

period were forced to increase their debt loads appreciably in order to survive and as a result a large number are poorly positioned to respond to the changing market demand scenario facing them in the future, i.e., declining domestic prospects and the need to expand into foreign markets.

It should be noted, however, that during the difficult economic period, some companies in most of the sectors have become more competitive as the weaker companies have been weeded out. Leading Canadian companies have reduced inventory levels, concentrated on efficiency improvements and have aggressively pursued niche market opportunities, mostly in the U.S. to offset declining product demand at home.

2. Strengths and Weaknesses

(a) Structural

The severe domestic market problems have direct relevance to the competitive position of the sector, both domestically and on the international front. The question is particularly relevant vis-à-vis both U.S. and European manufacturers in certain product lines such as windows and doors, kitchen cabinets and manufactured housing which have significant economies of scale advantages over Canadian manufacturers. Foreign manufacturers have penetrated markets in Canada, in spite of exchange rate disadvantages as in the case of U.S. competition and additional tariff barriers and transportation costs in the case of all foreign competitors. While actual imports are lower than exports from the sector and have remained relatively static over the last few years, the Canadian industry remains highly vulnerable to foreign competition. This has been demonstrated in some sectors such as windows and cabinets where leading foreign firms have successfully penetrated Canadian distribution channels, although relatively few foreign companies include the Canadian market in their export strategy. These differences in scale are illustrated by the fact that a number of U.S. window manufacturers have individual production levels roughly equivalent to total Canadian production and some 20 U.S. kitchen cabinet manufacturers are larger than the largest Canadian firm which has sales of some \$20 million. Kitchen cabinet companies from Europe such as Beckerman and Popenpohl have sales in the range of \$150 to \$200 million. Such large scale means a very high degree of automation, large financial resources for R&D and promotion and significantly lower per unit costs. In addition, per unit labour costs tend to be lower along with significant reductions in raw material and packaging costs, through large scale buying. Finally, in some sectors, foreign competitors tend to have low levels of debt, a situation which places the Canadian companies at a further disadvantage.

While the decline in domestic market demand related to new housing construction during the 1980-1984 period and the continued downward trend expected due to adverse population and net family formation trends projected into the late 1990's point to continued poor performance by the sector, two parallel movements are expected to provide some market impetus as well as some shifts in product orientation. The first trend relates to the strong growth both domestically and in foreign markets being experienced in renovation and do-it-yourself. In Canada, total expenditures in this area have risen dramatically from the early 1970's when such expenditures accounted for only 8.1 percent of total expenditures related to housing. In 1983, this percentage stood at 23.5 percent and is expected to account for approximately 50 percent of total expenditures by the mid 1990's.

Niche markets are also expected to provide significant opportunity for future growth in the sector. With the decline in domestic potential from 1980, the larger Canadian companies as well as a number of smaller ones, have been forced to place more emphasis on export opportunities, particularly to the U.S. to maintain production levels. As a result, exports from the sector have increased from a level of some \$100 million in the late 1970's to some \$350 million in 1984. This strong upswing in renovation, D.I.Y. and exports represents a