

Economic Spotlight

PROFILE OF ALBERTA'S MANUFACTURING SECTOR

Highlights

- Alberta's manufacturing sector showed impressive gains in 2004, with both the value and volume of manufacturing shipments rising sharply. Further strong gains have been recorded in the first quarter of 2005.
- The total value of Alberta's manufacturing shipments increased by 15.4% in 2004. Industries showing rapid growth included machinery, chemicals, fabricated metals and wood products. Even with substantial increases in prices, the sector showed strong growth in real terms, with the volume of manufacturing shipments rising by an estimated 8.8%.
- Over the past decade, the growth of Alberta's manufacturing sector has substantially exceeded national manufacturing growth. Alberta's shipments have increased at an average rate of 7.8% since 1994 - well above the national rate of 5.5%. Alberta's share of national shipments has risen by 1.7 percentage points (to 8.9%) - the largest increase of any province.
- Manufacturing has been a significant contributor to Alberta's strong economic performance over the past decade. While the province's economic growth has averaged a robust 3.5%, Alberta's manufacturing sector growth has been even stronger, averaging 5.0% in real terms.

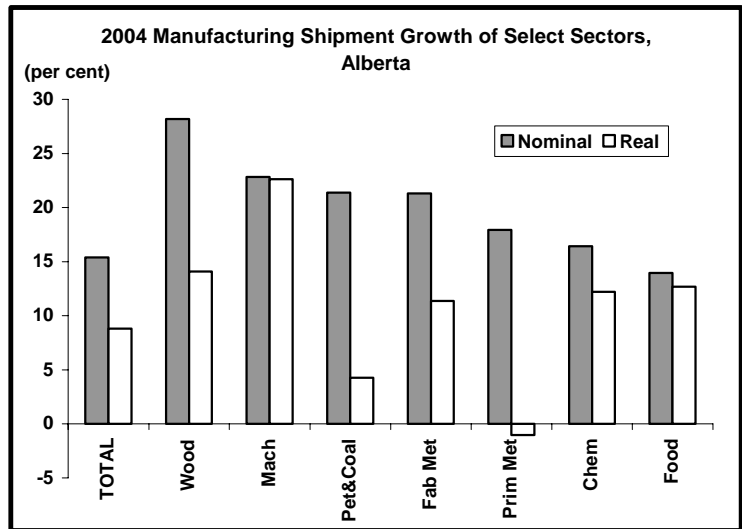
A Strong 2004 Performance

In 2004, Alberta's manufacturing shipments grew by an impressive 15.4%, reaching \$52.9 billion. With the global economy growing at its fastest pace in over two decades, strong global demand led to increases in both manufacturing prices and shipment volumes, overcoming the effects of a higher Canadian dollar.

The United States and China were the key drivers of global demand in 2004. Alberta's manufacturing exports to the U.S. rose by 19%, while exports to China soared by 120%. In 2004, the United States accounted for 70.7% of Alberta's manufacturing exports, while China overtook Japan as Alberta's second largest manufacturing export destination, with a 6.7% share. Alberta's exports to China were dominated by chemicals (accounting for 69.8% of total shipments) and paper products (12.9% of shipments).

In nominal (i.e. current dollar value) terms, Alberta's top performing sectors in 2004 were wood products, with shipments up 28.2%, machinery (+22.8%), petroleum & coal products (21.4%), fabricated metals (+21.3%), primary metals (+17.9%), and chemicals (+16.4%). Nominal growth in most of these sectors was accelerated by commodity price increases, as global prices for wood, steel, copper, aluminum, and energy products increased substantially in 2004. Petroleum and coal products (\$9.95 billion) and chemicals (\$9.65 billion) had the highest value of shipments, with food products close behind (at \$9.09 billion).

Real growth¹ in the manufacturing sector was also very strong, with an estimated 8.8% increase in total shipment volumes in 2004. Volume gains were highest in the machinery (+22.6%), wood products (+14.1%), food (+12.7%), chemicals (+12.2%), fabricated metals (11.4%), and electrical equipment (+9.2%) sectors. Real growth of petroleum & coal products was solid but comparatively modest, at 4.3%, with most of the nominal growth in the sector (21.4%) due to large energy price increases. One sector that faced challenges from a higher Canadian dollar was primary metals, where increased competition from foreign steel producers led to a slight (-1.0%) decline in shipment volumes.

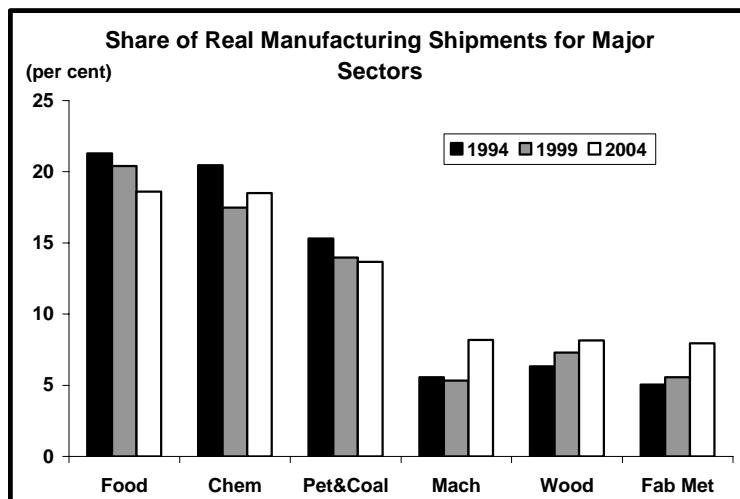


Source: Statistics Canada

Alberta's strong manufacturing sector performance has continued into 2005, with the value of shipments up 15.7% through the first three months of the year (compared to the same period in 2004). Year to date, real growth in Alberta's manufacturing shipments is estimated at 9.5%.

A Decade of Rapid Growth and Diversification

Over the past 10 years, Alberta's manufacturing shipments have grown at an average annual rate of 7.8% in nominal terms, well above the national growth rate of 5.5%. Average real economic growth in Alberta's manufacturing sector has been extremely strong at an estimated 5.0% annually, providing a significant contribution to Alberta's overall economic growth (which has averaged a robust 3.5% per year since 1994).



Source: Statistics Canada

A large percentage of Alberta's manufacturing shipments continue to come from three historically strong industries, with food, chemicals, and petroleum & coal products accounting for a combined 50.8% of real shipments in 2004. Nevertheless, their combined share is down from 57.1% a decade ago, despite strong real growth averaging at least 4.0% per year in each of these three industries. This diversification of Alberta's manufacturing shipments has been due to rapid growth in other manufacturing industries,

¹ Real shipments are expressed in constant 1997 dollars, and calculated using monthly unadjusted shipments and the monthly Industrial Product Price Index (IPPI)

such as machinery, wood and fabricated metals sectors (with real annual growth averaging 9.6%, 8.1% and 10.3%, respectively, over the past decade).

A Rising Share of National Manufacturing

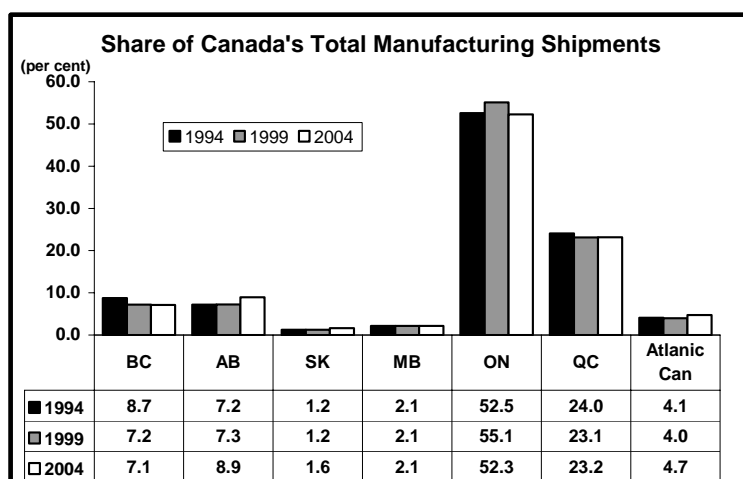
Alberta's strong manufacturing growth has also elevated the province's position within the national manufacturing sector. In 2004, Alberta's 15.4% growth in shipments was nearly double the national growth rate of 8.5%. Alberta's 2004 growth was the second highest among provinces, behind Saskatchewan, which has a considerably smaller manufacturing base (with 1.6% of national shipments, compared to Alberta's share of 8.9%).

Ontario and Quebec (which accounted for 52.3% and 23.2% of national shipments, respectively) lagged behind most other provinces in 2004, with nominal growth rates of 7% and 6.7% respectively. These two provinces rely to a large extent on sectors such as transportation, aerospace, and computers & electronics. Since these sectors are relatively sensitive to currency changes, Ontario and Quebec in particular have felt the effects of the Canadian dollar's rapid appreciation over the past two years. In addition, these sectors have not had the benefit of large price increases to counteract the effects of the rising dollar (unlike the more commodity-based manufacturing industries in Western Canada).

2004 Manufacturing Shipments by Province

	Total (\$ Billions)	% Change 2004 (per cent)	Share of Total 2004 (per cent)
CAN	591.9	8.5	
NL	3.1	8.5	0.5
PE	1.4	4.3	0.2
NS	9.2	7.5	1.5
NB	14.3	11.1	2.4
QC	137.2	6.7	23.2
ON	309.4	7.0	52.3
MB	12.6	10.1	2.1
SK	9.6	21.8	1.6
AB	52.9	15.4	8.9
BC	42.2	13.5	7.1

Source: Statistics Canada



Alberta's strong 2004 gains extended a decade-long trend of improvement within the national manufacturing picture. Since 1994, the province's average shipment growth of 7.8% (compared to national growth of 5.5%) has raised Alberta's share of national manufacturing shipments by 1.7 percentage points (to 8.9%). This was by far the highest increase in share of any province, with the second-largest increase only 0.4 percentage points (recorded by both Saskatchewan

and New Brunswick). The largest declines in manufacturing shares were recorded by British Columbia (-1.6 percentage points), Quebec (-0.8 percentage points) and Ontario (-0.2 percentage points).