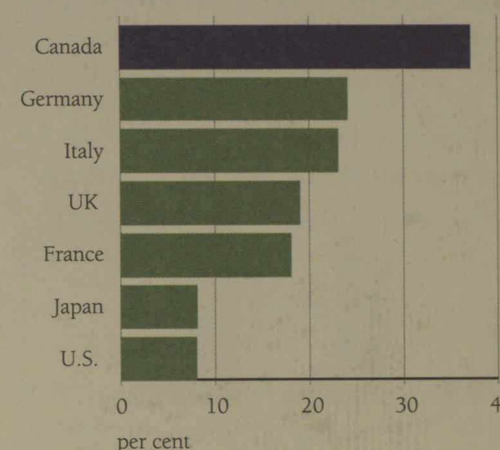
has had some difficult years. Canadian manufacturing employment has declined by 11.8% (244,000 jobs) since its peak in November 2000 although real output is down by much less; declining only 2.7% between 2000 and 2006. Over that same period, Canadian manufacturing exports fell by $3.6 billion in nominal terms while imports rose by $22.4 billion. Factors affecting this shift from exports to imports include a significant appreciation of the Canadian dollar (it rose from US$0.64 in 2002 to US$0.88 in 2006 – an increase of 38.5%) and restructuring in the automotive sector. Canadian exports of cars and parts were down $13.4 billion, thus manufacturing exports excluding this sector would have been up by $9.8 billion. But, as a result of the manufacturing boom over the 1990s, the current decline in manufacturing still gives Canada a higher share of manufacturing in GDP than many developed economies (and thus a lower share of services, but more on that later).

Although some of this decline may be due to manufacturing production moving offshore, it is likely a very small contributor. In 2003, the latest year for which data is available, the trade deficit in manufacturing amounted to only two-one thousandths of one per cent of Canadian manufacturing output. So even though the trade deficit more than doubled by 2006, it still remained extremely small compared to the total output of the industry. Moreover, a recent survey by Canadian Manufacturers and Exporters identified a lack of skilled workers as one of the most important issues facing manufacturers.[24] This would suggest that not only are the high-skilled manufacturing jobs not leaving Canada, but quite the opposite, there currently appears to be excess demand.

Are Canadian Manufacturers Sourcing Internationally?

One concern that has been raised is that Canadian companies are not taking advantage of the rise of global value chains by sourcing internationally. It is argued that by sourcing some intermediate inputs internationally will allow Canadian manufacturers to become more competitive and expand other higher-valued activities in Canada.

Ratio of Imported to Domestic Outsourcing of Inputs (G7 Countries)



Source: OECD 2006

In support of the view that Canadian companies are not sourcing from abroad, in 2002, the most recent year for which comparable data is available, there were about 44,500 establishments that exported goods abroad, but nearly 64,200 that imported goods – almost 50% more. But, many of these importers are retailers or wholesalers that would be importing final goods, only 16,700 were manufacturers that would be much more likely to be importing intermediate inputs. This compares to roughly 20,800 manufacturing exporters.

On the other hand, 37% of intermediate inputs used in Canada in 2003 were imported. That places Canada among the top third of OECD countries and the highest for a G7 country for the ratio of imported to domestic outsourcing of inputs.[25] This is supported by the findings of Baldwin and Gu (2007) which show that over the period of 1961

24 20/20 Magazine, May/June 2007.

25 OECD "Draft Synthesis Report on Global Value Chains" (2006)