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Profile of Canadian Industry

PROFILE OF THE CANADIAN MAJOR HOUSEHOLD APPLIANCE INDUSTRY

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I. Introduction

For the purpose of this document, the Canadian major household appliance industry is defined as Statistics Canada Standard Industrial Classification (SIC) code 3321 (under the 1980 version of the SIC). Thus, it is comprised of establishments primarily engaged in manufacturing electric and non-electric major household type appliances and machines. Product lines manufactured by this industry comprise air conditioning units (window type only), barbeques, clothes dryers, clothes washing machines, cooking ovens, cooking stoves and ranges, cooking top mountings, dishwashers, freezers, kitchen waste compactors, microwave ovens, refrigerators and sewing machines.

II. Industry Profile

2.1 Historical Development

The Canadian major household appliance industry has been protected by relatively high tariffs throughout most of its history. While there are many, the major challenge faced by the Canadian industry in the recent past has been the adjustment to the free trade environment created by the Canada-US Free Trade Agreement (FTA). The FTA, combined with the recession, caused a major shake-out in the industry in the late 1980s and early 1990s. To date, the tariff reductions negotiated under the North American Free Trade Agreement (NAFTA) and the Uruguay Round have had no substantial impact on the Canadian industry. In this freer trade environment, the Canadian industry competitiveness still primarily hinges on how well it is positioned relative to its US competitor.

2.2 Snapshot of the Industry

2.2.1 Industry Structure

i) Size of Industry

In 1996, the latest year for which official statistics are available, the Canadian major household appliance industry consisted of 22 firms with 25 manufacturing establishments, employing 5,821 people, with shipments of goods of own manufacture valued at \$893.6 million. 1997 industry shipments were estimated at \$966.0 million, of which 52.7% were exports. The Canadian market for major household appliances was estimated at \$1.47 billion in 1997, of which 31.1% was supplied by the industry and the balance by imports.

The Canadian industry manufactures a variety of consumer products. Cooking stoves, ovens and ranges represented the single largest product group in 1995, the latest year for which statistics are available, accounting for 35.8% of industry shipments. Other product lines, for which reliable statistics are available, included refrigerators - 14.9% of all shipments, dishwashers - 6.5% and electric cooking top mountings - 1.1%.

Major household appliances are relatively expensive products which are intended for long-term use since they are unlikely to become obsolete through dramatic technological change.

In 1996, the major household appliance industry represented roughly 0.1% of all manufacturing establishments in Canada, 0.3% of manufacturing employment and 0.2% of manufacturing shipments.

Statistics about world production of major household appliances are not available. The United States is believed to be the largest producing country. It is estimated that the US industry comprised about 155 establishments, employed 60,700 people and generated shipments valued at Cdn\$18.28 billion in 1996. With approximately six times more plants and ten times more employees, US industry shipments (in Canadian dollars) were twenty times larger than those of its Canadian counterpart in 1996. Other major producing countries include Japan and Sweden.

ii) Size of Plants

The average factory in the Canadian major household appliance industry is much larger than the average factory in the overall Canadian manufacturing sector. In 1996, the average major household appliance production unit employed 233 people and generated shipments valued at \$35.7 million, compared with 47 employees and \$11.2 million in shipments for the average factory in the Canadian manufacturing sector as a whole.

In 1995, the latest year for which official statistics are available, 27.3% of all Canadian major household appliance manufacturing plants employed fewer than 20 people each, but together they accounted for only 0.6% of industry shipments. Establishments employing 100 people and more, 40.9% of the total number of plants in the industry, accounted for 94.7% of industry shipments.

iii) Size of Firms

Close to 30% of the firms in the Canadian major appliance industry are single-plant operations employing fewer than 20 people. Firms considered large in Canada are generally small in comparison to their US competitors.

iv) Ownership Profile

In 1996, three firms, or 13.6% of all firms in the Canadian major household appliance industry, were foreign-controlled, but these firms were much larger than average, collectively accounting for an estimated 77% of industry shipments.

v) Concentration Ratio

It is estimated that the four largest manufacturers of major household appliances in Canada (i.e., Camco, Inglis, W.C. Wood and Frigidaire) together accounted for about 85% of the Canadian industry's shipments in 1996.

vi) Regional Distribution

The major household appliance industry is heavily concentrated in central Canada. Ontario accounted for about 54% of industry shipments of goods of own manufacture in 1996, Quebec for about 44% and New Brunswick for about 2%.

vii) Specialization

The large manufacturers in Canada produce a wide range of major household appliances while the majority of small manufacturers tend to specialize in a narrow range of products.

viii) Cost Structure

Materials and supplies, and wages represent the two greatest cost factors for the Canadian major household appliance industry, averaging 59.4% and 14.2% of industry shipments in 1996, respectively.

The major input materials bought by Canadian major household appliance manufacturers in 1995, the latest year available, were iron and steel and articles thereof (\$132.7 million), compressors used in refrigerating equipment (\$45.7 million), plastics and articles thereof (\$32.5 million), electric motors and generators (\$32.4 million), glass and glassware (\$20.6 million), heat pumps for refrigeration and freezing equipment (\$20.5 million) and aluminum and articles thereof (\$11.2 million).

The Canadian major household appliance industry is a small energy consumer. As a percentage of the value of shipments, the industry's fuel and electricity costs were only 1.1% in 1996.

ix) Trade Organizations

The principal trade association is the Canadian Appliance Manufacturers Association (a Division of Electro-Federation Canada), Rexdale, Ontario, which represents Canadian producers of major household appliances.

2.2.2 Employment Profile

i) Labour Intensity

The Canadian major household appliance industry is labour intensive. Wages represented 14.2% of the industry's shipments in 1996, three percentage points above the average for all manufacturing industries in Canada.

ii) Workforce Characteristics

As indicated previously, the Canadian major household appliance industry employed 5,821 people in 1996. Production and related workers accounted for 73.5% of total employment in the industry. Average hourly wages (excluding fringe benefits) in the Canadian industry were \$14.54 in 1996, much lower than the average manufacturing wage in Canada which stood at \$16.38.

Several Canadian major household appliance manufacturers are unionized. For example, the Communications, Energy and Paperworkers Union of Canada represents about 750 workers at Camco's plant in Montreal, the National Automobile, Aerospace, Transportation and General Workers Union of Canada represents about 900 workers at Camco's plant in Hamilton while the Centrale des syndicats démocratiques represents about 325 workers at Inglis' plant in Montmagny.

Labour supply has not been a critical problem for the Canadian major household appliance industry. In general, it has been able to attract workers in sufficient quantity. However, shortages of people with specialized skills have appeared at times. In addition, turnover has been relatively high for certain lower-skill jobs.

iii) Management Characteristics

As a general rule, the level of management sophistication in the major household appliance industry, like most industries in Canada, increases with the size of the firm. Small firms tend to be owned by entrepreneurs with manufacturing or direct selling backgrounds and less expertise in other functions. The size of these firms restricts the feasibility of employing a full-fledged management team.

2.2.3 Research and Development Efforts

According to Statistics Canada, seven Canadian major household appliance manufacturers were engaged in conducting research and development (R&D) activities in 1993, the latest year available. Their level of R&D expenditures is not available.

2.2.4 Marketing Practices and Distribution

The industry serves two markets: the consumer market, in which products are sold through retail outlets, and the builders market. The latter market absorbs about 15% of total sales of major household appliances in Canada.

Major household appliance manufacturers employ direct sales forces to service large buyers and intermediaries, such as distributors, to service smaller accounts. Other marketing techniques used to reach clients include placing advertisements in consumer and specialized business publications, and displaying their products at trade shows.

Manufacturers are using price points, product innovations, design features and product quality to attract clients. There is clear evidence of brand awareness among customers.

2.3 Federal Public Policy vis-à-vis the Industry

2.3.1 Relevant Framework Legislations

Federal government horizontal policies and regulations that have had the greatest influence on the Canadian major household appliance industry are taxation, tariffs, consumer protection and environmental protection. A low and stable Canadian dollar is also important to the competitiveness of the industry.

Where applicable, tariff rates levied by Canada in 1988 on major household appliances imported from nations receiving Most Favoured Nation (MFN) status ranged from a low of 9.2% to a high of 14.1%. These tariffs were much higher than those in the US which ranged from 2.2% to 5.7%. Under the FTA, some tariffs between Canada and the United States (such as the one covering sewing machines) were eliminated in five equal annual stages from January 1, 1989 to January 1, 1993, but most of the tariffs were eliminated over a ten-year period from 1989 to 1998. In response to the FTA, the Canadian major household appliance industry has had to transform itself to face higher import pressures, and also to take advantage of new export opportunities.

Under the NAFTA, some tariffs on major household appliances traded between Canada and Mexico were eliminated immediately on implementation of the Agreement on January 1, 1994, while others will be eliminated over five or ten years. Under the Uruguay Round, some Canadian and US MFN tariffs on major household appliances will be eliminated while others will be reduced by 30 to 50% over a ten-year period starting in 1995.

Canada, like most countries, requires that major household appliances meet domestic electrical and safety standards. In addition, many countries, including Canada, have standards for labels that are applied on appliances.

The Canadian Standards Association (CSA) has developed standards for most major household appliances. The CSA is an independent, non-government, not-for-profit association engaged in the development of standards as well as certification testing and registration services. CSA standards are developed by volunteer committees representing a combination of government, industry, academia, special interest groups, consumer groups and the public.

Although the manufacturing processes used by the industry do not give rise to serious pollution problems, the Canadian industry has had to take a number of corrective measures to comply with increasingly stringent federal, provincial and local regulations concerning pollution control. More important has been the ban on the use of chlorofluorocarbons (CFCs) as refrigerants. In addition, the industry has been under strong pressures to manufacture appliances that use less water and energy. Energy-saving regulations have been developed in Canada for several major household appliances. The recently concluded Kyoto Protocol to the United Nations Framework Convention on Climate Change will probably lead to more stringent energy-saving regulations for major household appliances. Overall, the industry is paying more attention to reducing the environmental impact of its products, notably by reducing waste, improving the energy efficiency of its processes and products, and by using more recycled material, particularly for packaging purposes.

2.3.2 Government Support Mechanisms

The governments in Canada have not developed special incentive programs for the major household appliance industry.

III. Industry Performance in Perspective

3.1 Establishments and Firms

The number of establishments in the Canadian major household appliance industry declined from 35 in 1986 to 25 in 1996.

The average size of Canadian major household appliance plant has fluctuated widely over the period 1986 to 1996. Employment per establishment has ranged from a low of 233 in 1996 to a high of 386 in 1987. Shipments per establishment have ranged from a low of \$34.1 million in 1989 to a high of \$46.5 million in 1987, standing at \$35.7 million in 1996.

Industry consolidation has increased in Canada. As mentioned earlier, the four largest manufacturers accounted for about 85% of industry shipments in 1996, compared to an estimated 75% for the four largest firms in 1986.

3.2 Shipments of Goods of Own Manufacture

The value (as measured in constant 1986 dollars) of the Canadian major household appliance industry's shipments declined from \$1.26 billion in 1986 to \$0.76 billion in 1996. From 1986 to 1996, industry shipments declined at an average annual rate of 4.8%. Shipments in constant 1986 dollars increased marginally in 1997 to an estimated \$0.84 billion.

In contrast, the Canadian industry's shipments in current dollars declined from \$1.26 billion in 1986 to \$0.89

billion in 1996, an annual decline of 3.3%. Shipments increased marginally in 1997 to reach \$0.97 billion

3.3 Employment

In Canada, major household appliance industry employment dropped from 9,476 in 1986 to 5,821 in 1996. Overall, employment declined at an average annual rate of 4.8% between 1986 and 1996.

3.4 Wages and Salaries

Annual wages and salaries per employee, in current dollars, in the Canadian major household appliance industry increased from \$24,863 in 1986 to \$33,602 in 1996, an annual growth rate of 3.1%. During the period 1986 to 1996, annual wages per production worker expanded at an annual rate of 2.9% (from \$22,370 to \$29,701) while annual salaries per non-production employee grew at an annual rate of 3.7% (from \$30,911 to \$44,401).

3.5 Investment

Average annual capital expenditures, in current dollars, by the Canadian major household appliance industry amounted to \$35.9 million over the 1986 to 1996 period. During that period, capital expenditures represented 3.5% of the Canadian industry's shipments. Capital expenditures per employee, in current dollars, averaged \$5,064 a year over the 1986 to 1996 period.

3.6 Productivity

From 1986 to 1996, average annual growth in labour productivity, as measured by value added per employee in current dollars, in the Canadian major household appliance industry reached 2.0%. The level of labour productivity was \$66,537 in 1986 versus \$81,309 in 1996.

IV. International Trade

4.1 Exports

Canadian exports of major household appliances in current dollars grew from \$109.0 million in 1986 to a high of \$509.2 million in 1997, an average annual growth rate of 15.0%. Gains in export shipments were particularly significant in the last six years. Clothes dryers accounted for 19.0% of all exports in 1997, followed by electric ovens and ranges (other than microwave ovens) - 16.6%, freezers - 15.3%, and cooking appliances and plate warmers for gas fuel or for both gas and other fuels - 13.7%. It is generally believed that a relatively small number of larger firms account for the bulk of Canadian exports.

In 1997, Quebec-based manufacturers accounted for 51.2% of Canadian exports of major household appliances; Ontario, 43.8%; British Columbia, 2.8%, the Prairies, 2.0%; and the Atlantic Provinces, 0.2%.

Canadian exports of major household appliances have always been predominantly to the US, with the share standing at 89.2% of all exports in 1997. This reflects on the one hand, the size of the US market, its geographical proximity and the FTA, and on the other hand, the higher cost of shipping household appliances overseas, longer delivery times and tariff barriers. The second largest export market for Canadian manufacturers in 1997 was India, absorbing 2.1% of all exports, followed by the United Kingdom - 1.1% and Germany - 0.6%.

Canadian export orientation (i.e., exports as a share of industry shipments) increased from 8.7% in 1986 to an all-time high of 52.7% in 1997. Declining domestic demand in the early 1990s, growing imports and tariff reductions in foreign markets have encouraged Canadian firms to seek export markets.

4.2 Imports

Canadian imports of major household appliances in current dollars increased from \$473.0 million in 1986 to a high of \$1.01 billion in 1997. Imports grew at an annual rate of 7.2% between 1986 and 1997, about half the growth rate posted by Canadian exports. Clothes washing machines accounted for 21.0% of all imports in 1997, followed by dishwashers - 10.4%, microwave ovens - 9.6%, cooking appliances and plate warmers for gas fuel or for both gas and other fuels - 9.0% and clothes dryers - 8.6%.

The US has always been the major supplier of imported major household appliances sold in Canada. Its share stood at 77.3% of all imports in 1997, followed by South Korea - 5.1%, China - 4.2% and Taiwan - 2.5%.

Import penetration into the Canadian market (i.e., imports as a share of the market) jumped from 29.2% in

1986 to a high of 68.9% in 1997.

4.3 Trade Balance

Canada's trade deficit in major household appliances in current dollars increased from \$364.0 million in 1986 to a high of \$532.6 million in 1992, then declined to reach \$504.2 million in 1997.

The improvement in the Canadian major household appliance industry's trade balance over the last five years is attributed to a number of factors, including a measure of labour-cost competitiveness with the US industry, good product quality, aggressive export marketing and the relatively low value of the Canadian dollar relative to the US currency.

In 1997, large Canadian trade deficits were recorded in the following product lines: automatic clothes washing machines - \$207.2 million; microwave ovens - \$96.8 million; dishwashers - \$74.7 million; self-contained air conditioning machines - \$46.3 million; sewing machines - \$34.6 million; and refrigerators, compression type - \$27.1 million. Large Canadian trade surpluses were generated for the following product groups: freezers of the chest type - \$57.4 million and freezers of the upright type - \$18.8 million. In 1997, Canada posted a trade deficit of \$329.3 million with the United States and a trade deficit of \$174.9 million with the rest of the world.

V. Market Size

Demand for major household appliances is driven by the need to replace existing appliances or furnish new housing completions. Replacement appliances account for about 70% to 80% of the total market in Canada.

In the short term, market demand for major household appliances is very susceptible to economic shifts, including factors such as interest and unemployment rates and consumer confidence in the economy. Over the longer term, market demand is largely dependent on household formation rates, housing starts and income growth.

The Canadian market for major household appliances in constant 1986 dollars declined from \$1.62 billion in 1986 to \$1.14 billion in 1996. The market has dropped at an average rate of 3.4% annually between 1986 and 1996. The market in constant 1986 dollars increased in 1997 to reach an estimated \$1.27 billion.

In comparison, the Canadian economy, as measured by its Gross Domestic Product (GDP) at factor cost in 1986 dollars, expanded at an average annual growth rate of 2.0% between 1986 and 1996. During that period, the Canadian population increased at an average annual growth rate of 1.3% while the number of households grew at an annual rate of 1.9%. Housing starts averaged 176,087 units annually over the 1986 to 1996 period, reaching a high of 245,986 units in 1987 and a low of 113,000 units in 1995.

VI. Future Trends

6.1 Demand Outlook

Over the next decade, the Canadian major household appliance market of \$1.30 billion in current dollars in 1996 is forecasted to expand at an average annual rate of between 0.5 to 1.5% in constant dollars.

According to Informetrica, Canada's GDP in constant 1986 dollars is projected to expand at an annual rate of 2.4% between 1996 and the year 2006. This compares with an annual gain of 2.2% between 1985 and 1995. This should have a positive effect on demand for major household appliances.

The population of Canada is expected to expand from 30.0 million in 1996 to 33.7 million in year 2006, an average annual growth rate of 1.2%, a bit lower than the annual gain of 1.3% recorded during the period 1985 to 1995. It is expected that immigration will continue to increase in importance as a source of population growth. In addition, the population will continue to grow older. The number of households is forecasted to grow from 11.4 million in 1996 to 13.5 million in year 2006, an annual gain of 1.7%, compared to an annual growth rate of 2.0% between 1985 and 1995.

The expected relative weakness in domestic demand for major household appliances suggests a need for increased efforts in the export field. The United States is the world's largest market for major household appliances and holds the greatest potential for Canadian exporters because of its size, proximity and preferential tariff treatment toward Canada. Additionally, customer tastes are basically similar to those in the Canadian market.

The US market for major household appliances in 1996 was valued at Cdn\$19.16 billion in current dollars.

Over the next five years, market demand is projected to increase at an average annual growth rate of about 1.5% in constant dollars.

In addition, several other foreign markets will offer opportunities for increased penetration by Canadian exporters of major household appliances as a result of the tariff reductions agreed upon during the Uruguay Round and the NAFTA.

While Canadian major household appliance manufacturers will see new export marketing opportunities as a result of trade liberalization, at the same time, they will be more exposed to international competition both at home and abroad.

6.2 Production Trends

Overall, the number of Canadian major household appliance producers will not grow and may decline further. It is probable that firms will become more clustered at the small and large ends of the spectrum, with fewer firms in the middle.

The Canadian major household appliance industry is labour intensive and will remain so for the foreseeable future, despite continuing introduction of more automated production technologies. However, the prospects for employment growth in the industry are modest at best.

6.3 Trends in Supply Factors

No critical shortages of raw materials currently used by Canadian major household appliance manufacturers are expected over the medium term, although there will no doubt be spot shortages from time to time.

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