



Canadian
Manufacturers &
Exporters

Manufacturiers et
Exportateurs du
Canada



Canadian Manufacturers & Exporters Business & Policy Outlook

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President
Canadian Manufacturers & Exporters

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Overview

- Economic Update
- Priority issues for manufacturers & exporters
- Federal Budget
- CME current issues



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Economic Overview

- Global financial deflation – uncertain asset values
- Overcapacity now aggravated by implosion of customer demand
- Global recession – centred on USA
- Recession will be deeper and last longer than consensus forecasts - Statistics not reliable for forecasting
- Financial stability a prerequisite for recovery
- Risks ahead – Further financial turmoil, China, US Treasury market, Canadian dollar appreciation



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Export Trends

- Total merchandise exports rose 12.7% in current dollar terms but fell 6.9% in volume (price adjusted terms) between 2002 to 2008
- Exports to USA increased 0.8% in value but fell 15.8% in volume between 2002 to 2008
- Excluding oil and gas, exports to USA fell 17.8% in value and 18.4% in volume between 2002 and 2008
- USA accounted for 87% of total export value (86% excluding oil and gas) in 2002.
- USA accounted for 78% of total export value (82% volume) in 2008.
- Excluding oil and gas, USA accounted for 72% of total export value (70% volume) in 2008.



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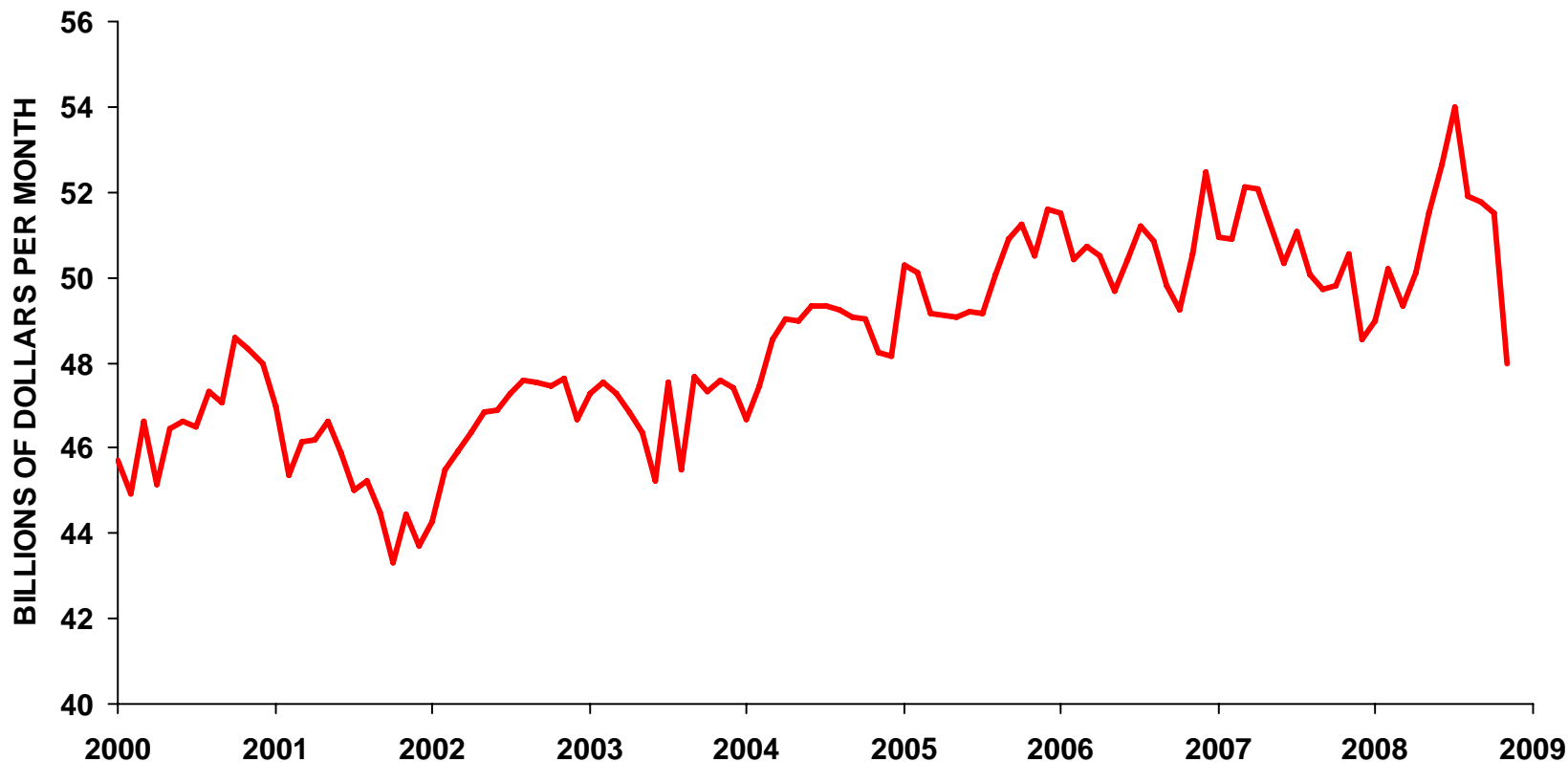
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Canada: Manufacturing Sales





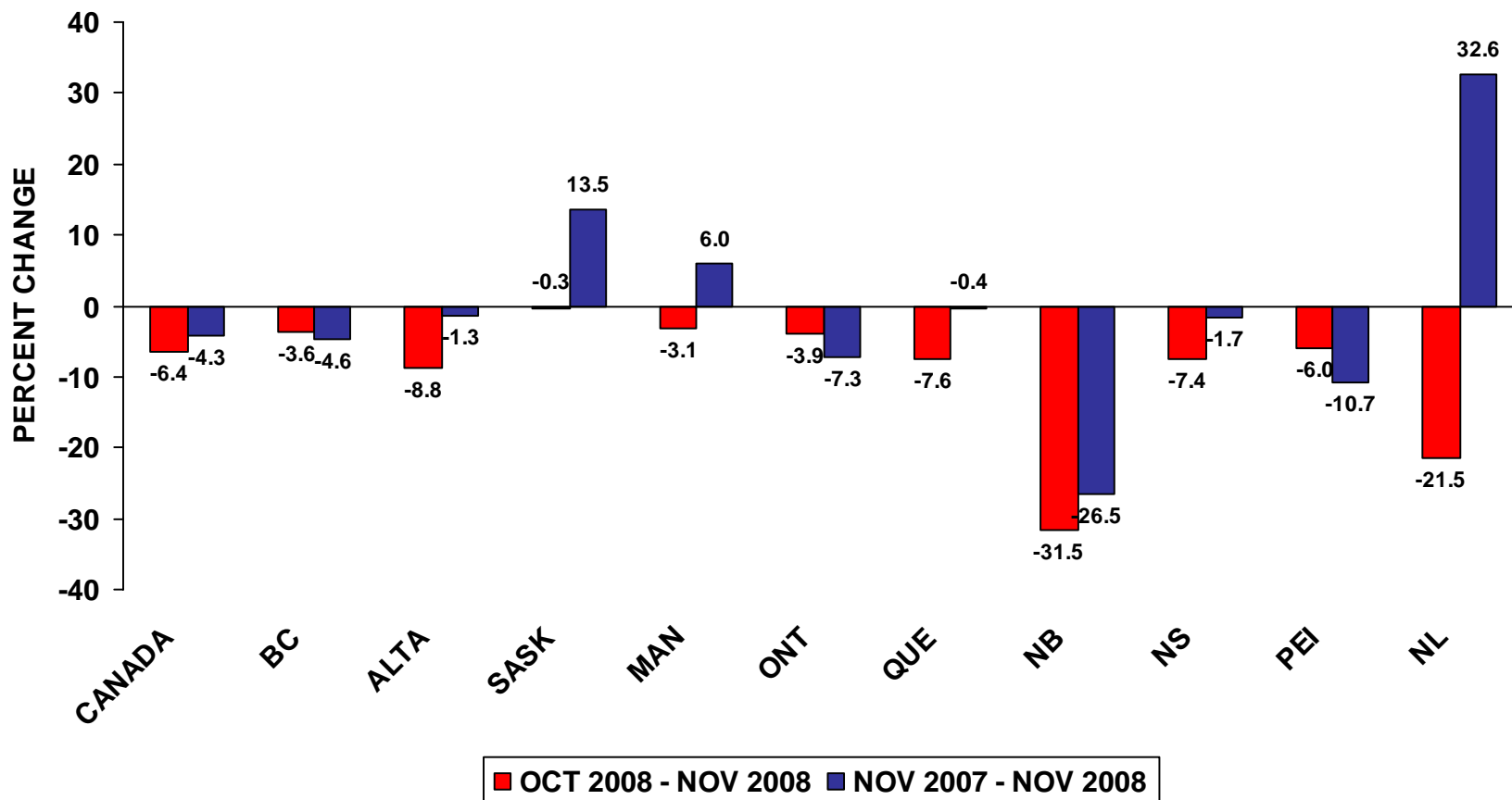
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Manufacturing Sales (By Province)





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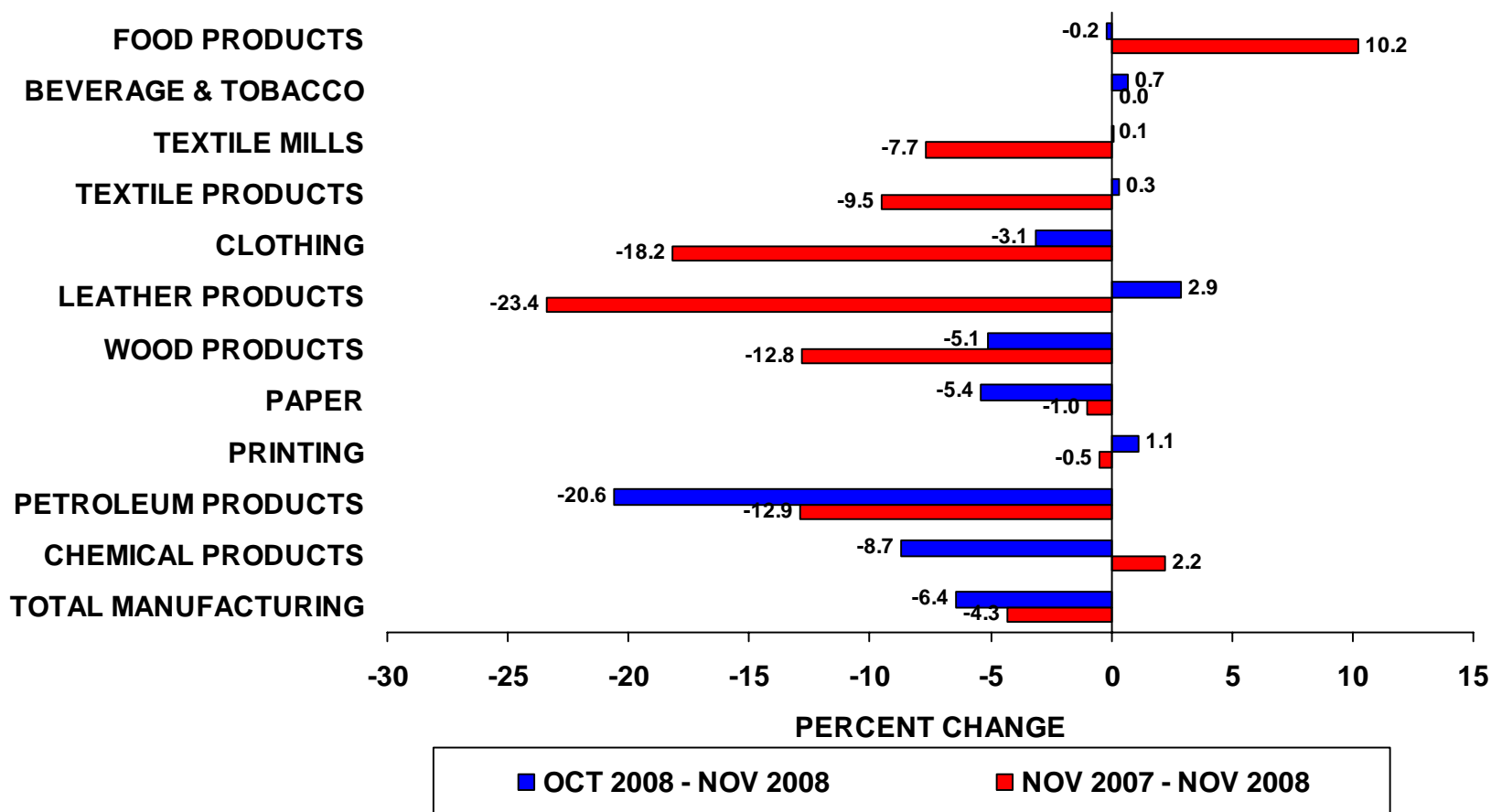
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Manufacturing Sales (By Sector)





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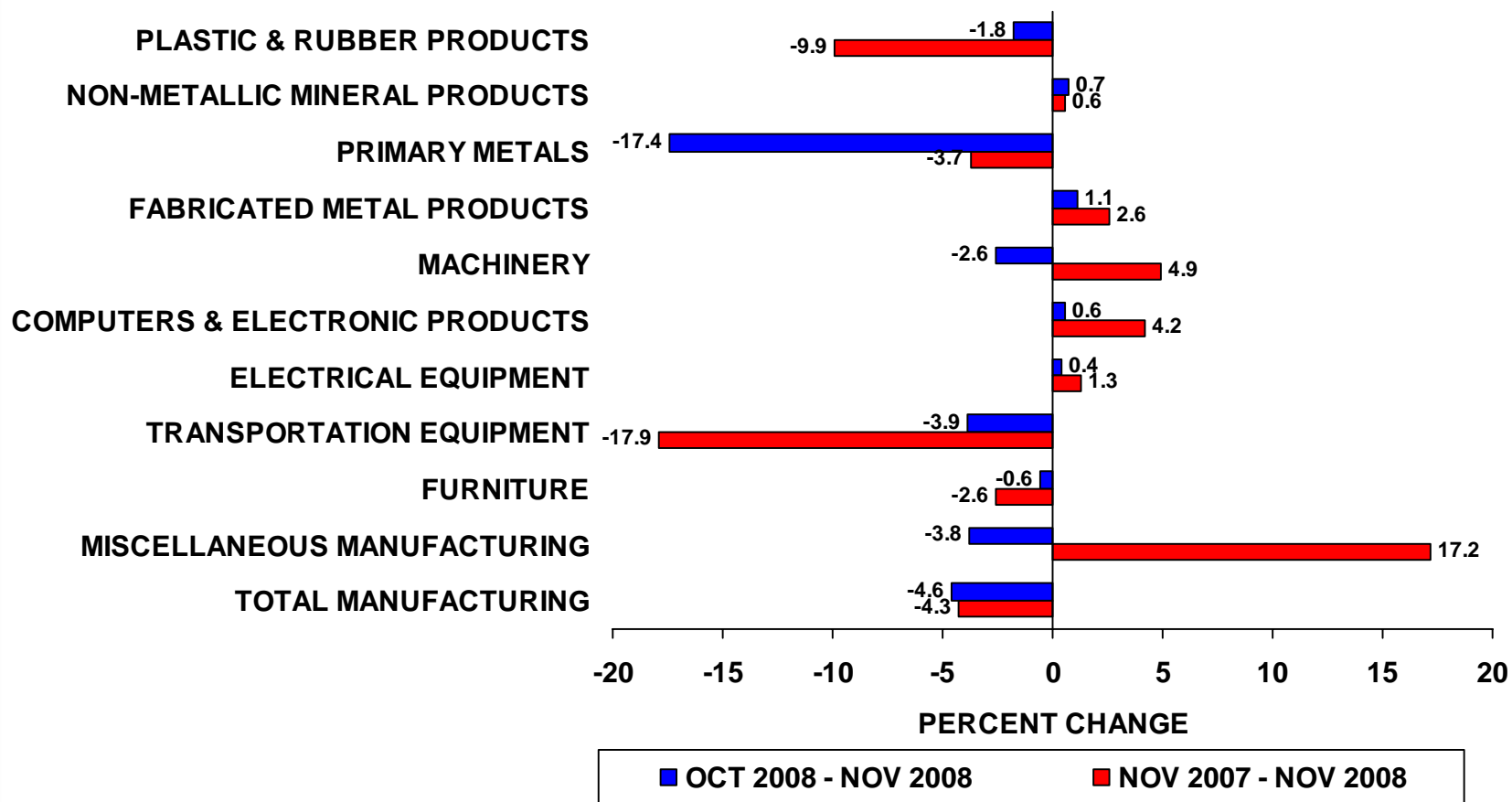
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Manufacturing Sales (By Sector)





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Business Challenges

- **Thin profit margins**
 - Impact of rapid appreciation of Canadian dollar, energy & commodity costs
- **Weakness in key markets**
 - Housing, automotive, industrial equipment, capital projects
 - Overcapacity in most industrial markets
- **Higher levels of risk and uncertainty**
 - Late payment, default, higher levels of receivables & inventory, orders postponed & cancelled
 - Currency and pricing volatility
- **Meltdown in customer demand**
 - Spreading across industry sectors
- **Financing difficulties**
 - US credit
 - Bank credit
 - Asset-backed financing
 - Venture & capital markets



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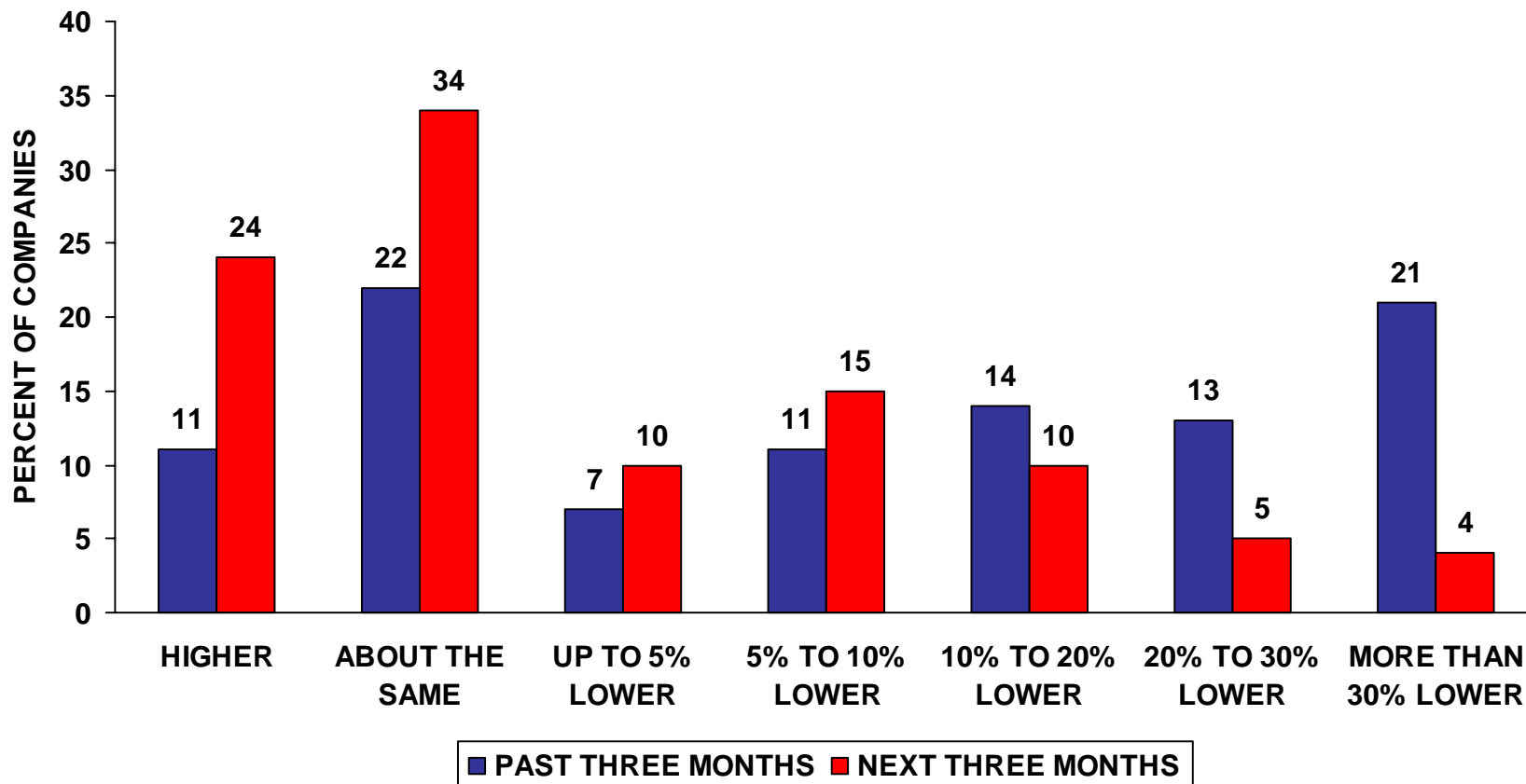
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Canada: New Orders





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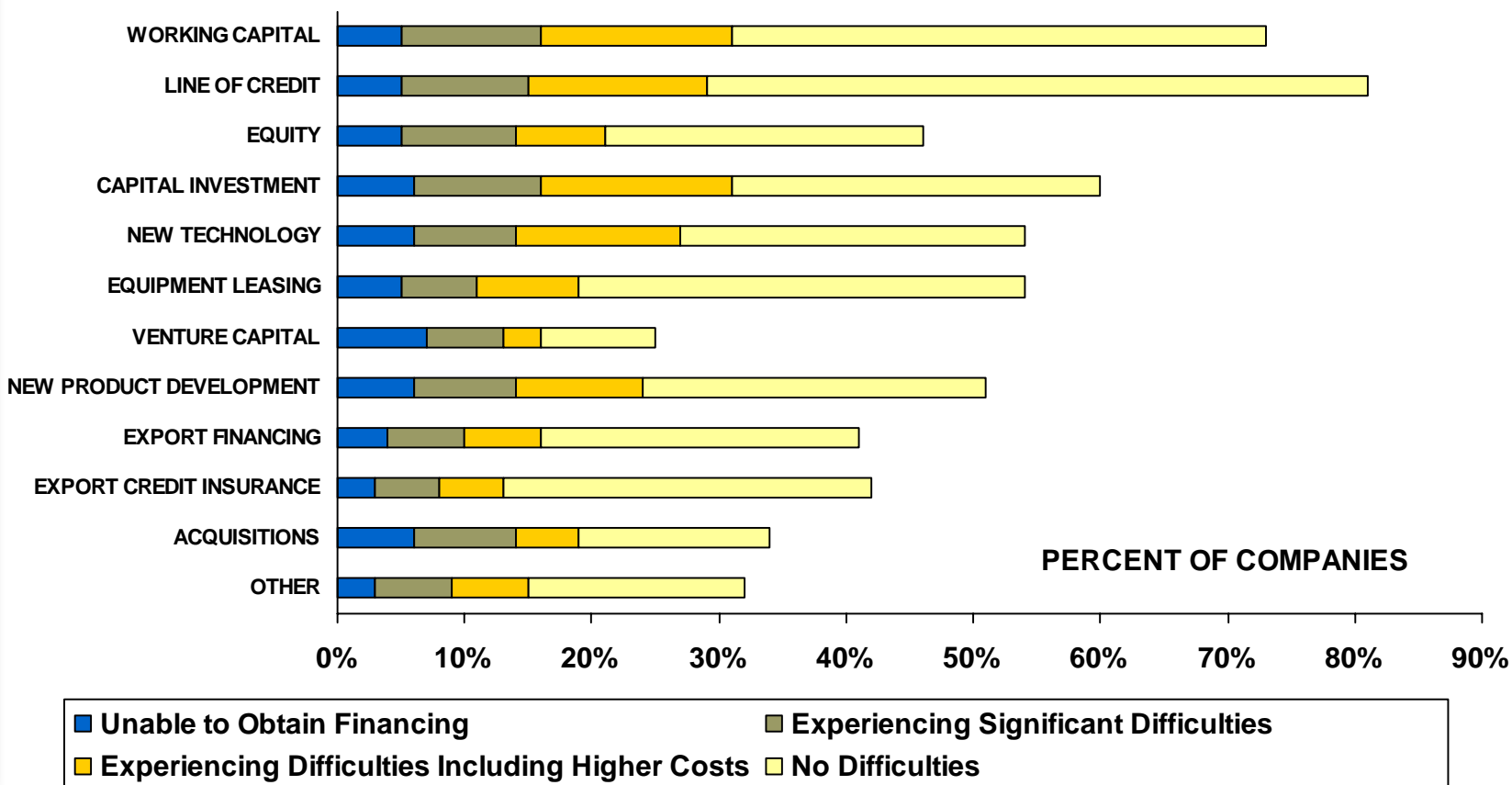
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Financing Challenges





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Business Opportunities

- Cash and investment strengths
- Replace competition
- Acquisitions
- New product & market development
- Infrastructure & innovation
- Product specialization, services, new processes, new skills
- Respond to new & emerging customer demand



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Policy: Priority Issues

- **Make manufacturing & exporting a priority as drivers of economic growth**
- **Encourage investment in & development of productive assets (technology, innovation, education & skills)**
- **Access to new markets – new business opportunities**
- **21st century infrastructure – communications, logistics, energy, people**
- **North American Logistics – infrastructure, security, trade & business development**
- **Regulatory & border efficiency**
- **Energy efficiency & GHG emission reductions**
- **Interprovincial trade and labour mobility**
- **Guard against protectionism & Effective enforcement of trade rules**
- **Integrity of global markets**



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Budget Analysis

- Responded to short-term priorities but not long-term solutions
- \$64 billion deficit over two years
- Credit and financing issues was our first priority
 - \$200 billion into financial markets
 - Capital base & lending capacity of EDC & BDC increased
 - New financing mechanisms (leasing, leverage private investment)
- \$12 billion in new infrastructure – timing will be important
 - Transportation, social housing, colleges, innovation, IRAP
- Extended 2-year CCA for manufacturers to end of 2011
- EI benefits expanded but assistance aimed more at unemployed than on-job training
- Personal tax measures popular but least effective
- Recovery expected in fourth quarter 2009
- Surplus returns in five years



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National Policy Issues

- Focus on economy & stimulus budget implementation
- Need to move from bureaucratic lock-down to rapid program development
- Further stimulus likely
- Need to focus on longer-term competitiveness/investment strategy
- Government on sounder political footing – for now



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Key US Policy Issues

- **Monetary & fiscal policy**
- **Security & border efficiency**
 - Northern border strategy
 - Cyber-security
 - Monitoring, screening, information management
- **Regulatory enforcement**
 - Lacey Act
 - Food & product safety
 - Anti-counterfeit
- **Energy & environment**
- **Economic stimulus & infrastructure**
 - Business opportunities – Innovation, Smart Grid, alternative energy, emission reduction technologies, logistics & border infrastructure
 - Buy America