



Sectoral Profile

Clothing, Leather & Allied Product MFG

Ontario

2017-2019



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

QUALITY OVER QUANTITY ABATES THE MANUFACTURING TECHNO-TREND

- Clothing manufacturing the driver for employment in the industry
- 'Made in Canada' branding key to keeping the sector afloat
- E-commerce has become a driving force and manufacturers have to join the party
- Toronto to remain the sector's major outpost given the scope of trade

The clothing, leather and allied product (CLAP) manufacturing industry comprises two sectors: Clothing manufacturing (315) and leather and allied product manufacturing (316). Clothing manufacturing establishments are primarily engaged in making clothing and accessories, including yarn knits. Primary product lines include fashion clothing; occupational clothing; technical outerwear; survival and active wear; foundation garments; tourism-related goods; backpacking and camping products; gloves; hats and caps; hosiery; and knitted goods. Leather and allied product establishments mainly produce products such as luggage, handbags, purses, and billfolds of leather or other materials.¹ Leather and hide tanning and finishing establishments that are engaged in tanning, colouring and finishing hides and skins into leather and footwear manufacturers are also included in this industry.²

CLAP manufacturing employment in Ontario stood at about 10,900, or 1.4% of all manufacturing employment in the province in December 2017.³ Ontario accounted for 32.5% of the country's CLAP employment, making the province the second largest provider of CLAP support in Canada next to Quebec. The industry accounts for 0.1% of Ontario's GDP and 0.5% of the provinces manufacturing GDP.⁴ Between 2015 and 2016, employment in clothing manufacturing (315) declined by 0.7% and leather and allied product manufacturing (316) by 2.5%.⁵ CLAP employees earned an average of \$654.52 per week, which is about 32.8% lower than the provincial average for all industries⁶ and 41.5% less than those working in manufacturing who earned about \$1,119.28 per week.

Outerwear keeping clothing manufacturing employment warm

Employment growth in textile, clothing and furniture manufacturing is projected to be delayed until 2019 (0.7%), after sustaining some early period declines in 2017 (-7.8%) and 2018 (-0.2%). GDP however, is expected to increase by about 1.6% between 2017 and 2019, indicating the overall trends in the manufacturing sector as it becomes less labour-intensive, and more capital-intensive.⁷ Manufacturing sales are expected to improve between 2017 and 2019⁸ despite recent year-over-year declines of about 3.5%.⁹ Likewise for leather and allied product manufacturing which declined by 26.5%. On the other hand, clothing manufacturing sales have increased over the year by 12.6%. Year over year comparisons for previous years is unavailable as the data was suppressed to meet the confidentiality requirements of the Statistics Act. What we do know is that this rise in sales is timed with Canada Goose's announcement in June 2017 that they would open two new facilities in Canada, one of which is in Ontario.¹⁰ Canada Goose Inc. is one of Ontario's largest clothing manufacturers, employing between 500 and 999 staff and in 2016, the company had four locations, three of which were in Ontario. The addition of the two plants in 2017 reaffirms the company's commitment to continuing their core production in Canada,¹¹ and will help sustain employment in the industry going forward.

High-end 'Made in Canada' retail brand key to stitching up clothing manufacturing

Although Roots, one of Canada's largest clothing and leather manufacturers, have cited a lack of manufacturing technical capability as a reason to move some production overseas¹², the current re-branding in retail markets is making room for growth in the industry at home. The Canadian CLAP industry has not adopted automation or advanced manufacturing technology like much of the manufacturing industry, yet at the same time, has managed to create a labour-intensive market with highly-skilled workers. This has allowed companies to sell higher priced goods due to real or perceived handcrafted 'made at home' quality. Canada Goose, the largest domestic clothing manufacturer, and Roots the largest domestic leather manufacturer, both brand their product on an 'authentic' Canadian vibe¹³ meaning that having Canadian made hand-crafted goods is part of its marketing plan and have branded their product based on the changes in the retail market. Ontario retail markets have become more polarized by demand for high- and low-end consumer goods. More price-conscious households following the 2008-2009 downturn¹⁴ and growth in aspirational consumption¹⁵ and "premiumization"¹⁶ from the millennial cohort,¹⁷ have adversely affected traditional middle-market stores while boosting the demand for both discount sellers and premium retailers. Thus while Sears Canada Inc. has closed, low-cost stores such as Dollarama,¹⁸ and Giant Tiger¹⁹ are expanding, as are both incumbent and luxury retailers such as Costco Wholesale Canada Ltd,²⁰ COS,²¹ and Eleventy.²² Luxury sales may be somewhat insulated, as these goods have been less amenable to e-commerce²³ and buyers are less affected by economic and cost pressures.²⁴ Toronto's upscale Yorkdale Mall, with its many luxury retailers, boasted the highest mall sales per square foot in Canada in 2016.²⁵

E-market gains key to Canadian wearables production

Despite high-end trends, aiding in the success of Canada Goose's model has been its amenability to e-commerce. The firm has done well with regards to the growth of online sales according to company spokespeople. Other shops have failed to adjust to scaling back their brick-and-mortar operations in favour of expanding online, whereas Canada Goose only keeps a few flagship stores. As such, the company intends to eventually have 50% of its sales come from e-commerce.²⁶ This flexibility in the changing retail climate also allows the firm to sell directly from production to public, closing the supply chain, and in turn, increasing profit.

In 2017, Canadian exports of clothing, footwear and accessories recovered to pre-recession figures.²⁷ However, the Canadian consumption of clothing made domestically decreased during the downturn due to the introduction of cheaper foreign produced goods, reducing the domestic market share of clothes made in

Canada.²⁸ Furthermore, the price of clothing has also been in decline,²⁹ as imports have nearly doubled between November 2007 and November 2017³⁰ as cheaper goods are produced overseas. With the introduction and sustainability of online sale hosts of cheaper goods, such as Amazon Canada, this trend is likely to continue. As uncertainty looms over the outcomes of the North American Free Trade Agreement (NAFTA), more Canadian manufacturers are considering relocating their firms to the United States³¹ to increase profit margins.

Toronto second only to Montreal in Canadian garment manufacturing

Second only to Quebec in terms of the number of clothing manufacturers in Canada, Ontario hosts 1,134 clothing manufacturing locations, whereas Quebec hosts 1,520. However, the number of overall CLAP manufacturers has decreased in Ontario,³² having withstood a large drop leading up to, and during, the economic downturn of 2008. Between 2004 and 2016, the number of CLAP manufacturers in Ontario was reduced by 32.8%, or by 650 company locations of all sizes.

Not surprisingly, as the industry is reliant on wholesale and retail trade, 69.4% of Ontario CLAP manufacturers in 2016 were located in the **Toronto** economic region.³³ In December 2016, there were 925 industry business locations in the region employing a minimum of 8,300 people. As **Toronto** is home to the majority of wholesalers and retailers in the province, and is a key component in the manufacturing supply chain, any future growth in the sector is likely to occur in the region. The region hosts The John Forsyth Shirt Company, a long-standing maker of Oxford-type dress shirts,³⁴ Bernard Athletic Knit and Enterprises Ltd., the manufacturer of team athletic wear,³⁵ Canada Goose Ltd., and Roots.

Demand for high-end goods remains strong in **Toronto**, due mainly to the density of population and the high cohort of the province's youth as the 'Millennial' generation has become a leading driver of retail sales.^{36,37} This makes this cohort a significant powerhouse in instituting market change. As a result the demand for quality has been a decisive driver for CLAP success. Furthermore, household disposable income is expected to continue its pattern of growth through the 2017-2019 period,³⁸ adding fuel to the purchasing power of the population. Additionally, as **Toronto** continues to rely on the 401 corridor for trade, the region is likely to lead the way for any employment upgrades in the sector.

The second largest employer of CLAP manufacturers in Ontario is the **Kitchener–Waterloo–Barrie** region, employing a minimum of 1,270 at 94 different company locations.³⁹ This region is home to one of the largest employers in the industry, Rimowa North America Inc. in Cambridge, which has between 500 and 999 employees. The luggage manufacturer laid off 149 workers in August 2017 to ensure profitability going forward,⁴⁰ signalling the change in the manufacturing sector overall from labour-intensive, to capital-intensive. Rimowa's only location in Canada is the Cambridge plant where they manufacture and sell aluminum suitcases toted by some celebrities, and opened in November 2013.⁴¹ The firm is likely to continue to drive business in the sector as it pushes the high-end scale of the market with prices currently selling upwards of \$600 at elite online and at various high-end retailers such as Holt Renfrew and Nordstrom.

Some of the other major CLAP manufacturing employers are scattered throughout the province such as Med-Eng Holdings ULC in Pembroke, the maker of protective products and equipment used in law enforcement which is located in the **Kingston–Pembroke** region. As such, technical textile has become an important contributor in the advancement of new apparel products for protection against external influences and for safety in the military, defence and security markets,⁴² signaling potential growth for the company going forward.

Other major employers in CLAP manufacturing in the province include: Medike Branding Solutions Inc in Markdale, the maker of leather and synthetic patches and labels and largest employer in the leather and hide tanning and finishing sector (3161) in the **Stratford–Bruce Peninsula** region and Baffin Inc, in Stoney Creek the maker of high-tech winter boots and apparel in the **Hamilton–Niagara Peninsula** economic region.

The likelihood that employment in the CLAP manufacturing sector in Ontario will grow marginally over the 2017-2019 is reasonable given the developments in the high-end retail market. If companies continue to take advantage of the 'Made in Canada' label and sustain the quality of high-end goods, the future is bright for the industry. However, the likelihood that this manufacturing sector will adopt technological advancements being made elsewhere in the industry is also a fair assumption but the focus will remain on maintaining quality over the long haul.

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.

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¹ <http://www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVD&TVD=307532&CVD=307535&CPV=3169&CST=01012017&CLV=3&MLV=5>

² <http://www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVD&TVD=307532&CVD=307534&CPV=316&CST=01012017&CLV=1&MLV=5>

³ Statistics Canada, Labour Force Survey, IND823m – internal LMSID file

⁴ Statistics Canada, Table 379-0030

⁵ Statistics Canada, Table 281-0027

⁶ Statistics Canada, Table 281-0027

⁷ COPS forecast, Internal LMSID file

⁸ COPS forecast, Internal LMSID file

⁹ Statistics Canada, Table 304-0015

¹⁰ <https://investor.canadagoose.com/English/news-events-and-reports/press-releases/press-release-details/2017/Canada-Goose-Reaffirms-Made-in-Canada-Commitment-with-Opening-of-Two-New-Facilities/default.aspx>

¹¹ Canadian Business Counts, December 2016: Internal LMSID data file

¹² http://roots.com/on/demandware.store/Sites-RootsCorporate-Site/default/Page-Show?cid=MSTR_HOW_WE_DO_BUSINESS

¹³ <http://business.financialpost.com/news/retail-marketing/sinking-roots-in-canada>

¹⁴ Industry Canada, 2013, *Consumer Trends Update: Canada's Changing Retail Market*

¹⁵ <https://www.forbes.com/sites/tompopomaronis/2017/02/28/luxury-brands-are-becoming-big-players-in-the-growing-ecommerce-game/#186ccfcf2079>

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