CME 2022 LABOUR AND SKILLS SURVEY

OCTOBER 2022
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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

ALAN ARCAND

Alan Arcand is the Chief Economist at CME. In his role, he is responsible for developing and executing CME’s major national research projects, conducting CME’s macroeconomic analysis to support the organization across the country, leading tax policy efforts, and being a leading voice representing the interests of the association and members with government and with the public. Alan’s background includes expertise in municipal, regional, and national economic matters including economic forecasting and analysis.
CME surveys are one of our most important tools for taking the pulse of the manufacturing community. They provide important insights into the current conditions of manufacturers, their expectations for the future, and their most pressing challenges and needs. They are central to informing our engagement strategies with governments as we work to build a world-class business environment for Canadian industry and strengthen our ability to compete globally.

In this survey, we return to an issue that has been an ongoing challenge for manufacturers: labour and skills shortages that act as a serious impediment to growth. This report details the survey’s main findings and provides recommendations to governments on how best to address these persistent and chronic shortages in the sector.

Survey participants represented a broad cross-section of the Canadian manufacturing sector, with 563 respondents spanning at least 17 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 first notable conclusion from the survey is that the ongoing challenge of labour and skills shortages continues to be exacerbated by the fallout from COVID-19. For the second consecutive year, more than 80 per cent of manufacturers said they are currently facing labour and skills shortages, up sharply from 60 per cent in 2020 and 39 per cent in 2016.

As in past CME surveys, the findings point to a clear need for workers in production-related jobs. Two-thirds of businesses that report labour shortages today said that they could not find enough workers in skilled trades professions, especially welders, millwrights, and machinists. At the same time, more than 60 per cent also reported challenges finding less skilled workers to fill general labour and assembly positions.
These labour shortages are resulting in a wide range of negative impacts on the sector, the biggest of which are delivery delays, increased costs, and negative mental health impacts on current employees. The latter impact is particularly worrisome because it tends to compound labour shortages, as work-related stress and poor mental health have been cited as major reasons for absenteeism, occupational disability, and early retirements.

Along with delivery delays, some manufacturers are also being left with no choice but to turn down new orders because of a lack of workers. Together, they come at a significant cost to industry in the form of penalties for late delivery and lost business opportunities. In fact, the companies surveyed reported combined losses of $1.1 billion over the past year, or $2.8 million per company, due to lost or turned down contracts and penalties for late delivery. This is consistent with total losses of $7.2 billion for the entire manufacturing sector.

Likewise, labour and skills shortages are also forcing companies to delay or cancel investment projects. The companies surveyed reported a total of $844 million in delayed or cancelled capital projects over the past year, equal to $2.1 million per company. This corresponds to delayed or cancelled investments totalling $5.4 billion for the industry as a whole.

Manufacturers are in hiring mode, but face many barriers to attracting and retaining talent, and according to our survey, one barrier stands out above the rest: difficulty finding candidates with the right technical skills. This speaks to the need for education and immigration reforms to better match skills of the country’s workforce with the needs of the industry. Other top barriers included difficulty providing expected compensation and the high cost of living at their location.

Manufacturers facing labour and skills shortages are using several different strategies to deal with personnel recruitment and retention challenges. The most common strategy should come as no surprise. More than 70 per cent of survey participants have responded to labour shortages by increasing wages and benefits, consistent with official data showing that wage growth in manufacturing has been strong in recent months.

Besides raising wages, another option available to companies is to shift some or all production to another country that has a more plentiful supply of labour. Among the companies surveyed, 15 per cent confirmed that this is what they are contemplating. While this is slightly below the findings (17 per cent) in last year’s survey, it would be a mistake to be complacent. This figure could just as easily rise in future years if action is not taken soon to expand the pool of manufacturing workers.

The problem of labour and skills shortages is so acute that it will not be addressed without a strong response from governments. According to survey participants, the top priority of governments should be to provide more financial support to encourage investment in automation. This was followed by more effectively promoting skilled trades and other career options to secondary students, introducing and expanding apprenticeship programs and incentives, and increasing immigration.

Although the pandemic-related labour force disruptions will eventually dissipate, the challenge of labour and skills shortages is not going to go away any time soon. Canada’s population is rapidly aging, with baby boomers retiring out of the workforce in large numbers. At the same time, not enough young Canadians are choosing to pursue a career in manufacturing, limiting the number of new entrants into the sector’s workforce. But thanks to the manufacturers from across the country that took the time to answer this survey, CME is in a better position to make its case to governments that strong actions are needed to help address labour and skill shortages in Canada’s manufacturing sector. CME will continue its direct engagement with all levels of government on this issue, pushing for programs and policy reforms that enable the manufacturing industry to grow and thrive.
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 fourth survey in the new format and focuses on labour and skills shortages – areas that Canadian manufacturers will need to continue to address into 2022 and beyond.

The industry has seen an increasing number of labour and skills shortages. Labour shortage is not a new phenomenon, but as the Canadian economy is recovering and the job market is bouncing back, the pressure on manufacturers is also intensifying. Most manufacturers are still struggling to find candidates with the right technical skills.

This survey highlights how manufacturers are working to overcome this challenge with a range of actions. The majority of respondents are working on the most effective solutions for finding and keeping employees like increasing wages and benefits and devoting more resources to advertising job openings, but this is not typically achieved overnight and needs to be balanced with the impact of potential cost increases.

With eased restrictions across the country, discretionary consumer spending is likely to shift from products to services, so manufacturers need to continually review their demand planning.

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.
WHERE IS YOUR HEAD OFFICE OR PRIMARY LOCATION IN CANADA?

CME received 563 responses to our 2022 Labour and Skills Survey, representing all regions of Canada. The largest share of responses – about 53 per cent – come from Quebec. About 24 per cent have their primary operations in Western Canada, 18 per cent of respondents mainly operate in Ontario, and 6 per cent are headquartered in Atlantic Canada.

Some survey participants work for companies that have facilities in more than one province. Companies are most likely to have additional operations in Ontario, Manitoba, BC, and Alberta.
WHICH CATEGORY BEST DESCRIBES THE GOODS YOUR COMPANY PRODUCES?
The survey results reflected the views of respondents from across the manufacturing spectrum. The largest representation was from companies in fabricated metal manufacturing, with about 24 per cent of total responses, followed by food and beverages (13 per cent) and industrial and commercial machinery (9 per cent). The remaining responses were spread across a wide range of other manufacturing activities.

- Food and beverage products: 13%
- Textiles and apparel: 2%
- Forestry and wood products: 5%
- Paper products: 1%
- Printing: 1%
- Petroleum and coal products: 1%
- Chemicals and pharmaceuticals: 2%
- Plastics and rubber products: 8%
- Non-metallic mineral products: 1%
- Primary metals: 2%
- Fabricated metal products: 24%
- Machinery: 9%
- Computer and electronic products: 4%
- Electrical equipment, appliances and components: 2%
- Transportation equipment: 9%
- Furniture and related products: 3%
- Miscellaneous: 13%

HOW MANY PEOPLE WORK AT YOUR COMPANY?
Survey participants tend to be small and medium-sized businesses. Some 44 per cent of all reporting businesses have fewer than 100 employees. About 36 per cent are mid-sized companies with 100 to 499 employees, while the remaining one-fifth are large companies with more than 500 employees. Compared to the actual structure of the sector, our survey responses include a higher share of large companies.
LABOUR & SKILLS

Labour and skills shortages are a chronic issue for Canada’s manufacturers. In simple terms, these shortages are caused by a lack of new people entering the industry as older workers leave. While the prospect of an aging population and the accompanying increase in retirements has been with us for a long time, Canada’s immigration and education systems have not adapted quickly enough to meet the needs of the industry. To make matters worse, COVID-19 continues to exacerbate the challenge of attracting and retaining a quality workforce, even with the pandemic winding down. The following section describes the results of survey questions asking specifically about labour and skills shortages in the manufacturing sector.

HOW WOULD YOU COMPARE THE CHALLENGE OF ATTRACTING AND RETAINING A QUALITY WORKFORCE TODAY TO THE SITUATION ONE YEAR AGO?

When asking manufacturers to compare the challenge of attracting and retaining a quality workforce today to the situation one year ago, many more said it had worsened (59 per cent) than said it had improved (7 per cent). On the plus side, this was an improvement over the results from last year’s survey when 80 per cent said the situation had worsened. The labour market remains very tight, but at least the trend is moving in the right direction.

IS YOUR COMPANY CURRENTLY FACING LABOUR AND/OR SKILLS SHORTAGES?

Labour and skills shortages have been a problem in manufacturing for some time, but the situation has deteriorated markedly since the pandemic. Some 82 per cent of survey participants said they are currently facing labour and/or skills shortages, the exact same percentage as in the 2021 survey. This is up sharply from 39 per cent in 2016, 69 per cent in 2018, and 60 per cent in 2020.
IN WHICH OCCUPATIONS DOES YOUR COMPANY FACE THE MOST URGENT LABOUR/SKILLS SHORTAGES TODAY?

As in past CME surveys, the findings point to a clear need for workers in production-related jobs. About two-thirds of businesses that report labour shortages said that they could not find enough workers in skilled trades professions. At the same time, more than 60 per cent of manufacturers also reported challenges finding less skilled workers to fill general labour and assembly positions. As well, a little under 30 per cent of manufacturing companies said that they faced shortages in production management and supervision positions.

In contrast, shortages in non-production occupations appear less acute.

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### IN WHICH SKILLED PRODUCTION OCCUPATIONS DOES YOUR COMPANY FACE THE MOST URGENT SHORTAGES?

We have known for some time that manufacturers and businesses in other industries have struggled with finding skilled trade workers. But which specific skilled trades occupations are seeing the largest supply-demand imbalances? According to our survey, the skilled trade occupations with the most severe shortages in the manufacturing sector are welders (40 per cent), millwrights (31 per cent), and machinists and machining and tooling inspectors (27 per cent). Notably, these occupations also placed in the top three in the 2021 survey.

At the other end of the spectrum, shortages of plumbers, ironworkers, steamfitters and pipefitters, crane operators, boilermakers, and machine fitters appear to be less of an issue, with less than 5 per cent of respondents citing these occupations as trouble spots.
WHAT ARE THE BIGGEST NEGATIVE IMPACTS OF LABOUR SHORTAGES ON YOUR BUSINESS?

Labour shortages are causing a wide range of negative impacts on the sector. Based on our survey, the biggest ones faced by manufacturers are delivery delays (61 per cent), increased costs (46 per cent), and negative mental health impacts on current employees (41 per cent). The latter impact is particularly worrisome because it tends to compound labour shortages, as work-related stress and poor mental health have been cited as major reasons for absenteeism, occupational disability, and early retirements.

IN THE PAST YEAR, HAS YOUR COMPANY LOST OR TURNED DOWN CONTRACTS OR PAID PENALTIES FOR LATE DELIVERY BECAUSE OF A LACK OF WORKERS? WHAT IS THE TOTAL APPROXIMATE VALUE TO YOUR BUSINESS OF THESE?

Along with delivery delays, some manufacturers are also being left with no choice but to turn down new orders because of a lack of workers. Among those surveyed, 62 per cent reported facing such costs over the past 12 months. Together, they come at a significant cost to industry in the form of penalties for late delivery and lost business opportunities. In fact, the companies surveyed reported combined losses of $1.1 billion over the past year, or $2.8 million per company, due to lost or turned down contracts and penalties for late delivery. This is consistent with total losses of $7.2 billion for the entire manufacturing sector.¹

¹ The losses suffered over the past year were calculated in proportion to the revenue reported by survey participants. This proportion was then multiplied by the total revenue generated by all manufacturing enterprises to estimate the losses suffered by the whole industry.
IN THE PAST YEAR, HAVE YOU DELAYED OR CANCELLED ANY INVESTMENTS BECAUSE OF LABOUR SHORTAGES? WHAT IS THE APPROXIMATE VALUE OF THESE DELAYED OR CANCELLED CAPITAL PROJECTS?

Likewise, labour and skills shortages are also forcing companies to delay or cancel investment projects. In our survey, 43 per cent reported taking such drastic steps over the past year. The companies surveyed reported a total of $844 million in delayed or cancelled capital projects over the past year, equal to $2.1 million per company. This is consistent with delayed or cancelled investments totalling $5.4 billion for the industry as a whole. Clearly, labour and skills shortages are resulting in significant lost opportunities for Canada’s manufacturing sector and overall economy.

WHAT ARE THE MAIN BARRIERS YOUR COMPANY FACES IN ACQUIRING AND RETAINING A QUALITY WORKFORCE?

Canadian businesses face many barriers to attracting and retaining talent, but which ones are the most prevalent in manufacturing? In our survey, one barrier stood out above the rest: difficulty finding candidates with the right technical skills, chosen by almost three-quarters of respondents. This speaks to the need for education and immigration reforms to better match skills of the country’s workforce with the needs of the industry.

Other top barriers included difficulty providing expected compensation (35 per cent), reflecting the growing pressure on companies to increase wages, and the high cost of living at their location (23 per cent), a likely consequence of the high inflation environment and Canada’s severe housing shortfall.
IN THE PAST YEAR, WHICH ACTIONS HAS YOUR COMPANY TAKEN TO ATTRACT AND RETAIN MORE TALENT AND ADDRESS LABOUR AND SKILLS SHORTAGES?

Manufacturers facing labour and skills shortages are trying several different strategies to deal with personnel recruitment and retention challenges. The most common strategy should come as no surprise. More than 70 per cent of survey participants have responded to labour shortages by increasing wages and benefits, consistent with official data showing that wage growth in manufacturing has been strong in recent months.

Other popular strategies that companies are using to cope with labour shortages include devoting more resources to advertising job openings (50 per cent), offering rewards for referrals (44 per cent), and increasing efforts to hire individuals from underrepresented groups—women, Indigenous peoples, persons with disabilities, and visible minorities (41 per cent).

IS YOUR COMPANY CONSIDERING MOVING SOME OR ALL ITS PRODUCTION OUTSIDE OF CANADA BECAUSE OF A LACK OF WORKERS HERE?

Besides the strategies above, another option available to companies is to shift some or all production to another country that has a more plentiful supply of labour. Indeed, the availability and quality of labour is known to be a key investment location factor for many businesses. Among the companies surveyed, 15 per cent said that they were considering this option. While this is slightly below the findings (17 per cent) in last year’s survey, it would be a mistake to be complacent. This figure could just as easily rise in future years if action is not taken soon to expand the pool of manufacturing workers.
TO WHAT EXTENT ARE LABOUR SHORTAGES IN RELATED SECTORS NEGATIVELY AFFECTING YOUR BUSINESS?

The pandemic has highlighted the interconnectedness of supply chains, and how easily they can be disrupted. Indeed, manufacturers depend on supply chains to reliably deliver raw materials to their plants and to ship finished products to their customers. Along with transportation and logistics, services such as communication, engineering, and finance are also important inputs into the production of goods. It follows that labour shortages in these intermediate service industries could also be preventing Canadian manufacturers from meeting customer demand. In fact, this is exactly what our survey found: 37 per cent of manufacturers said that shortages in related sectors were having a major negative impact on their business, while another 43 per cent said they were having a moderate effect. In contrast, only 4 per cent of survey participants felt that such shortages were having no impact at all.

WHAT GOVERNMENT PROGRAMS OR POLICIES WOULD BEST HELP YOU ADDRESS LABOUR AND SKILLS SHORTAGES OVER BOTH THE SHORT AND LONG RUN?

The problem of labour and skills shortages is so acute that it will not be addressed without a strong response from governments. What specific programs and policies should governments prioritize? In our survey, 39 per cent of respondents want governments to provide more direct support or tax credits to encourage investment in automation, making it the top choice. The adoption and integration of advanced technologies, including those that automate tasks and processes, is critical to the long-term competitiveness of manufacturing in Canada.

Besides this policy action, 35 per cent of respondents want governments to put a greater emphasis on promoting skilled trades and other career options to secondary students and 29 per cent are looking for governments to introduce and expand apprenticeship programs and provide more apprenticeship incentives. (Apprenticeship programs and manufacturers’ experience with them are discussed in more detail below.) Close behind at 27 per cent, and ranking fourth, is increasing the intake of immigrants.
LABOUR OUTLOOK

Although several signs indicate that the Canadian economy is slowing down, labour market conditions remain extremely tight. Job vacancies in the manufacturing sector climbed to a record high of 85,870 in the second quarter of 2022, while the job vacancy rate remained unchanged at 5.3 per cent, matching its record high from the previous quarter. Robust labour demand in manufacturing and other sectors continues to push up wages. Still, with interest rates climbing and economic growth cooling, the labour market is bound to loosen eventually, even if just over the short term. Against this backdrop, we asked manufacturers about their expectations for employment, wages, and worker retirements.

OVER THE NEXT YEAR, WHAT DO YOU EXPECT IN TERMS OF FULL-TIME EMPLOYMENT IN YOUR COMPANY?

Even though the economy is slowing down, our survey indicates that most manufacturers remain in hiring mode. Over the next year, 71 per cent of respondents said they expect full-time employment in their company to increase. Of this group, 23 per cent think employment will increase by more than 10 per cent. In contrast, only 3 per cent of manufacturers expect their company’s full-time employment to fall.

OVER THE NEXT YEAR WHAT DO YOU EXPECT TO HAPPEN TO EMPLOYEE WAGES AT YOUR COMPANY?

With labour markets so tight, it should not be a surprise that most businesses are planning to make big wage hikes. In fact, over the next year, 84 per cent of manufacturers think wages at their company will rise. Of this group, 30 per cent think wages will increase by more than 5%. On the flipside, not a single respondent expects wages to fall over the next 12 months.
WHAT PERCENTAGE OF YOUR COMPANY’S WORKFORCE DO YOU EXPECT TO RETIRE OVER THE NEXT THREE YEARS?

Population aging represents one of the major demographic trends in Canada, and it is known to be a key structural factor behind Canada’s labour shortages. The demographic aging process is currently accelerating as individuals born between 1946 and 1965—collectively known as baby boomers—reach more advanced ages. This process is also being influenced by the combination of a fertility rate below the replacement level (2.1 children per woman) and a steady increase in life expectancy.

When asked what percentage of their workforce they expected to retire over the next three years, 70 per cent of survey participants selected the range of 0-10 per cent, by far the most popular response. The share of respondents that expected no retirements from their workforce (16 per cent) was similar to the percentage that expected more than 10 per cent of their workforce to retire (14 per cent).
APPRENTICESHIPS

Labour and skills shortages are so severe that standard methods of recruitment are not enough to help the manufacturing sector ease talent shortages. Companies need to look at different ways of bringing people in and upskilling them to fill these gaps. Apprenticeships are one way in which employers can reach a wider talent pool, while at the same time equipping young people with critical skills to succeed in the workforce.

Given the wider societal benefits of workforce upskilling, it makes sense for governments to provide financial assistance to firms to increase their apprenticeship and training activities. This raises questions about the extent to which manufacturers have used government apprenticeship training programs or tax credits as a way to fill skills gaps, how satisfied they have been with the programs, and the actions that governments can take to make them more effective.

HAS YOUR COMPANY EVER USED GOVERNMENT APPRENTICESHIP PROGRAMS OR TAX CREDITS?

A question about the sector’s use of government apprenticeship programs or tax credits drew a mixed response. About 28 per cent said they had used such programs or incentives in the past and a similar amount said they were planning on using them in the coming years. This left 42 per cent with no such plans to use government apprenticeship supports.

ARE YOU SATISFIED WITH THESE PROGRAMS AND THEIR ABILITY TO HELP SOLVE YOUR CHALLENGES FINDING SKILLED WORKERS?

Of those that had used government apprenticeship programs or tax credits, a slim majority (53 per cent) found that they helped solve their challenges finding skilled workers. This is a good start, but a higher satisfaction rate should be the goal of governments.
**WHAT WOULD BE THE MOST EFFECTIVE IMPROVEMENTS THAT GOVERNMENTS COULD MAKE TO APPRENTICESHIP PROGRAMS?**

Finally, 82 per cent of manufacturers believe that to make apprenticeship programs more effective, governments must do a better job of promoting skilled trades in schools, by far the most popular response. This was followed by three other suggested improvements that were selected by a similar percentage of respondents: providing a “matching” service between employers and potential apprentices (48 per cent), keeping the curriculum up-to-date based on industry feedback (41 per cent), and providing flexible schedule options for apprentices attending technical training (41 per cent).
CME RECOMMENDATIONS

Based on the results of this survey and other research, along with consultations with members, CME recommends that governments take the following actions to ease labour and skills shortages in the manufacturing sector:

**IMMIGRATION**

1. Increase the intake of economic class immigrants to 500,000 per year by 2025, work to reduce backlogs, and reform Canada’s immigration point system to better align it with the skills needed in the manufacturing sector.

2. Speed up the Temporary Foreign Worker (TFW) program by creating a trusted employer program that pre-approves qualifying companies and by streamlining the Labour Market Impact Assessment (LMIA) application.

**TRAINING**

3. Provide employer-led training benefits including a 50 per cent tax credit to offset half the costs of employee training.

4. Reform hiring, training, and apprenticeship programs so they better meet the needs of our sector.

5. Increase funding of the Canada Job Grant to $1 billion annually, make it permanent, and expand it to include on-the-job training.

**DIVERSITY, INCLUSION AND YOUTH ENGAGEMENT**

6. Renew and increase funding for programs that encourage more members of underrepresented groups to seek a career in manufacturing, including CME’s Women in Manufacturing (WIM) initiative.

7. Create Regional Industry Councils (RICs) that bring together employers, government, and educators to coordinate skills training and education programs based on regional needs.

**AUTOMATION**

8. Introduce a nationwide 10 per cent investment tax credit on the purchase of machinery, equipment, and software.

9. Extend the Accelerated Investment Incentive for three more years.
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