Finally, it is noted that the utilization of capacity in the Canadian industry is currently about 50 percent. This is a significant constraint to effective cost performance and puts many Canadian companies at a distinct competitive disadvantage.

3. **Federal and Provincial Programs and Policies**

The Converted Wood Products sector is not dependant on any specifically tailored government incentive programs and is not a particularly heavy user of the industrial programs in place to influence industrial development. The Forest Sector Advisory Council Subcommittee was established to advise the Department on issues affecting the Converted Forest Industry.

4. **The Evolving Environment**

Due to the strong domestic orientation of the sector, anticipated future trends in the national economy will have a significant impact on the general health and future development of the sector. The direct link between the level of construction activity and the demand for the large majority of products from the sector underscores the serious implications of anticipated fundamental changes in the structure of the Canadian population, net family formation and related housing requirements over the period into the 1990's.

The latest and most reliable projections indicate strong downward trends in the annual level of housing activity over the next fifteen years in response to significant declines in population growth, fertility and net new family formation. In absolute terms, these projections suggest an annual housing requirement level of some 140-150,000 in the late 1990's. This compares to the annual rate of some 250,000 during the late 1970's. Future levels of capacity utilization is a major concern, particularly considering that even during the unprecedented activity levels of the 1970's overcapacity was significant in a number of sectors.

On the other hand, as already mentioned, a counterbalancing effect is anticipated from the strong observed growth in renovation, DIY and export markets. These movements in demand are expected to mitigate somewhat the downward shift in new housing market demand and to the extent that industry sectors are internationally competitive these factors can be expected to provide new opportunities for further growth of the sector. Constraints on the ability of the sector to respond to the challenge, however, very clearly lie in the overall small scale of operation relative to its major competitors, sector fragmentation, current and future chronic overcapacity, historically domestic orientation, and weakened financial base which has limited the ability of the industry, as a whole, to penetrate new markets, update equipment and adjust to exchange rate differentials.

Opportunities include niche export markets, mainly in the U.S., Europe, and Japan supplied by leading Canadian companies manufactured houses, doors, cabinets, mouldings fencing and other millwork items as well as productivity improvement from modernization, product improvement, consolidation and rationalization.

5. **Competitiveness Assessment**

Due to the fact that the industry, has evolved to serve domestic markets, the large majority of firms in the sector are not competitive internationally with the larger scale U.S., European and Japanese manufacturers. As pointed out, these foreign companies have, on average, significant cost advantages from economies of scale, marketing and management expertise, higher levels of automation and larger production runs. Moreover, they also tend to have lower cost of raw materials, labour and transportation. On balance, with the exception of the leading companies described, the major portion of the Canadian industry is highly vulnerable to import competition and exists only because of the protection offered by the tariff barriers of 10 to 15 percent and the advantageous exchange rate. A significant shift in either of these two factors would severely affect this portion of the sector. The manufactured housing segment differs somewhat in that the principal competition facing this group comes from the site builders domestically.