Sectoral Profile

Primary Metal Manufacturing

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

DEMAND FOR PRIMARY METAL GOODS TEMPERED BY PROTECTIONISM AND GLOBAL OVERSUPPLY

- Demand for primary metal goods is likely to pick up during the forecast period due to economic growth in key markets
- However, the industry may continue to be challenged by protectionism and global oversupply
- As a result, industry employment growth is expected to average 1.3% between 2017 and 2019, slightly below the industrial average of 1.4%

Ontario is the second-largest producer of primary metal manufactured goods in Canada after Quebec.[1] It is home to about 44.2% of all primary metal manufacturers in the country, including many large employers.[2] Nearly half (42.4%) of Canada's primary metal manufacturer employees are located in Ontario.[3] This sector is broken down into five industry groups, primarily based on the type of metal used.[4] The iron and steel mills and ferro-alloy manufacturing industry group employs nearly half of the sector's workforce in Ontario.[5]

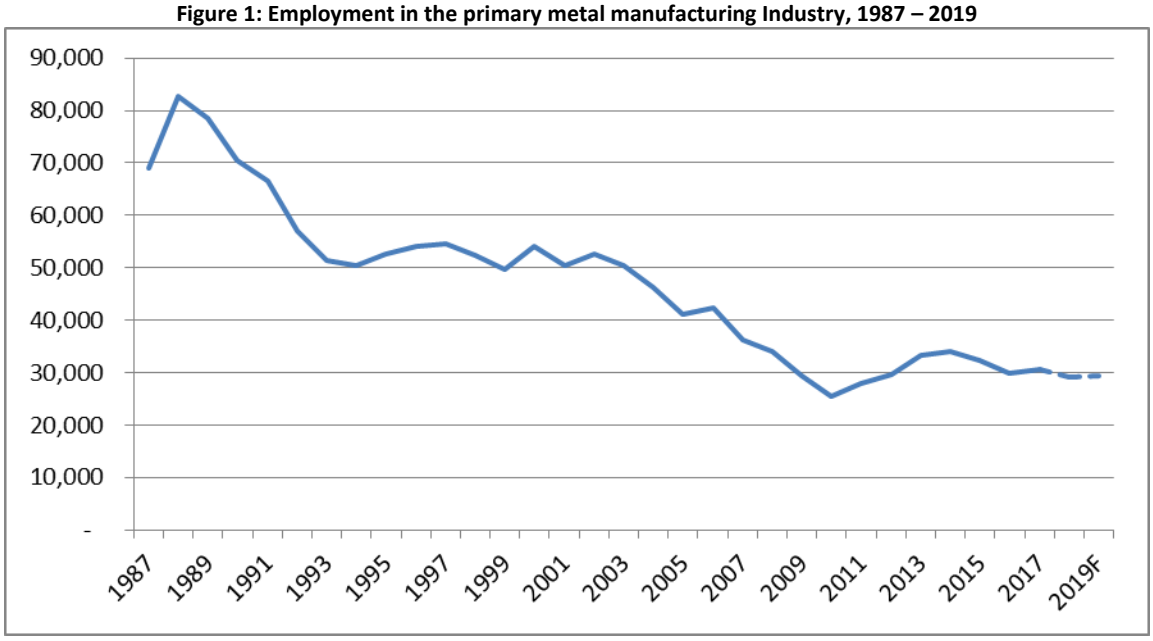
Ontario's primary metal manufacturing industry has recently faced challenges, including high global supply of primary metal goods and low demand due to slow global economic growth. As a result, over the last decade, the capacity utilization rate for Canada's primary metal manufacturing industry has declined from 92.1% to 77.6%, whereas the rate for manufacturing overall has improved since 2009.[6] Also, total revenue in the primary metal manufacturing sector declined by 2.9% in 2016.[7]

Employment trends

Overall, the primary metal manufacturing sector in Ontario is medium-sized, employing 30,600 in 2017 and 82,800 at its peak in 1988.[8] Employment in Ontario's primary metal manufacturing sector has been on the decline since the late 1980s (See Figure 1). From 2002 to 2010, sector employment trended downward.[9] Over the last decade, sector employment declined by 10.3%. However, declines were of a smaller magnitude than the average for manufacturing, which declined by 13.9%.

According to the Survey of Employment, Payrolls and Hours (SEPH), all industries within the primary metal manufacturing sector have declined over the decade.[10] The primary metal manufacturing unemployment rate (7.9%) was higher than the rate for manufacturing overall (4.0%) in 2016.[11]

Figure 1: Employment in the primary metal manufacturing Industry, 1987 – 2019



Source: Custom tables, Labour Force Survey Statistics Canada

Sector outlook

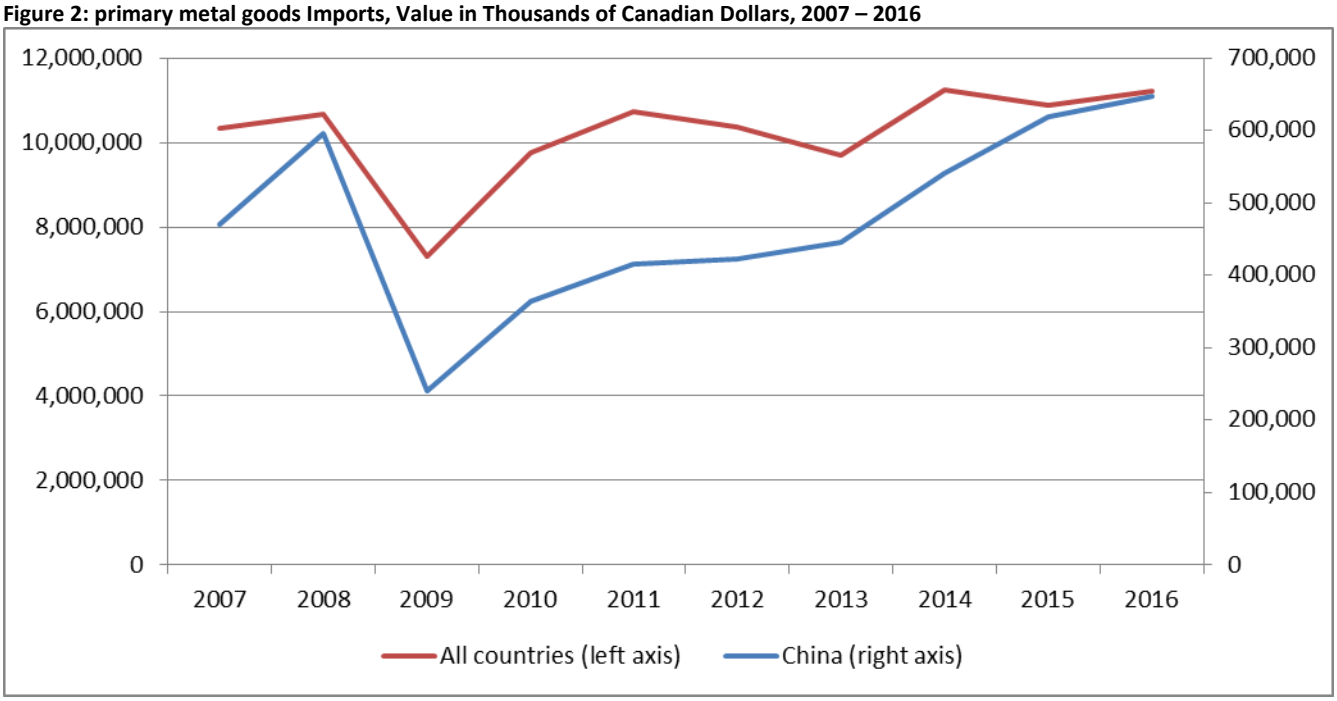
For the period of 2017 to 2019, employment growth in Ontario's primary metal manufacturing sector is expected to be muted, with growth at 1.3%. NAFTA renegotiations also add uncertainty.

Primary metal manufacturers face global competition challenges

Similar to many other areas of manufacturing, foreign competition is a growing challenge for primary metal manufacturing companies. The Chinese government has been subsidizing aluminum and steel manufacturers through direct grants, energy subsidises, and interest-free loans.[12] As a result, there is record primary metal goods production from China.[13] Primary metal goods imports into Ontario from China have increased by 37.5% between 2007 and 2016 (See Figure 2).[14] In general, imports from China as a percentage of total imports have increased from 4.5% in 2007 to 5.8% in 2016.[15]

However, the outlook for Ontario's primary metal manufacturers may improve during the forecast period. China has recently committed to combating chronic levels of overproduction by shutting down illegal smelting activity and encouraging pollution-related output curbs, which has helped decrease oversupply. In addition, global demand has improved, as discussed below. [16]

Figure 2: primary metal goods Imports, Value in Thousands of Canadian Dollars, 2007 – 2016



Source: Trade Data Online, Innovation, Science and Economic Development Canada

Export trends

The domestic need for primary metal goods mainly stems from the primary metal manufacturing sector itself (38.8%), as well as the fabricated metal product manufacturing sector (16.2%), motor vehicle parts manufacturing (7.7%), and machinery manufacturing (6.9%).[17] However, the primary metal manufacturing sector mainly supplies the global market. In 2016, the provincial primary metal manufacturing sector exported about 75.4% of all goods made.[18,19]

In 2016, the bulk of shipments, over three-quarters (75.4%), went to the United States. Other large recipients included: the United Kingdom (9.0%), Norway (7.8%), Mexico (1.9%), China (1.1%), and Japan (0.8%).[20]

Demand from the United States picks up, but may be tempered by NAFTA-related uncertainty

Primary metal goods exports to the United States have been trending upwards since 2007. Primary metal manufacturers will likely benefit from a stronger economic climate south of the border along with the lower Canadian dollar.[21] In addition, the construction sector is slowly recovering after the 2008 economic crisis, supported by rising incomes and planned infrastructure spending.[22] This should increase the demand for primary metal goods over the forecast period.

Despite encouraging economic growth south of the border, potential amendments to the North American Free Trade Agreement (NAFTA) are likely to affect demand. For example, earlier in the year, the U.S. Administration proposed a substantial tariff on aluminum imported into the country. Canada accounts for about 65% of U.S. aluminum imports. Such a tariff would increase aluminum prices for U.S. manufacturers, reduce competitiveness of manufacturers, and possibly result in lower demand for Canadian aluminum and aluminum products. Aside from trade concerns, the US automotive sector has seen lower sales and this trend is expected to continue during the forecast period, which may also temper demand for Ontario's Primary metal goods.[23,24]

Steady global economic growth during the forecast period bodes well for primary metal goods exporters
Although the global financial markets have seen some volatility and there is speculation of a stock market bubble, global market sentiment has improved. In addition, global trade growth continues to accelerate in the face of rising protectionism.[25] Finally, the primary metal manufacturing industry may benefit from the recent implementation of the Canada-European Union Comprehensive Economic and Trade Agreement (CETA). Under CETA, tariffs on major primary metal goods will drop to 0%, from a high of 10%.[26]

The economic outlook of smaller trading partners, discussed below, mostly augurs well for demand during the forecast period

Economic growth in the United Kingdom (UK), the provincial industry's second-largest importer by dollar, is expected to weaken during the forecast period. Weaker consumer consumption, high debt levels, and the impending European Union exit (Brexit) weigh on investor sentiment. In addition, although manufacturing growth has been relatively stable, construction in the UK has slowed.[27] However, uncertainty may be lessened by a Brexit transitional agreement. The potential for a close economic relationship between the UK and the European Union may also add optimism.[28]

Norway, Ontario's third-largest importer of primary metal goods by dollar, has seen a slowdown in the housing market, but economic activity is expected to pick up due to private consumption and investment. In light of this expansionary growth, the central bank may gradually increase rates.[29] However, should the housing market undergo a hard landing, this may delay Norway's retreat away from stimulus.[30]

Mexico benefits from a strengthening global economy. In addition, Mexico recently passed a number of reforms which is expected to improve economic growth over time.[31] For example, a number of financial reforms have allowed banks to increase lending at lower interest rates, thereby stimulating consumer consumption and business investments.[32] In addition, energy-sector reforms and a generous infrastructure plan are likely to attract new investments.[33] Each of these reforms will ultimately result in increased demand for Primary metal goods. Finally, the Mexican automotive sector reported a strong performance in 2017, which will likely continue during the forecast period.[34]

Economic growth in China during the forecast period is expected to slow. The combination of high non-financial sector debt and economic growth momentum has led the Chinese government to facilitate private sector deleveraging.[35] Monetary policy leans towards tightening and credit will be less readily available during the forecast period. In addition, fixed asset growth has slowed. Although infrastructure investments will continue, housing investments are likely to slow due to policies meant to lessen housing demand.[36] As investments in fixed assets continue to decline, low demand for primary metal goods will persist. Finally, the Chinese auto sector is expected to slow due to the end of a tax cut on purchases of small engine passenger vehicles, further lessening demand for Primary metal goods.[37][38]

Like Mexico, Japan may be a bright spot for Ontario's primary metal goods export industry. Construction for the 2020 Olympic Games, higher exports, and the continuation of their quantitative easing strategy may drive demand for primary metal goods during the forecast period.[39]

Key occupations in the primary metal manufacturing industry

The primary metal manufacturing industry supports thousands of jobs across Ontario. Some of the larger manufacturing-related trades in the industry include:

- Construction millwrights and industrial mechanics (NOC 7311)
- Welders and related machine operators (NOC 7237)

- Crane operators (NOC 7371)
- Industrial electricians (NOC 7242)

Outside of the trades, some of the main occupations in the industry include:

- Labourers in mineral and metal processing (NOC 9611)
- Supervisors, mineral and metal processing (NOC 9211)
- Machine operators, mineral and metal processing (NOC 9411)
- Metalworking and forging machine operators (NOC 9416)
- Foundry workers (NOC 9412)

Sub-provincial highlights

The primary metal manufacturing sector is heavily concentrated in the **Northeast** ER, likely due to proximity to mines.[40] Large employers (500+) include Inco Copper Cliff nickel smelter; Essar Steel Algoma; Sudbury Integrated Nickel Operations; and Tenaris Algoma Tubes. Medium-sized employers (200-499) include Vale Copper Cliff Nickel Refinery and Cameco's Blind River Refinery, a uranium refinery.

Hamilton-Niagara Peninsula Economic Region (ER) also hosts a disproportionate amount of primary metal manufacturing employment.[41] Historically, this region has deep roots in the steel industry.[42] Large employers (500+) include: ArcelorMittal Canada, an integrated steel producer; Lake Erie Works and Hamilton Works, both steel mills; ArcelorMittal Dofasco, a steel manufacturer; Vale's Port Colborne Nickel Refinery; Laurel Steel; and Hamilton Specialty Bar, a manufacturer of carbon and low-alloy steels. Medium-sized employers (200-499) include Harsco Metals; Bull Moose Tube, a steel pipe and tube manufacturer; ArcelorMittal Long Products Canada; Niagara Investment Castings; and ASW Steel.

The **Windsor-Sarnia** ER has the third largest concentration of primary metal manufacturing employees. Large employers (500+) include: Nemak of Canada, a manufacturer of aluminum components for powertrain and body structure applications; and Atlas Tube, a producer of tubular steel. Medium-sized employers (200-499) include: Accurcast, a supplier of high pressure aluminum die castings; Dajcor Aluminum, a supplier of aluminum components.

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[6] Statistics Canada. Table 028-0002 - Industrial capacity utilization rates, by North American Industry Classification System (NAICS), annual (percent), CANSIM (database).

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[23] Ibid.
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