



# The Daily

Statistics Canada

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## Releases

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### Study: Recent trends in the Canadian lumber industry

1995 to 2006

Canada's lumber industry has undergone extensive restructuring, and has remained profitable despite the impact of various trade and economic pressures during recent years, a new study has found.

The study, published today in the *Analysis in Brief* series, reveals that the industry has lost thousands of jobs since the turn of the millennium. However, it has intensified its restructuring, resulting in substantial gains in labour productivity.

These gains, combined with a brief but large surge in lumber prices and operating revenues in 2004, have helped the industry maintain positive profit margins comparable, on average, to those reported in the manufacturing sector from 1999 to 2005.

Among the challenges faced by the industry during this period were the Canada/United States Softwood Lumber Agreement (1996 to 2001); the American anti-dumping and countervailing duties imposed on the industry from 2002 to 2006; rising energy and raw material prices; declining lumber prices and a higher exchange rate for the Canadian dollar.

During most of the five-year Canada/United States Softwood Lumber Agreement, production and jobs rose more or less steadily. However, the total number of hours worked in the industry declined as the number and length of work shifts fell. This resulted in a rate of growth in labour productivity that was double the average for the manufacturing sector from 1997 to 2001.

The lumber industry is an important player in Canada's economy. In 2006, it contributed \$7.6 billion to Canada's gross domestic product (GDP). This represented 4.4% of the manufacturing sector and 0.7% of the overall Canadian GDP. The industry is also a key player in export markets, accounting for more than 4% of Canada's total merchandise exports.

#### Turning point for the industry in 2002

With the end of the Canada/United States Softwood Lumber Agreement in 2001, the United States began imposing anti-dumping and countervailing duties on the Canadian lumber industry in 2002. This marked a turning point for the industry in terms of shipments, jobs, labour productivity and exports.

While production volume kept rising more or less steadily until 2004, employment started to

#### Note to readers

*For this study, the lumber industry (North American Industry Classification System — NAICS 321111) is defined as all establishments engaged primarily in manufacturing boards, dimension lumber, timber, poles and ties from logs and bolts.*

*For some variables such as employment, innovation, productivity and finance, data refer to the sawmills and wood preservation industry (NAICS 3211) of which the lumber industry represents 89% of shipments.*

*Unless otherwise specified, data cover the period from 1995 to 2006, except for productivity and finance for which the latest year available is 2005.*

*Moreover, profit margin and return on equity data are compiled on an enterprise basis. More details on the methods and data sources can be found in the full study.*

decline in 2001. In fact, employment in the lumber industry plunged 27% from an all-time high of 74,145 in 2000 to 54,454 in 2006.

In 2006 alone, job losses in the industry were especially marked in Ontario (-8.9%), Quebec (-7.5%) and British Columbia (-5.3%).

The study showed that labour productivity in the industry, as measured by economic output per hour worked, intensified starting in 2001. From 2001 to 2005 (the latest year for which data are available), it rose at an annual average rate of 5.8%, nearly five times the 1.2% gain in the manufacturing sector as a whole.

These gains in productivity were achieved partly by closing plants that were least efficient. This usually occurs when an industry undergoes major restructuring. Investments in new machinery and equipment also contributed after the brief recovery in 2004.

#### Shipments hit their lowest level in 14 years

In 2006, lumber shipments amounted to \$11.9 billion, down 17.5% from 2005. This was the lowest level in 14 years, well below the level of \$17 billion registered in 2004, when the industry enjoyed a short-lived recovery. In 2005, shipments declined 14.9%.

The lumber industry's production volumes grew more or less steadily until 2004, partly the result of strong demand in domestic and American housing markets, before posting back-to-back declines in 2005 and 2006.

Hence, the considerable declines in the value of shipments were due to a great extent to falling prices, which plunged to their lowest levels since 1992.

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## Declining exports to the United States

The decreases in the value of lumber industry shipments resulted largely from a significant decline in the value of exports to the United States in the past few years.

Canada's lumber industry is largely dependent on its exports to foreign markets, which make up around 80% of its production. In 2006, the value of its national lumber exports totalled \$9.6 billion, 80% of which were shipped to the United States, by far its leading foreign customer.

Between 2000 and 2006, the value of national lumber exports regressed at an annual average rate of 4.9%, despite the recovery in 2004. Most of the decline can be attributed to falling lumber prices. The American housing construction market, a key lumber consumer, also experienced a marked slowdown in 2006.

## Profitability comparable to other manufacturing industries

While it faced various trade and economic shocks during recent years, including generally low lumber prices, Canada's lumber industry restructured and remained profitable from 1999 to 2005.

When measured by the profit margin and the return on equity, profitability ratios for the lumber industry were at the average level, or slightly below, compared to other manufacturing industries. Profit margins are defined as operating profits divided by operating revenues. Return on equity is a measure of the return obtained by investors and is another indicator of profitability.

From 1999 to 2005, the industry had an average profit margin ratio of 6.0% compared with 6.4% for all manufacturing industries. This sustained industry profitability was due to the substantial productivity gains, among other factors, and to the brief but large surge in

production and prices in 2004, when the profit margin hit a record 10.3%.

Furthermore, from 1999 to 2005, the return on equity for the industry stood at 8.9% on average, virtually on par with 8.8% for the manufacturing sector.

The profit margins and return on equity generated by an industry depend heavily on its profits from the sale of its products. The lumber industry made a record operating profit of \$2.8 billion in 2004. This plunged 70.5% to \$833 million in 2005.

Net profits also fell from \$2.1 billion in 2004 to \$409 million in 2005. This 80.7% decline may have been the combined result of a strong Canadian dollar, a rise in energy and production input costs and a drop in the price of lumber.

In 2006, a new pact with the United States was reached on softwood lumber exports. It included an agreement to reimburse most of the duties collected since 2002, and it established a new base price over which Canadian exporters will not have to pay duties. Time will tell how the industry's financial situation in 2006 and in subsequent years will be affected by this new agreement and the other factors influencing this industry.

## Definitions, data sources and methods: survey numbers, including related surveys, 2101, 2103, 2134, 2318, 2501, 2510, 2612, 4218 and 5103.

The article "The Canadian lumber industry: Recent trends" (11-621-MWE2007055, free), as part of the *Analysis in Brief* series, is now available from the *Publications* module of our website.

For more information, or to enquire about the concepts, methods or data quality of this release, contact Daniel Dufour (613-951-5370), Small Business and Special Surveys Division. ■

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## Foreign affiliate trade statistics

2005

Sales of goods and services and employment by foreign affiliates of Canadian businesses continued to rise in 2005, largely as a result of growth in the retail trade and finance sectors. It is the first time that both sales and employment have increased for a second consecutive year since foreign affiliate trade statistics were first compiled in 1999.

Total sales increased by \$25 billion to \$385 billion, up 7% from 2004. The retail trade (+\$12 billion), finance (+\$9 billion), manufacturing (+\$5 billion) and mining and oil and gas extraction (+\$4 billion) sectors were the major contributors to the higher sales.

Canadian-owned foreign affiliates employed an additional 90,000 persons in 2005, bringing employment to 1,029,000, an increase of 10% over the previous year. The retail trade (+35,000), manufacturing (+28,000), mining and oil and gas extraction (+12,000) and finance (+11,000) sectors also contributed to the rise in employment.

Two key factors explained the increase in sales. Firstly, household consumer expenditures, the Consumer Price Index and the Producer Price Index in the United States saw their biggest increase in 2005 since the first foreign affiliate trade statistics were published in 1999.

Secondly, Canadian direct investment abroad continued to rise. This is partly explained by profits reinvested by Canadian companies into their foreign affiliates, which reached a new record in 2005.

These factors offset the negative effect of the Canadian dollar's 7% increase over the US dollar in 2005. This translated into lower sales values in Canadian dollars for foreign affiliates that trade in US dollars.

The increase of the Canadian dollar relative to the US dollar since 2002 partly explained the fact that sales in the United States, between 2002 and 2005, remained at the same level when expressed in Canadian dollars, while employment rose by 18%.

In 2005, the increase in sales and employment was significantly higher for foreign affiliate service-providers than for foreign affiliate goods-producers.

Sales by service-providers rose 13% to \$137 billion. The strongest growth was recorded in the retail trade and finance sectors. Among foreign affiliates that

produced goods, sales totalled \$248 billion, up 4% from 2004. The sharpest increases occurred in the agriculture, forestry, fishing and hunting, and mining and oil and gas extraction sectors.

Service-providers employed 383,000 people in 2005, up 12%. This was the strongest growth recorded since 1999, the first year for which estimates were released. Growth was especially strong in the retail trade sector, where the number of jobs almost quadrupled since 2003 as a result of major acquisitions in the United States. For their part, foreign affiliate goods-producers had 644,000 employees, an increase of 8%. The rise in employment among goods-producers occurred in all sectors.

In the manufacturing sector, higher sales were the result of strength in transportation equipment manufacturing and primary metal manufacturing. The rise in employment resulted from new jobs in transportation equipment manufacturing and paper manufacturing.

The geographical distribution of sales and employment has remained relatively stable since 2003. Foreign affiliates in the United States represented slightly less than 60% of sales and employment, while foreign affiliates in the European Union and "other countries" category each represented roughly 20%, respectively.

More than 70% of the activity in the public service and construction, retail trade, and transportation and storage sectors was in the United States. These sectors are more closely linked to the integration of the North American economy.

While the "other countries" category represents approximately one-fifth of the activity of foreign affiliates, the affiliates in these countries account for two-thirds of agriculture, forestry, and fishing and hunting activities, nearly half of management of companies and enterprises activities, and one-third of mining and oil and gas extraction activities.

**Note:** To be consistent with the international practice for measuring foreign affiliate trade statistics, data on majority-owned foreign affiliates alone are included. For operational reasons, depository institutions and foreign branches of firms were excluded from the estimates. Sales and employment figures of majority-owned foreign affiliates represent 100% of the sales and employment, even if in some cases Canadian ownership is less than 100%.

## Foreign affiliate operations

	2001	2002	2003	2004	2005
Sales (\$ billions)					
Goods-producers	221	219	219	239	248
Service-producers	143	135	119	121	137
<b>Total</b>	<b>365</b>	<b>355</b>	<b>338</b>	<b>360</b>	<b>385</b>
United States	224	218	198	207	217
European Union	75	73	76	81	90
Other countries	66	64	63	71	78
<b>Total</b>	<b>365</b>	<b>355</b>	<b>338</b>	<b>360</b>	<b>385</b>
Employment (thousands)					
Goods-producers	540	562	583	599	644
Service-producers	346	336	323	341	383
<b>Total</b>	<b>886</b>	<b>898</b>	<b>905</b>	<b>939</b>	<b>1,029</b>
United States	524	507	516	541	597
European Union	175	186	183	197	211
Other countries	187	205	206	201	221
<b>Total</b>	<b>886</b>	<b>898</b>	<b>905</b>	<b>939</b>	<b>1,029</b>

Available on CANSIM: tables 376-0060 and 376-0061.

**Definitions, data sources and methods: survey number 1539.**

Additional analysis of these foreign affiliate trade statistics data will be available soon in the publication *Canada's International Trade in Services* (67-203-XIB, free).

For additional information, contact Client Services (613-951-1855; [infobalance@statcan.ca](mailto:infobalance@statcan.ca)). To enquire about the concepts, methods or data quality of this release, contact François Lavoie (613-951-5416; [francois.lavoie@statcan.ca](mailto:francois.lavoie@statcan.ca)), Balance of Payments Division. ■

## North American Product Classification System - Canada

A provisional version of *The North American Product Classification System (NAPCS) - Canada* is available today.

NAPCS is a classification that systematically organizes products (goods and services) throughout the economy. The portion of NAPCS presented here covers the products of most services-producing industries.

NAPCS will become the basis for the product dimension of Statistics Canada economic data. Various survey programs have begun to adopt NAPCS, leading

up to the implementation in the Canadian System of National Accounts for the reference year 2007. The use of NAPCS will improve the coherence of data and provide detail that will better reflect the importance of services in the Canadian economy.

NAPCS was jointly developed by the national statistical agencies of Canada, Mexico and the United States. The classification provides a unified standard for products, which will facilitate comparisons of data among the three participating countries.

For more information on *NAPCS Canada* (12-003-XWE, free), contact Paul Whiteley (613-951-2832; [standards@statcan.ca](mailto:standards@statcan.ca)), Standards Division. ■

## Electric utility construction price indexes

Annual 2005 (final) and annual 2006 (preliminary)

Construction costs for distribution systems rose 6.7% in 2006. The increase in the material component for this period (+12.4%) was the major contributor to this change. The final 2005 data for distribution systems represented an advance of 1.9% over 2004.

Construction costs for the transmission line system series rose 3.4% in 2006 compared with the 1.5% increase for all of 2005. The transmission line component climbed 4.3% during the same period in 2006, while in 2005, there was a 1.1% annual gain. The rise in materials (+7.0%) significantly contributed to this increase. The substation component rose 2.8% in 2006, following a 1.8% increase the previous year. The station equipment subcomponent (+2.9%) posted the largest gain.

Available on CANSIM: table 327-0011.

**Definitions, data sources and methods: survey number 2316.**

The first quarter 2007 issue of *Capital Expenditure Price Statistics* (62-007-XWE, free) will be available in July.

For more information, or to enquire about the concepts, methods or data quality of this release, contact Client Services (toll-free 1-866-230-2248; 613-951-9606; fax: 613-951-1539, [prices-prix@statcan.ca](mailto:prices-prix@statcan.ca)) or Adrian Fisher (613-951-9612), Prices Division. ■

## **Production of eggs and poultry**

April 2007 (preliminary)

Egg production was estimated at 48.4 million dozen in April, similar to April 2006.

Poultry meat production reached 93.9 million kilograms in April, up 4.2% from April 2006.

**Definitions, data sources and methods: survey numbers, including related surveys, 3425 and 5039.**

For more information, or to enquire about the concepts, methods or data quality of this release, contact Sandy Gielfeldt (613-951-2505; [sandy.gielfeldt@statcan.ca](mailto:sandy.gielfeldt@statcan.ca)) or Barbara Bowen (613-951-3716; [barbara.bowen@statcan.ca](mailto:barbara.bowen@statcan.ca)), Agriculture Division. ■

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## New products

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**Analysis in Brief : "The Canadian lumber industry: Recent trends"**, 1995 to 2006, no. 55  
**Catalogue number 11-621-MWE2007055**  
(free).

**North American Product Classification System (NAPCS) - Canada**  
**Catalogue number 12-003-XWE**  
(free).

**How Statistics Canada Identifies Aboriginal Peoples**  
**Catalogue number 12-592-XWE**  
(free).

**Building Permits**, April 2007, Vol. 51, no. 4  
**Catalogue number 64-001-XWE**  
(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, 1990** 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, 1990** 4  
Growth in productivity among Canadian businesses was relatively weak again in 1996, accompanied by sluggish gains in employment and slow economic growth during the year.

**OTHER RELEASES**

- **Help-wanted index, May 1997** 3
- **Short-term Expectations Survey** 2
- **Steel primary forms, week ending May 31, 1997** 12
- **Egg production, April 1997** 12

**PUBLICATIONS RELEASED** 11

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