



# Sectoral Profile

## Wood Product Manufacturing

Ontario

2016-2018



Sectoral Profiles provide an overview of recent labour market developments and outlooks for key industries, for various regions of the country.

### EXPORTS KEY FOR WOOD PRODUCT MANUFACTURERS

- In Ontario, wood product manufacturing employment levels have stabilized following a period of sustained declines.
- A modest growth in employment is projected for the wood product manufacturing sector in 2016-2018.

Employment in Ontario's wood product manufacturing sector totaled over 28,000 in 2015, compared to the approximately 64,000 employed during the height of the industry in 2004.<sup>1</sup> During this time, the provincial wood product manufacturers faced headwinds both from domestic markets as well as those abroad. Going forward, the industry should benefit from a variety of factors. In particular, an improving United States economy has given Ontario's export-heavy sectors a renewed sense of optimism, which should lead to a slow recovery in wood products manufacturing for the coming years.

The wood product manufacturing sector is composed of three sub-industries: sawmills and wood preservation; veneer, plywood, and engineered wood product manufacturing; and other wood product manufacturing. As of 2015, employment in Ontario within wood product manufacturing is dominated by the other wood product manufacturing sub-sector, which includes establishments engaged in millwork such as wood windows and doors manufacturing, wood containers and pallets manufacturing, and the manufacturing of mobile homes and prefabricated wood buildings. As such, the wood product manufacturing industry in Ontario is very much impacted by trends in construction and renovation.

The occupations most commonly found within the wood product manufacturing industry are as follows:

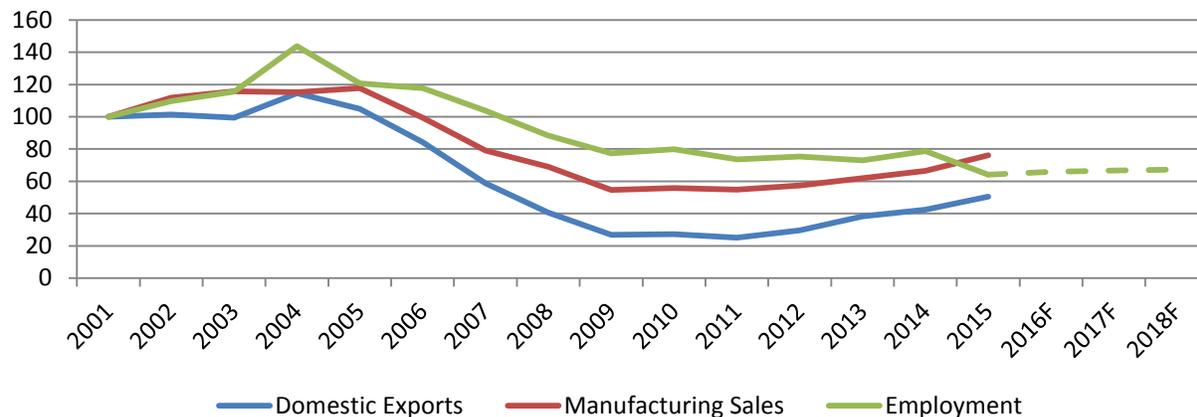
- Other wood products assemblers and inspectors (NOC 9533)
- Labourers in wood, pulp and paper processing (NOC 9614)
- Manufacturing managers (NOC 0911)

<sup>1</sup> Customized Tables, Statistics Canada, LFS

- Sawmill machine operators (NOC 9431)
- Material handlers (NOC 7452)
- Carpenters (NOC 7271)

Jobs in the wood product manufacturing industry contain some degree of seasonality, with opportunities more prevalent in the summer and fall months. Manufacturers who produce wood-based products used in construction such as doors and flooring are more impacted by seasonal variations.

**Figure 1: Wood Products Exports, Sales, Employment, 2001 - 2018F**



\* Data is expressed as an index where year 2001 = 100

Sources: Domestic Exports – Industry Canada, Manufacturing Sales – CANSIM 304-0015, Employment – Statistics Canada, LFS

### Struggles in the exports market led to wood product manufacturing decline

Domestic exports of wood products fell dramatically during the six-year period of 2004 to 2009. The total value of trade declined from \$3.3B in 2004 to \$772M in 2009, equivalent to a 76.5% drop. A few factors contributed to this export decline. Firstly, the Canadian dollar (CAD) continued to gain value relative to the U.S. dollar (USD), diminishing the attractiveness of Canadian exports. The CAD/USD rate climbed from a yearly average of \$0.77 in 2004 to \$0.94 in 2008, before falling back down to \$0.88 in 2009. Secondly, the U.S. housing bubble burst in 2007, coinciding with the CAD/USD value reaching \$0.93. New single-family housing construction fell by 64% from 2005 to 2008, leading to widespread layoffs in the U.S. wood manufacturing sector.<sup>2</sup> As Ontario shipped approximately 96.7% of its exports to the U.S. in 2004, the impact of the reduction in demand from the U.S. was significant. A combination of these factors has resulted in a 43% decline in employment levels in Ontario's wood product manufacturing industry from 2004 to 2009.

Export figures have generally trended positively from 2010 to 2015, despite the fact that the CAD/USD exchange rate hovered around or above par in 2011 and 2012. This export upturn can be largely attributed to the growing U.S. demand for Ontario wood products. Housing starts in the U.S. have undergone a slow recovery following the housing collapse in 2008, rising by approximately 150% from a record low in April 2009.<sup>3</sup>

<sup>2</sup> Lombra, R. The Rise and Fall of the U.S. Housing Market. *Junior Achievement USA*. Retrieved from <https://www.juniorachievement.org/documents/20009/36541/Housing-Market-paper.pdf/63e03a3a-9561-4532-be0a-4311141ddb67> (page 2)

<sup>3</sup> Trading Economics. (2016). United States Housing Starts 1959-2016. Retrieved from <http://www.tradingeconomics.com/united-states/housing-starts>

As a result, domestic exports from Ontario increased by about 88% from 2009 to 2015. But employment numbers have not responded quite as positively, with employment remaining relatively stable between 2009 and 2014 before falling slightly in 2015.

For the forecast period of 2016 to 2018, the U.S. housing market will likely continue its rising trend, which benefits Ontario's wood product exporters. The U.S. Federal Reserve has expressed optimism about the outlook of the U.S. economy in the near future.<sup>4</sup> Increasing employment and wages,<sup>5</sup> combined with low mortgage rates,<sup>6</sup> should spur residential housing construction as demand picks up. In turn, demand for manufactured wood products from Ontario should continue to grow.

### Market for domestic sales also faced difficulties

Total manufacturing sales followed a similar trajectory as exports, as both declined between 2005 and 2009. Exports accounted for approximately 34% of sales in wood product manufacturing in 2015. The remainder of the output are shipped off for domestic sales or as intermediate goods. During this time, the market for some domestic wood products eroded as cheaper imports came into the province, which has become an ongoing concern. For example, there are indications that domestic manufacturers and retailers of hardwood and engineered flooring are facing stiffer competition arising from cheaper Chinese-made flooring products, as big-box home renovation chains are mostly stocking foreign made products.<sup>7</sup>

Domestic sales of wood products were also affected by the slowdown in construction within Ontario. Housing starts declined by approximately 36% from 2005 to 2009, and the figures have been up-and-down in recent years. Going forward, domestic sales of wood products should benefit from a healthy construction outlook<sup>8</sup> and renovation demand stemming from elevated levels of existing home sales.<sup>9</sup>

### Labour supply challenges identified as key industry issue

According to a survey of Canadian advanced wood product manufacturers<sup>10</sup> conducted by The Conference Board of Canada, a significant share of respondents faced human resources challenges. A large majority (84%) of businesses reported that there was an inadequate supply of skilled workers, while 76% responded that they had difficulty attracting applicants.<sup>11</sup> Contributing factors to this inability to attract workers are the relatively low wages and the age and sex profiles of the industry.

<sup>4</sup> McCoy, K. (2016, August 22). Fed official: U.S. economy close to targets. *USA Today*. Retrieved from <http://www.usatoday.com/story/money/2016/08/21/fed-official-says-us-economy-close-our-targets/89074354/>

<sup>5</sup> Mutikani, L. (2016, August 5). Strong U.S. employment report brightens economic outlook. *Reuters*. Retrieved from <http://www.reuters.com/article/us-usa-economy-idUSKCN10F1ET>

<sup>6</sup> Freddie Mac. (2016, August 18). 30-Year Fixed Rate Mortgage Average in the United States. *FRED, Federal Reserve Bank of St. Louis*. Retrieved from <https://fred.stlouisfed.org/series/MORTGAGE30US>

<sup>7</sup> Sturgeon, J. (2014, October 2). Think that new hardwood floor is made in Canada? Think again. *Global News*. Retrieved from <http://globalnews.ca/news/1594346/think-that-new-hardwood-floor-is-made-in-canada-think-again/>

<sup>8</sup> Service Canada Forecasts

<sup>9</sup> The Canadian Real Estate Association. (2016, June 15). Quarterly Forecasts. Retrieved from <http://www.crea.ca/housing-market-stats/quarterly-forecasts/>

<sup>10</sup> Respondents include those in wood kitchen cabinets manufacturing, and wood and upholstered furniture manufacturing, which are not included in the broader wood product manufacturing subindustry.

<sup>11</sup> MacLaine C. et. al. (2016, June). Advanced Wood Manufacturing in Canada: 2016 LMI Update. *Wood Manufacturing Council*. Retrieved from <http://www.wmc-cfb.ca/sites/default/files/Advancing%20Wood%20Manufacturing%20in%20Canada%20-%202016%20LMI%20Update.pdf> (page 42-43)

Wage growth in wood product manufacturing has not kept pace with other industries,<sup>12</sup> and is now one of the lowest paid sectors in manufacturing at \$18.15 per hour in Q4 2015. In comparison, the average hourly wage for manufacturing as a whole was \$20.40.<sup>13</sup> Maintaining this lower wage would make it difficult for wood product businesses to attract skilled talent.

Workers in wood product manufacturing also tend to be predominantly male,<sup>14</sup> and it has been noted that female participation in the sector is hampered by a male-dominated workplace culture.<sup>15</sup> This gender disparity limits the labour pool for wood product manufacturers. In addition, there are some indications that the core group of employees at some wood product manufacturers are older, and business would be particularly affected should they lose these long-time employees.<sup>16</sup> These gaps must be addressed in order for employment in the sector to have significant growth.

### Sector Outlook: Growth expected for the wood product manufacturing industry

Provincial employment in the wood product manufacturing subindustry is expected to increase by an annual average of 1.5% for the years of 2016 to 2018. Modest growth is expected due to the continuing recovery of the U.S. housing market and the upward trend in domestic housing, but any potential growth will be partially moderated by hiring challenges.

Additional risks are present with the possible implementation of punitive tariffs which could be imposed by the U.S. as part of the softwood lumber dispute. These measures would primarily affect the sawmills and wood preservation, and the other millwork sub-industries, which involve the manufacturing of chipping logs, lumber, timber, poles and ties, and, flooring and siding. Should duties be imposed on Canadian softwood producers, various related facilities in Ontario may be forced to cut production or cease operations, leading to significant layoffs.

### Sub-provincial trends

Wood product manufacturers tend to be small to medium sized companies, and more than half of these businesses with employees had less than 10 workers. Some of the relatively larger companies with more than 100 employees are in the sawmills (except shingle and shake mills), structural wood product manufacturing, and other millwork sub-industries.

About half of Ontario's wood product manufacturers are located in the Toronto and Kitchener–Waterloo–Barrie economic regions, but the sector has a presence in every region in the province. The **Toronto** region is a producer of a large variety of wood products, and hosts the greatest number of businesses belonging to the other millwork sub-industry in Ontario. Companies producing roof trusses, doors, flooring, and other products used in construction are significant employers in the region. The **Kitchener–Waterloo–Barrie** economic region is second only to Toronto in the number of wood product manufacturers within Ontario. Some major employers in the wood product manufacturing sector in the region include those who produce windows,

<sup>12</sup> Statistics Canada. Table 281-0027 - *Survey of Employment, Payrolls and Hours (SEPH), average weekly earnings by type of employee, overtime status and detailed NAICS*, annual (current dollars)

<sup>13</sup> Statistics Canada. Table 285-0002 - *Job Vacancy and Wage Survey (JVWS), job vacancies, job vacancy rate and average offered hourly wage by NAICS*, unadjusted for seasonality, quarterly (number unless otherwise noted), CANSIM (database).

<sup>14</sup> Statistics Canada Labour Force Survey ESDC Custom Tables

<sup>15</sup> MacLaine C. et. al. (2016, June). *Advanced Wood Manufacturing in Canada: 2016 LMI Update*. Wood Manufacturing Council. Retrieved from <http://www.wmc-cfb.ca/sites/default/files/Advancing%20Wood%20Manufacturing%20in%20Canada%20-%202016%20LMI%20Update.pdf> (page 31)

<sup>16</sup> Wood Manufacturing: Skills Development Assessment. (2012, November). *Four County Labour Market Planning Board*. Retrieved from <http://www.planningboard.ca/download.php?dl=YToyOntzOjI6ImkljtzOjI6IjQ5IjtzOjI6ImtleSI7aToxO30=> (page 11)

engineered homes, and pallets, skids, and crates. The **Northeast** economic region is home to a number of sawmills due to the region's close proximity to Ontario's forests. A slow recovery is expected for the sawmills sub-industry, supported by the recent expansions of several mills in the area.<sup>1718</sup>

### **Ontario's wood product manufacturing industry expected to strengthen**

The prolonged low wages and demographic factors within the wood product manufacturing sector contribute to the difficulty in finding labour. However, growing exports and domestic sales bode well for industry employment in the forecast period. Opportunities will likely be available throughout Ontario, with the most in the Toronto and Kitchener–Waterloo–Barrie economic regions.

**Note:** In preparing this document, the authors have taken care to provide clients with labour market information that is timely and accurate at the time of publication. Since labour market conditions are dynamic, some of the information presented here may have changed since this document was published. Users are encouraged to also refer to other sources for additional information on the local economy and labour market. Information contained in this document does not necessarily reflect official policies of Employment and Social Development Canada.

**Prepared by:** Labour Market and Socio-economic Information Directorate (LMSID), Service Canada, Ontario  
**For further information,** please contact the LMI team at: [NC-LMI-IMT-GD@hrsdc-rhdcc.gc.ca](mailto:NC-LMI-IMT-GD@hrsdc-rhdcc.gc.ca)

© Her Majesty the Queen in Right of Canada as represented by Employment and Social Development Canada, 2017, all rights reserved

<sup>17</sup> Ross, I. (2016, February 3). Columbia reopening veneer mill. *Northern Ontario Business*. Retrieved from <http://www.northernontariobusiness.com/Industry-News/forestry/2016/02/Columbia-reopening-veneer-mill.aspx>

<sup>18</sup> Mihell, B. (2016, January 19). Boniferro Mill Works a 'good-news story'. *Sault This Week*. Retrieved from <http://www.saultthisweek.com/2016/01/19/boniferro-mill-works-a-good-news-story>