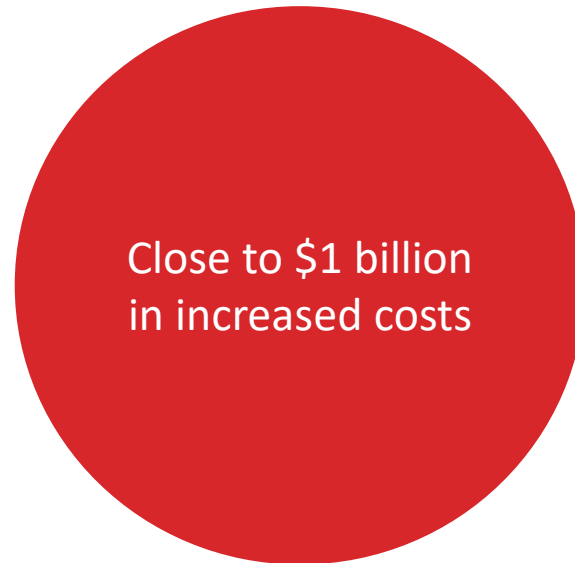
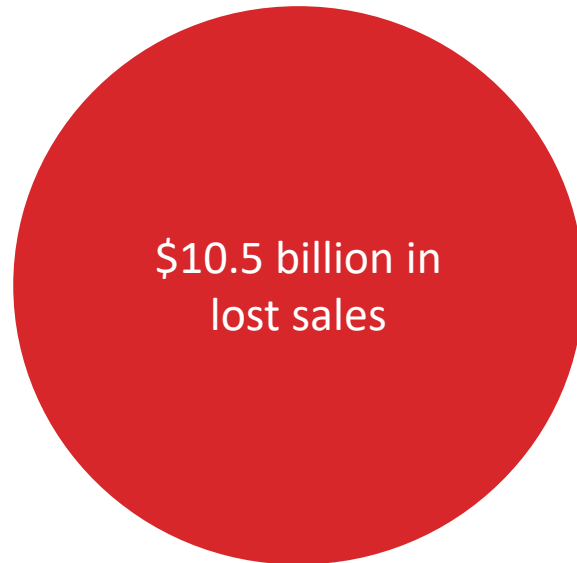


When asked to identify the top challenges of relocating or scaling up production in Canada, the long-standing problem of labour shortages was front and centre.

About 70% of manufacturers cited the availability of labour as a major challenge, followed by slightly over half that fingered the cost of labour.

FROM FEBRUARY 2020 UNTIL TODAY, WHAT IS THE TOTAL APPROXIMATE VALUE OF LOST SALES AND INCREASED COSTS THAT YOU WOULD ATTRIBUTE TO SUPPLY CHAIN DISRUPTIONS?

Canada

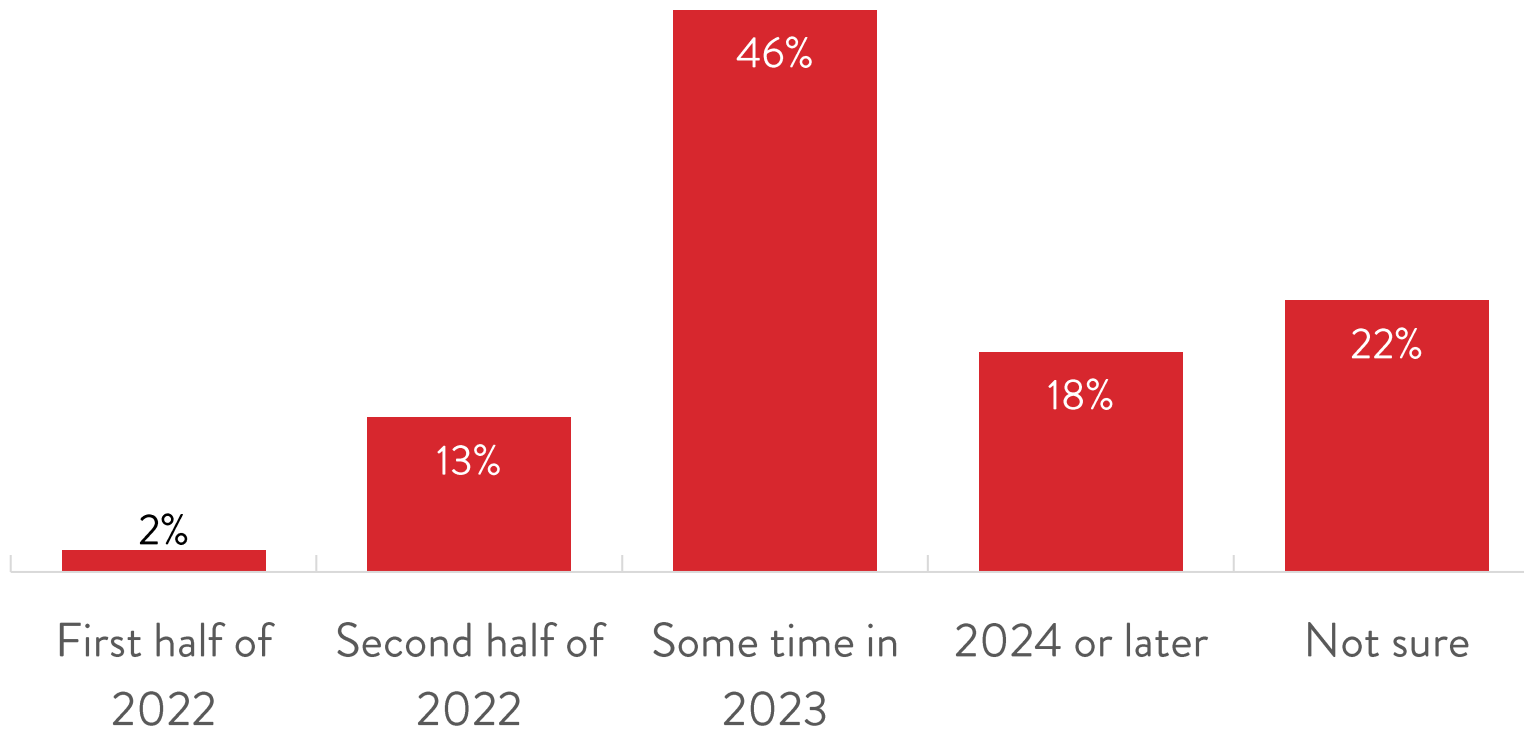


The supply chain bottlenecks caused by the pandemic and other events has had a significant negative impact on Canada's manufacturing sector.

For the respondents able to calculate estimates, they have suffered a combined \$10.5 billion in lost sales and nearly \$1 billion in increased costs.

WHEN DO YOU THINK YOUR COMPANY'S SUPPLY CHAIN CHALLENGES WILL BE RESOLVED?

Canada



Source: CME.

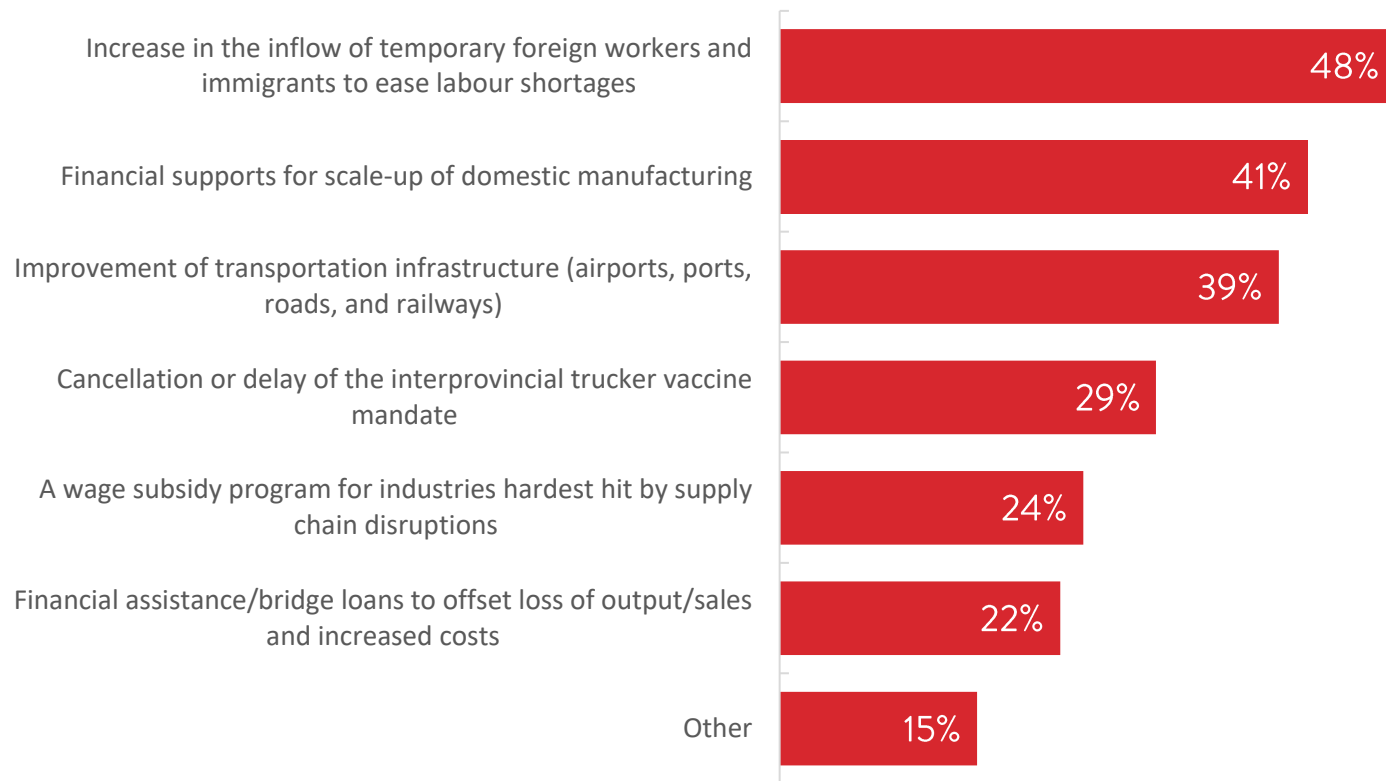


A big question on everyone's mind is: how long will it take for these disruptions to be resolved?

Unfortunately, most of our members are doubtful that they will end this year. Instead, close to half of survey participants predict that we will see an end to these disruptions next year, while nearly 20% predict that we will have to wait until at least 2024 before seeing any relief.

WHAT MEASURES WOULD BE MOST BENEFICIAL TO HELP RESOLVE SUPPLY CHAIN PROBLEMS FOR YOUR COMPANY?

Canada



Source: CME.



When asked what measures would be most beneficial to help ease supply chain disruptions, nearly half of those surveyed cited increasing the inflow of TFWs and immigrants to ease labour shortages, another indication of just how much worker shortages are exacerbating supply chain issues.

Manufacturers are also looking for financial supports to scale-up domestic manufacturing (41%) and improvements in transportation infrastructure (39%).

SUMMARY

- Nine out of ten Canadian manufacturers say they are experiencing supply chain disruptions, of which over 60% rated them as major or severe
- Only 18% of manufacturers plan on moving more volume of sourcing to Canada in response to these disruptions, with many blaming this on the fact that there are no Canadian suppliers of their critical inputs, or at least they are not aware of any.
- Relatedly, only 28% of manufacturers said that they are likely or very likely to relocate or scale-up production in Canada to mitigate supply chain bottlenecks
- The availability and cost of labour is by far the biggest hurdle to relocating or scaling-up production in Canada
- For the respondents able to calculate estimates, they have suffered a combined \$10.5 billion in lost sales and nearly \$1 billion in increased costs due to supply chain disruptions
- Most manufacturers predict that these disruptions will not end until at least some time in 2023

NEXT STEPS

CME will continue to:

1. Work with the federal government to expand the manufacturing and transportation labour force by increasing the number of economic class immigrants and temporary foreign workers
2. Push for new government initiatives that help manufacturers accelerate the adoption of automation technologies
3. Pressure governments to pass legislation that protects Canada's critical economic infrastructure
4. Recommend that the Government of Canada lead and support a comprehensive supply chain mapping of Canada's domestic capacity of strategically important intermediate and final manufactured goods
5. Ensure that governments increase investments in infrastructure that facilitates trade and industrial development

THANK YOU TO OUR PARTNERS





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