



### Driving Growth: Unveiling the Resilience and Potential of Ontario’s Manufacturing Industry

Ontario’s manufacturing industry stands at a critical juncture, entering a dynamic phase with a forecast that carries both promise and complexity. As the province’s economic engine, the manufacturing sector faces a range of emerging trends and challenges that will shape its trajectory in the coming years. From the rapid advancements in automation and digitalization to evolving trade dynamics and shifting consumer demands, local manufacturers must navigate a landscape that demands adaptability, innovation, and sustainability. Meanwhile, the industry has drawn strength from the continued support of both federal and provincial governments. Through various initiatives such as funding programs, tax incentives, and targeted policies, government support aims to bolster the competitiveness and resilience of Ontario’s manufacturing sector.

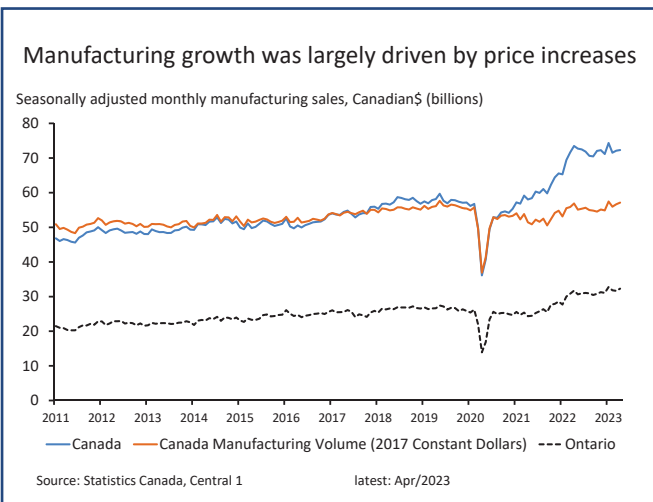
Leveraging resources and collaborating with policymakers, Ontarian manufacturers have the potential to thrive in an ever-evolving global marketplace. By analyzing key factors and anticipating future developments, we can gain insights into the potential opportunities and obstacles that lie ahead for the Ontario manufacturing industry.

#### Unpredictable events led the ebb and flow of Canadian manufacturing sector

Manufacturing was the second-largest contributor to Canadian real GDP growth from 1987 to 2000, with variations across provinces, reflecting their unique strengths and economic landscapes. In the late 1990s, the manufacturing sector accounted for nearly one-fifth of Canadian nominal GDP, employed over 2 million workers and represented approximately half of Canada’s total exports.

However, the following period from 2000 to 2008 marked the transition of the Canadian manufacturing sector from a source of growth to a net drag. The negative performance in the sector during that time was driven by both price and quantity effects as we saw a decline in the relative values and outputs of Canadian manufactured goods. Industries such as transportation equipment manufacturing and computer and electronic product manufacturing, which prompted the manufacturing’s strength prior to 2000, led the decline during this period<sup>1</sup>.

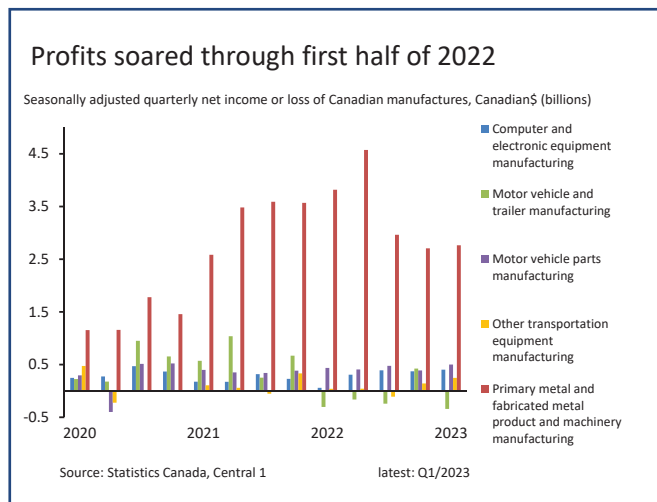
While the 2008-2009 recession affected all business sector industries, the influence was particularly strong for the Canadian manufacturing sector, which saw an approximately 24-per-cent decline in sales between 2008 and 2009, during the recession. The Canadian manufacturing sector took about six years to return to pre-recessions level in terms of real GDP whereas business sectors took less than two years<sup>2</sup>.



As the manufacturing industry embarked on a path of recovery and transformation during the decade after the 2008-2009 recession, a rapid shift in market conditions from the Covid-19 pandemic paused its growing momentum. In 2020, the Canadian manufacturing sector experienced a drastic dip and a quick rebound on the back of a pandemic boom in vaccination manufacturing alongside soaring prices. Pent-up demand for goods combined with the lingering effects of pandemic restrictions resulted in skyrocketing ocean shipping costs for much of 2021, aggravating the supply chain condition. While semi-

- [1 Industry Structure Change and the Post-2000 Economic Growth Slowdown: A Canada–U.S. Comparison](#)
- [2 Real Growth of Canadian Manufacturing Since 2000](#)

conductor accessibility hit the automotive industry hard, available parts also flowed to high-value production in the U.S., adding pressure on Canadian automakers. Just as signs of normality began to emerge, energy prices soared amidst the start of Russian-Ukrainian geopolitical conflict in early 2022, adding inflationary pressure to the costs of manufacturers. These global incidents shifted how business was being done in the manufacturing industry. Local events such as 2021 flooding in B.C. and 2022 workers' protests in Ottawa led to the temporary closures of 20 per cent of local manufacturing plants<sup>3</sup>.



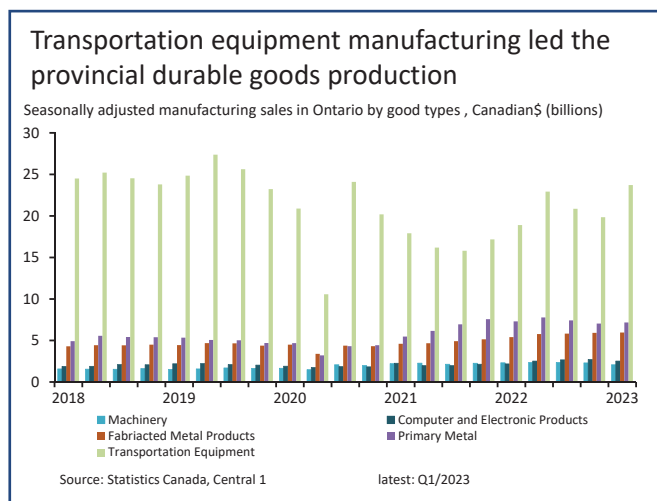
While Canadian manufacturing sales returned and surpassed pre-pandemic levels, the growth was largely driven by price increases due to underlined energy-price changes. Nevertheless, real Canadian manufacturing sales returned to pre-pandemic levels at the end of 2021 and have flattened since.

Additionally, as a result of inflationary pressures on raw materials, wage growth and higher rates of borrowing, manufacturing profits declined following the robust growth seen in 2021 and first half of 2022. In Q1 2023, a 27.6-per-cent decline in net income was reported in Canadian manufactures of primary metal, fabricated metal and machinery

manufacturing sectors comparing to last Q1, and 39.6 per cent below the peak level seen in last Q2. Profits in the motor vehicle and trailer manufacturing sector plunged to negative in 2022 except for Q4.

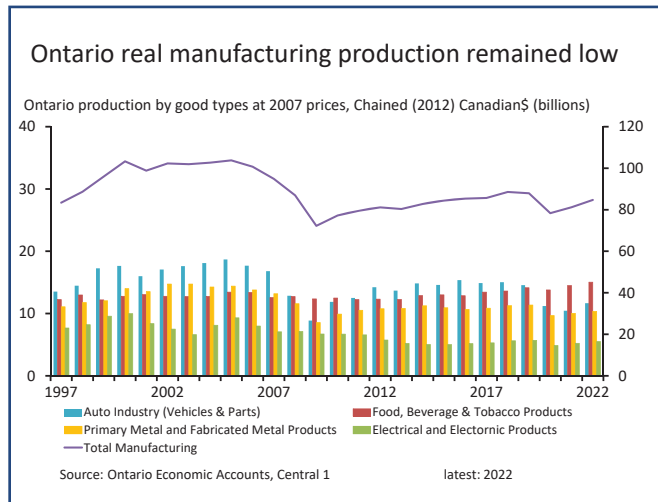
### **Made in Ontario: the provincial manufacturing snapshot**

Among all provinces, Ontario stands out as the manufacturing powerhouse, with the largest manufacturing sector in terms of GDP contribution, employment, and exports. It has well-established and diverse manufacturing sectors, including automotive, machinery, aerospace, and pharmaceuticals. Quebec follows closely, leveraging its expertise in aerospace, transportation equipment, and food processing. Alberta's manufacturing sector, although relatively smaller, focuses on resource-based industries such as oil and gas extraction and petrochemicals.



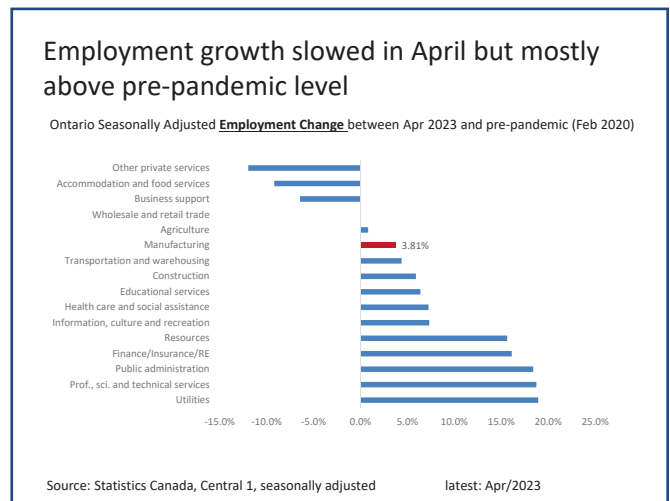
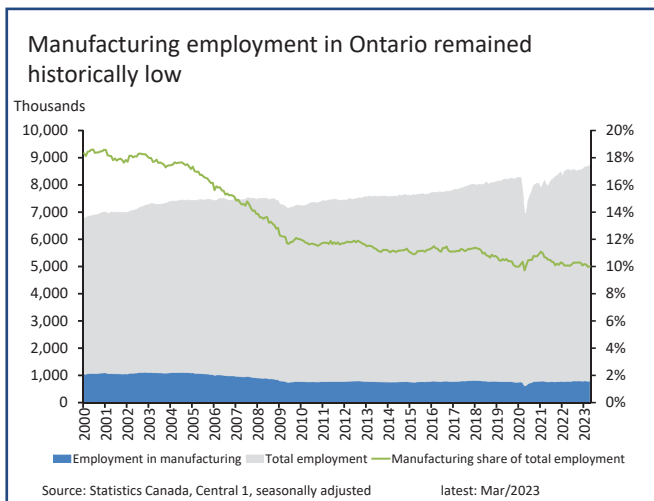
Ontario-made manufacturing productions account for over 40 per cent of the Canadian manufacturing activity and its transportation equipment manufacturing represents three-quarter of total national output for that category. With automotive manufacturing leading the sector, machinery and equipment manufacturing also accounts for a significant portion of manufacturing GDP and employment. Non-durable production contributes over 40 per cent of the manufacturing sales in Ontario, led by thriving sectors such as food and beverage production and pharmaceuticals and medical devices manufacturing.

[3 Trends in manufacturing resulting from the COVID-19 pandemic and supply chain disruptions](#)



Similar to the national trend, real manufacturing production in Ontario was vigorous until the early 2000s. The production level was on the downward trend even before the 2008-2009 crisis kicked in, thanks to the bursting of the tech bubble, stronger competition from abroad, the appreciation of the Canadian dollar and lagging productivity growth and cyclical changes in demand. While food, beverage and tobacco production levels remained almost flat throughout the years, other major manufacturing sectors in Ontario saw large declines in production. For instance, in 2022, real automotive production in Ontario was about 20.0 per cent lower than 20 years ago, whereas primary metal and fabricated metal production was 30.0 per cent lower. Electrical and electronic production was almost half of the size before dot-com crash.

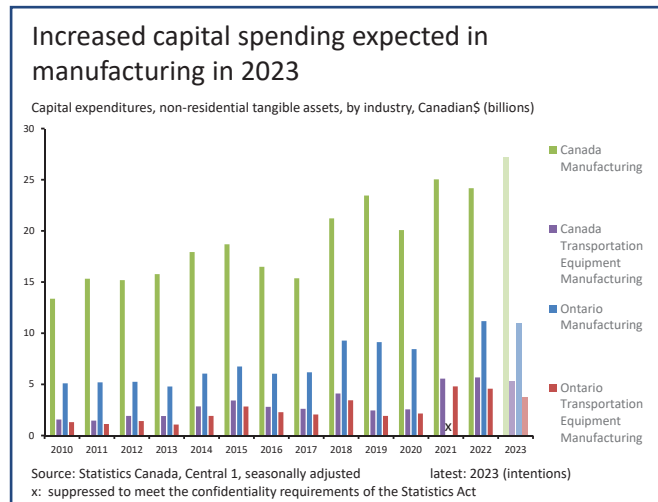
The challenging global supply chain conditions had also led to a wide range of businesses moving partial or entire production lines back to domestic shores, predominantly in the U.S.<sup>4</sup> Due to the shift back to localization, accelerated by geopolitical tensions, some estimates suggested that manufacturing employment from ‘reshoring’ outpaced jobs created from foreign direct investment (FDI) in the U.S. for the third year in a row. Nearly 800,000 manufacturing jobs returned to the States between 2020 and 2022, whereas the Canadian manufacturing industry did not benefit to the same extent. In Ontario itself, the manufacturing workforce has contracted despite robust growth among other industries, hovering at just 10.0 per cent of the provincial workforce from 2009 onwards, comparing to almost 20.0 per cent in early 2000s. The hiring competitiveness of the sector was negatively impacted by the rising cost of doing business and growing generational skills deficiency. The trend of early retirements of skilled workers since the pandemic had amplified the downward trend.



### Opportunities and challenges ahead

As manufacturing demands continue to advance, new opportunities arise for Canadian manufacturing. This is particularly essential in Ontario as additional investment will brighten up the dullness of its manufacturing labour market and lift industrial growth. Meanwhile, to support the key contributors to economic success in-the province, manufacturing related incentives are implemented to motivate further investments in Ontario-made innovation and expand operations amidst global economic uncertainty.

#### [4 Are Rising U.S. Tides Washing Manufacturing Jobs to Canadian Shores](#)



As part of the provincial 2023 Budget plan, Ontario’s manufacturers are now eligible to receive the new Ontario Made Manufacturing Investment Tax Credit of up to \$2million a year on qualifying investments in buildings, machinery, and equipment for use in manufacturing or processing in the province. The Government of Canada, through FedDev Ontario<sup>5</sup>, has consistently delivered programs and funds to support the manufacturing businesses in southern Ontario.

In addition to government initiatives, capital outlays in the Canadian manufacturing sector are expected to increase by 12.6 per cent in 2023 to \$27.2 billion according to the latest estimates by Statistics Canada<sup>6</sup>. Capital expenditures in Ontario manufacturing are

expected to account for 40.3 per cent of the national manufacturing investments, to \$11.0 billion in 2023 despite slight decline from 2022 (\$11.2 billion). While the transportation equipment manufacturing component continued being the largest contributor to total capital expenditures in manufacturing in Ontario, its capital investments in 2023 are expected to drop by 18.3 per cent compared with 2022 to \$3.7 billion largely thanks to the completion of major projects.

Automakers in Ontario have made significant investments in both existing and new manufacturing facilities in recent years, with particular interest in production of electric vehicles (EVs). GM Canada transformed its CAMI plant into an all-EV manufacturing facility last December, the first of its kind in Canada. In April, Ford also announced an investment of \$1.3 billion in its Oakville Assembly Plant in Ontario, to transition the facility into a new electric vehicle hub. While assembly plants play a key part of auto-manufacturing in Ontario, the interest has not only been on the assembly side, but also on extending the facilities of supporting components, especially battery cell manufacturing. Audi is looking to establish a new production facility in St. Thomas, Ontario, to complement the first overseas battery plant that Volkswagen and its battery unit, PowerCo, will build. China is currently leading the supply of cell batteries for EVs, having its own critical mineral mines and battery manufacturing facilities. Joining the U.S., Canada has started to establish a localized EV battery supply chain for North America, covering the entire supply chain and potentially attracting other electronic component manufacturers to “friendshoring.” Ontario’s tremendous mineral wealth in the north provides the province a strategic position to join the opportunities with the manufacturing complex in the south.

That said, while market-driven, the shift in investment towards EV production highlighted the regional trend in Ontario of a changing automotive sector at the cost of long-standing traditional auto parts plants. Factories that couldn’t catch up with the recent development are facing the risks of closures and layoffs. Meanwhile, competition from the south becomes tremendous when it comes to the new opportunities around EV-related manufacturing. The Inflation Reduction Act, introduced by the U.S. government in August 2022, has put Canadian battery production at a disadvantage as manufacturers are asking for the equivalent amount of support from the Canadian government. The discrepancy has resulted a pause in construction of the Windsor EV battery plant by Stellantis and LG Energy Solution since May 2023.

A hub for manufacturing automation and clean technology, the Canadian manufacturing industry positions itself as a world leader in the fields of industrial automation, solar, hydrogen, water, biofuels, and smart energy technologies. Southwestern Ontario has an incredible number of advanced technology companies focusing on projects such as automated machinery and construction automation. The province is also home to the world’s first all-electric, battery-powered underground mine, aiming to create an ecosystem for manufacturing. The International Energy Agency estimates the global market for clean technology manufacturing alone will triple by 2030. With the fundamentals built over the years, Ontario could seize the opportunity to lead the way in the automated and clean manufacturing industries.

<sup>5</sup> Federal Economic Development Agency for Southern Ontario

<sup>6</sup> Non-residential capital and repair expenditures, 2021 (revised), 2022 (preliminary) and 2023 (intentions)

While challenges lay ahead, the federal government and Ontario provincial government are committed to investing in Ontario-made manufacturers and companies that are supporting smarter and cleaner productions. In addition to government funds and tax incentives, the Ontario government is investing nearly \$6 million to support the next generation of workers to the province's growing auto sector amidst evolving trends.

Ultimately, the Ontario manufacturing sector has long been a vital pillar of the province's economy, with its diverse range of industries and strong presence in automotive component. Despite facing challenges such as global competition and economic fluctuations, Ontario's manufacturing sector has demonstrated adaptability by embracing advanced technologies, fostering collaboration, and investing in research and development. Government support and industry initiatives have played a crucial role in fostering the sector's growth and ensuring its competitiveness. As market conditions continue to challenge, and emerging trends such as sustainability and automation change the ways of doing business, the manufacturing industry is poised to seize new opportunities and will remain a key driver of Ontario's economic success in the years to come.

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