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- **Annual wholesale trade, 2003**

In 2003, wholesalers experienced moderate sales growth while their gross margin and operating profit remained nearly unchanged. Despite gains in operating revenues, expenses remained under control and employment grew.

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- **Study: The effect of the Canada-US Free Trade Agreement on product diversification in Canadian manufacturing plants, 1980 to 1997**

Canadian manufacturing plants have increased product specialization and improved the length of production runs following the Canada-US Free Trade Agreement, according to a new study. The resulting greater efficiency and lower production costs account for much of the productivity gains Canada has seen since joining the Canada-US Free Trade Agreement.

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MAJOR RELEASES

Annual wholesale trade 2003

In 2003, wholesalers experienced moderate sales growth while their gross margin and operating profit remained nearly unchanged. Despite gains in operating revenues, expenses remained under control and employment grew.

The year 2003 was marked by a number of economic events. Among those that affected wholesalers substantially were: the rise of the Canadian dollar against the US greenback — up 21.7% during the year; higher oil prices as a result of the war in Iraq and the increased importance of trade with China.

A growing number of Canadian wholesalers operate not only within the domestic market but also on the international scene as exporters and importers of goods. As such, wholesalers are more exposed to the beneficial as well as the adverse effects of various domestic and foreign events. For example, the impact of the rise of the Canadian dollar was twofold. On one hand, it increased Canadian wholesaler's purchasing power by lowering prices of goods purchased from abroad. On the other, it decreased the interest in Canadian goods by raising the price of these goods on the international markets.

Wholesalers experienced moderate sales growth in 2003

Wholesalers in 2003 continued to experience increased sales but the rate of growth was much lower than in previous years.

Operating revenue across all trade groups rose 2.4% to \$535.0 billion. Of the 17 trade groups, 12 recorded increased revenue. The increases ranged from 12.4% in the petroleum sector to 0.8% for wholesalers of automobile parts and accessories. The strong growth posted by wholesalers of petroleum was attributable to a pick-up in energy prices in Canada. Strong gains were also reported by agents and brokers (+10.2%), wholesalers of pharmaceutical products (+9.6%) and wholesalers of alcohol and tobacco products (+9.6%).

Five trade groups, accounting for roughly 30% of total wholesale sales, recorded lower revenues. For a second year in a row, the largest decline came from the farm product sector. Despite improved growing conditions in Western Canada, wholesale sales of farm products (including grains) dropped 10.7% in 2003. In 2002, this sector was affected by one of the worst droughts in years. Other strong declines were recorded by wholesalers of motor vehicles (-3.7%),

Note to readers

The information in this report is based on the North American Industry Classification System.

Gross margin is obtained by subtracting the cost of goods sold from the total operating revenue. The ratio is expressed as a percentage of total operating revenue. This measure is also known as the return on sales.

Operating profit is obtained by subtracting the total operating expenses plus the cost of goods sold (opening inventory plus purchases and direct cost minus closing inventory) from the total operating revenue. The ratio is expressed as a percentage of total operating revenue.

Operating expenses-to-operating revenues ratio is obtained by dividing the total operating expenses by the total operating revenue. The ratio is expressed as a percentage of total operating revenue.

Cost of goods sold is obtained by calculating: operating inventory plus purchases and direct cost minus closing inventory.

computers and other electronics (-3.5%), and office and professional equipment (-1.9%).

Wholesale gross margin remained virtually unchanged

As a percentage of total operating revenue, gross margin in 2003 was almost unchanged (18.6%) from the previous year (18.5%). Gross margin reflects how successful wholesalers are at maximizing revenues while paying the lowest price for goods they buy for resale. No change in gross margin implies that the cost of buying goods (cost of goods sold) increased in the same proportion as revenues. In fact, cost of goods sold increased 2.4%, as did total operating revenue in 2003.

Except for agents and brokers, who by definition do not take title of goods they resell, 11 of the remaining 16 trade groups have recorded higher gross margins than the national level (18.6%). In particular, wholesalers of office and professional equipment (33.2%), apparel (31.8%), households and personal goods (29.7%) and motor vehicles parts and accessories (26.6%) have experienced higher gross margins. Wholesalers of petroleum products (6.5%), motor vehicles (7.6%) and farm products (13.0%) recorded the three lowest gross margins.

Trade groups with higher gross margins generally reported higher spending on salaries and wages. In 2003, wholesalers of office and professional equipment reported salaries and wages representing 13.2% of their revenues followed by wholesalers of apparel (10.5%), building materials

(9.9%) and machinery and equipment (9.3%). On the other hand, wholesalers of petroleum products (0.9%) and farm products (2.5%) spent relatively less on salaries and wages. In fact, salaries and wages tended to be higher as a proportion of total operating revenue in industries where commodities are characteristically sold in lower volume as opposed to large or bulk volumes.

Operating expenses remained under control while revenue rose moderately

As operating revenues grew 2.4%, wholesalers in Canada were able to keep expenses under control in 2003. Overall, the operating expenses-to-operating revenue ratio remained stable at 13.9% compared with 13.8% in 2002. Operating expenses include total labour remuneration (47.4%) and other operating expenses (52.6%) such as rental and leasing, advertising, depreciation and electricity.

Of the 17 major wholesale industry groups, 11 recorded values above this national average ranging from 59.3% for agents and brokers to 14.2% in the pharmaceutical industry. Wholesalers of petroleum products had the lowest ratio of operating expenses-to-operating revenue (3.7%). Wholesalers of farm products, food, alcohol and tobacco were among other trade groups reporting expenses-to-operating ratios below the national average.

Operating profit margin remained flat in 2003

Overall operating profit margins for wholesalers as a percentage of total operating revenue were 4.7% in 2003, unchanged from the previous year. Gains were, however, recorded for wholesalers of farm products, food, alcohol and tobacco products, apparel and households and personal goods and pharmaceutical products.

Despite these increases, some major wholesale industries did not fare as well in 2003, as in 2002. These included the petroleum products, motor vehicles, building materials and metal products industries.

Employment in 2003

Employment among wholesalers, an important indicator of the standard of living that wholesale industries support, grew 2.0% in 2003. Some 14,848 new jobs were created, which is just a little more than the number created in each of the last two years. The share of wholesale employment of total Canadian employment has remained around 5.6% since 1997. The new jobs were mainly added by wholesalers of food products, computer and other electronics, pharmaceuticals products, and other products.

Generally, wholesale trade jobs are better paying jobs. The average weekly earnings for someone working in the industry in 2003 was \$790.21, about twice the \$444.59 wage in retail, for example. In fact, wages in wholesale trade were above the bar; almost 24% higher than the \$638.36 average for all service industries combined.

Definitions, data sources and methods: survey number 2445.

For general information or to order data, contact Client Services (1-877-421-3067; 613-951-3549; wholesaleinfo@statcan.ca). To enquire about the concepts, methods or data quality of this release, contact Pierre Desjardins (613-951-9682), Distributive Trades Division. ■

Study: The effect of the Canada-US Free Trade Agreement on product diversification in Canadian manufacturing plants 1980 to 1997

Canadian manufacturing plants have increased product specialization and improved the length of production runs following the Canada-US Free Trade Agreement (FTA), according to a new study. The resulting scale economies and lower production costs account for much of the productivity gains Canada has seen since joining the FTA.

The study investigated the effect of the FTA on the level of product diversification and specialization in the manufacturing sector.

Product diversification is a key aspect of Canada's industry structure. Plants that produce large numbers of products are more diversified than specialized plants which produce fewer products.

Diversification is a strategy manufacturers may choose in order to enlarge plants and exploit the economies of large scale production. However, while this strategy can reduce average production costs, those costs may still be uncompetitive by international standards if diversification leads to short production runs per product.

When all other aspects are equal, diversified plants have shorter production runs than specialized plants. This makes diversified operations less likely to fully exploit production scale economies at the product line. A number of studies have attributed higher Canadian manufacturing costs to shorter production runs.

One of the fundamental results expected from the FTA was that plants would get bigger and production runs longer. While the study found little to suggest that plant growth occurred, it did find strong evidence that the FTA did indeed lead to improved production runs through increased plant specialization in the manufacturing sector.

Specialization trend grows

There was an increasing trend away from diversification and toward specialization after the early 1970s for both foreign- and domestic-controlled plants. The increase in specialization was faster for foreign-controlled plants, particularly before 1988.

In the 1970s, foreign-controlled plants were more diversified than their domestic counterparts. By 1996, with both the Canada-US and North American Free

Trade Agreements in place, the difference in the diversification of these two groups was quite small.

The decrease in diversification came as a result of two things: a decline in the share of plants that produced more than one product, and a decline in the diversification of those multi-product plants.

In 1973, 73% of foreign-controlled plants and 65% of domestic-controlled plants produced more than one product. By 1997, those figures had shrunk to 57% for foreign-controlled plants and 50% for domestic. That represents about a 15 percentage point drop for both groups.

Tariff rates linked to product diversification

The study found that higher Canadian and US tariff rates at the beginning of the study period were associated with greater plant diversification.

A number of other plant characteristics were also related to diversification. Larger plants tended to be more diversified. Exporters were also more specialized than non-exporters, which suggest that access to foreign markets made it necessary to pack products into plants in order to exploit plant economies of scale.

The study also found a close association between tariff cuts and declines in product diversification over the 1980s and 1990s.

The decline in product diversification was faster for foreign-controlled plants than for domestic-controlled plants. Moreover, the tariff effect was greater for foreign plants. Foreign-controlled plants were better able to adapt to changes in trade liberalization during the specialization process.

While the decline in diversification occurred over both decades of the study period, it was greater after the FTA was implemented. This suggests that the impact of this treaty went beyond that caused by its associated tariff reductions alone.

The research paper *Responses to Trade Liberalization: Changes in Product Diversification in Foreign- and Domestic-controlled Plants*, no. 31 (11F0027MIE2005031, free) is now available online. From the *Our products and services* page, under *Browse our Internet publications*, choose *Free*, then *National accounts*.

More studies on international trade and multinationals are available free of charge in the analytical series *Update on Economic Analysis* on our Web site (11-623-XIE).

For more information or to enquire about the concepts, methods or data quality of this release, contact John Baldwin (613-951-8588) or Wulong Gu (613-951-0754), Micro-economic Analysis Division. ■

OTHER RELEASES

Demographic statistics

January 1, 2005 (preliminary)

Preliminary postcensal population estimates as of January 1, 2005 are now available for Canada, the provinces and the territories.

Available on CANSIM: tables 051-0005, 051-0006, 051-0008, 051-0017, 051-0020 and 053-0001.

Definitions, data sources and methods: survey numbers, including related surveys, 3231, 3232, 3233, 3601 and 3605.

These estimates appear in *Quarterly Demographic Statistics* (91-002-XIB, \$9/\$27 and 91-002-XPB, \$11/\$36), which will be available soon.

For general information or to order data, contact Nathalie Proulx, Demography Division (613-951-2320; demography@statcan.ca) or the toll-free general enquiries line (1-800-263-1136). To enquire about the concepts, methods or data quality of this release, contact Hubert Denis (613:951-0694; hubert.denis@statcan.ca), Demography Division.

Canada's population¹

	October 1, 2003 ^(pr)	January 1, 2004 ^(pp)	October 1, 2004 ^(pp)	January 1, 2005 ^(pp)	October to December	
					2003	2004
					%	
					change	
Canada	31,747,670	31,788,635	32,040,292	32,078,819	0.1	0.1
Newfoundland and Labrador	518,952	518,809	516,875	516,986	0.0	0.0
Prince Edward Island	137,431	137,620	137,744	137,734	0.1	0.0
Nova Scotia	937,082	937,220	938,134	937,538	0.0	-0.1
New Brunswick	750,877	750,741	751,449	751,257	0.0	0.0
Quebec	7,509,504	7,516,950	7,560,592	7,568,640	0.1	0.1
Ontario	12,299,514	12,312,421	12,439,755	12,449,502	0.1	0.1
Manitoba	1,163,003	1,164,962	1,173,164	1,174,645	0.2	0.1
Saskatchewan	994,663	994,443	996,194	995,280	0.0	-0.1
Alberta	3,170,227	3,179,066	3,212,813	3,223,415	0.3	0.3
British Columbia	4,164,043	4,173,596	4,209,856	4,219,968	0.2	0.2
Yukon Territory	30,878	30,927	31,167	31,227	0.2	0.2
Northwest Territories	42,362	42,629	42,925	42,944	0.6	0.0
Nunavut	29,134	29,251	29,624	29,683	0.4	0.2

(pr) Updated postcensal estimates.

(pp) Preliminary postcensal estimates.

1. These estimates are based on the 2001 census counts adjusted for net undercoverage.

Production and disposition of tobacco products

February 2005

Total cigarettes sold in February by Canadian manufacturers increased 5.0% from January to 2.7 billion cigarettes, up 7.6% from the level observed in February 2004.

Cigarette production for February increased 3.5% from January to 3.1 billion cigarettes, up 14.8% from the level observed in February 2004.

At 4.0 billion cigarettes, the level of closing inventories for February increased by 6.8% from January, and increased 11.3% over the level recorded in February 2004.

Available on CANSIM: table 303-0062.

Definitions, data sources and methods: survey number 2142.

The February 2005 issue of *Production and Disposition of Tobacco Products*, Vol. 34, no. 2 (32-022-XIB, \$6/\$51) is now available. See *How to order products*.

For general information, or to enquire about the concepts, methods or data quality of this release, contact the dissemination officer (613-951-9497; 1-866-873-8789; manufact@statcan.ca), Manufacturing, Construction and Energy Division.

Natural gas sales

January 2005 (preliminary)

Natural gas sales totalled 9 446 million cubic metres in January, down 3.6% from January 2004. Weaker sale volumes in the residential sector (-1.7%) and commercial sector (-7.8%) reflected the warmer temperatures recorded in most regions of the country. Sale volumes in the industrial sector (including direct sales) were down by 2.8%.

Definitions, data sources and methods: survey number 2149.

For more information, to order data, or to enquire about the concepts, methods or data quality of this release, contact the dissemination officer (1-866-873-8789; 613-951-9497; energ@statcan.ca), Manufacturing, Construction and Energy Division. ■

Natural gas sales

	January 2005 ^P	January 2004	January 2004 to January 2005 % change
	thousands of cubic metres		
Natural gas sales	9 446 338	9 796 445	-3.6
Residential	3 118 244	3 171 489	-1.7
Commercial	2 080 770	2 255 589	-7.8
Industrial	1 904 121	1 974 500	-2.8
Direct	2 343 204	2 394 867	

^P Preliminary figures.

NEW PRODUCTS

Economic Analysis Research Paper Series: Responses to Trade Liberalization: Changes in Product Diversification in Foreign- and Domestic-Controlled Plants, no. 31
Catalogue number 11F0027MIE2005031
(free).

Canadian Economic Observer, March 2005, Vol. 18, no. 3
Catalogue number 11-010-XPB (\$25/\$243).

Production and Disposition of Tobacco Products, February 2005, Vol. 34, no. 2
Catalogue number 32-022-XIB (\$6/\$51).

Electric Power Generation, Transmission and Distribution, 2003
Catalogue number 57-202-XIB (\$26).

Canada's International Transactions in Securities, January 2005, Vol. 71, no. 1
Catalogue number 67-002-XIE (\$15/\$142).

International Adult Literacy Survey (series): Measuring Adult Literacy Skills: New Frameworks for Assessment, 1994 to 2003, no. 13
Catalogue number 89-552-MIE2005013
(free).

All prices are in Canadian dollars and exclude sales tax. Additional shipping charges apply for delivery outside Canada.

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

MAJOR RELEASES

- **Urban transit, 1996** 2
Despite the emphasis on taking urban transit, Canadians are using it less and less. In 1996, each Canadian took an average of about 20 trips on some form of urban transit, the lowest level in the past 25 years.
- **Productivity, hourly compensation and unit labour cost, 1996** 4
Growth in productivity among Canadian businesses was modestly weak again in 1996, accompanied by sluggish gains in employment and slow economic growth during the year.

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- **Short-term Expectations Survey** 2
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RELEASE DATES: MARCH 29 TO APRIL 1

(Release dates are subject to change.)

Release date	Title	Reference period
29	National tourism indicators	Fourth quarter 2004
29	Culture goods trade	1996 to 2003
29	Employment, earnings and hours	January 2005
30	Industrial product and raw materials price indexes	February 2005
30	Annual Retail Store and Annual Retail Chain Surveys	2003
31	Television viewing	Fall 2003
31	Gross domestic product by industry	January 2005
