COMPETITIVENESS PROFILE

CONVERTED WOOD PRODUCTS

1. Structure and Performance

Structure

The converted wood products sector, as defined by Statistics Canada, is composed of those manufacturers whose primary activity is the further processing of primary wood inputs such as lumber, particleboard and plywood into a wide range of wooden end products. A representative listing of the major products include millwork items such as windows and doors, interior woodwork, mouldings, roof trusses, hardwood flooring and kitchen cabinets; manufactured housing of various types, mobile homes and prefabricated components; and a wide range of miscellaneous products such as fencing, wooden handles, wood turnings, cooperage and woodenware. The largest identifiable industrial segments, millwork and manufactured housing, historically have accounted for about 75 percent of total sector activity. Total estimated shipments in 1984 were $2.3 billion, with total employment at approximately 30,000.

The total number of establishments currently comprising the sector are estimated to be in the neighbourhood of 2,000, approximately 1,300 in millwork, 100 in manufactured housing and the balance of approximately 600 in the miscellaneous wood products segment. The large majority (94%) of the companies are small, employing less than 50 workers, are Canadian owned, family owned, non-integrated and domestic market oriented. The sector is a classic example of a "small industry sector with the largest companies (less than 5 firms) having sales levels in the vicinity of $50-$60 million with the majority (over 50%) with rates less than $1 million. Regionally, the sector is spread across Canada but concentrated in the two provinces of Quebec and Ontario with approximately 60 percent of the companies and shipments located in these two provinces. An additional 15 percent are located in the province of British Columbia. Finally, in addition to the significance of the sector in terms of employment generation and regional impact, it is also important in terms of value added and as an important market for the primary producers of lumber and plywood. Foreign ownership is virtually non-existant throughout the sector as is vertical corporate integration while a small number of large leading companies dominate the sector. These few companies because of their size and scale of operation are highly productive and as a result are internationally competitive.

Performance

The fortunes of the sector, due to the large number of products manufactured for the housing market, are closely tied to cycles and long term trends in the Canadian housing industry. As a result, this sector exhibited a rapid growth in factory shipments over the period 1973 to 1980 in response to an unprecedented boom in housing construction over the period. Shipments during this period expanded from a level of $890 million in 1973 to approximately $2,100 million in 1980. In constant dollar terms, this represented a real annual growth rate in excess of 12 percent over the period. From 1980 to 1984, however, reflecting both the significant downturn in housing activity and depressed economic conditions which occurred in 1982 and 1983, indications are that total factory shipments in the major segments declined by some 20 percent or more indicating stagnant market conditions throughout the total sector over the period 1980 to 1984.

As a result, this period saw a significant decrease in capacity utilization among a number of industrial segments in the sector, notably kitchen cabinets, windows and doors and manufactured housing, but all were affected to some degree. With the downward pressure on sales, competition intensified appreciably and price cutting became rampant. Profit margins were reduced and in many sectors, notably manufactured housing, this has resulted in leaner, more competitive companies. However, the resultant squeeze on working capital levels has stalled productivity improvement and export market development plans, when both would have assisted the industry. In addition, manufacturers in some of the sectors over the