Canada: Material Handling Machinery – Industry Overview – September 2008

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Summary

The Canadian Materials Handling Machinery (MHM) industry plays an important part in the Canadian economy and was valued at US$ 3.2 billion in 2007 with 62 percent of total imports originating from the U.S. After several years of solid growth, the industry recorded a decrease of 1 percent in 2007, but is expected to rebound in 2008 and continue to demonstrate positive growths.

Best prospects will be for machinery tied to growth segments. This is especially true in the non-residential construction sectors where the strongest gains are expected. This report examines the market trends of the MHM industry and product segments that will continue to offer prosperous export opportunities for U.S. manufacturers.

Market Demand

The future growth potential of the Materials Handling Machinery (MHM) industry is heavily dependent on the expected performance of those sectors to which it supplies. The manufacturing and construction industry trends are influencing those observed in the MHM industry. The wholesales and transportation/logistics services also have a relevant impact. These are drivers that will influence the level of activity and future growth potential within the MHM industry in the Canadian economy.

The Canadian manufacturing industry is facing difficult times. Fewer sectors are more energy-intensive or more exposed to competition from low labor cost countries. The strong Canadian dollar and high material costs have taken a toll on overall performance. From depressed levels of activity, total manufacturing activity decreased in 2007 and is estimated to decrease for total 2008. However, the recent change in the monthly trend recorded by Statistics Canada may indicate a modest growth in 2009, with manufacturing as a whole expected to expand by 2.4 percent. As a general rule, those sectors with a combination of the highest export orientation and the lowest share of imported inputs will continue to be the hardest hit by the strengthening of the Canadian dollar.

According to the Canadian Construction Association, the overall construction industry is expected to experience steady positive growth in the near future, with real investment to increase by over 3 percent in 2008. In this case, the main driver of growth lies within the non-residential sectors where data points to over 5 percent growth in 2008 and leveling off in 2009 with 3 percent. The industrial construction sector will continue to have the highest growth.

Recent developments within the marketplace have lead to an increase in the infrastructure and institutional building sectors. Non-conventional oil extraction in the oil-patch and uranium and potash extraction in Saskatchewan will continue to receive capacity expansions. Major energy and petrochemical capital projects will boost growth in the Atlantic region. In B.C. projects related to the 2010 Olympics, port expansion, and Pacific Gateway infrastructure will push forward. In summary, those activities aimed at maintaining and expanding Canada's infrastructure will be the top performers over the next two years and will result in considerable demand in the Material Handling Sector.

The wholesale and retail sectors are relatively flat with possible slight increases but are not expected to contribute to a significant increase in demand for the short term.

Market Data

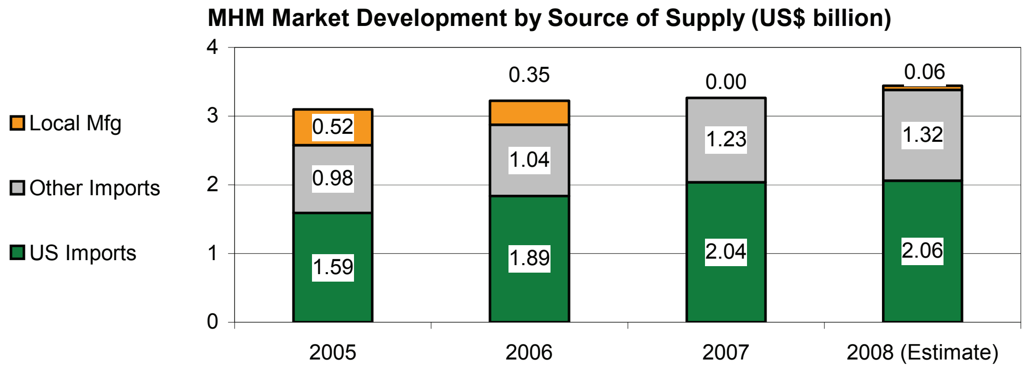
The estimates for 2008 are based on the trends of the most recent 24 months of statistical records for NAICS 33392 Material Handling Machinery.

	2005	2006	2007	2008 (Estimate)
Total Market Size	2,862	3,370	3,186	3,442
Total Local Production	2966	2841	2,574	2,532
Total Exports	2,445	2,491	2,651	2,470
Total Imports	2,576	2,873	3,263	3,380
Imports from the U.S.	1,592	1,836	2,036	2,062

(In Millions of U.S. Dollars. Exchange rate: US$ 1.00 =CN$ 1.00)

For a simplified review of the actual Canadian market all data were converted to US$ using the same exchange rate for 2007. If we applied the actual exchange rates at the respective times, the conversion to US$ would show the market with a significant increase every year due to the steady appreciation of the US$.

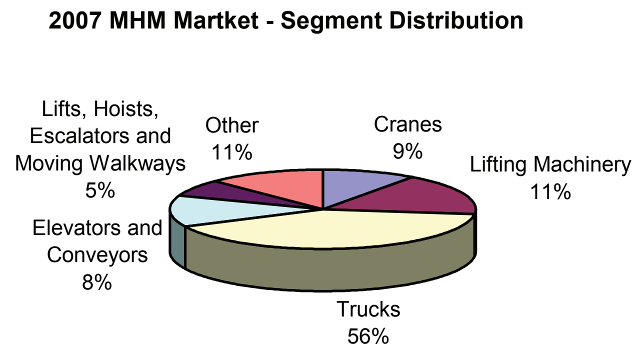
In 2007, the market-size recorded a 5 percent decrease from 2006. Eliminating re-exports and counting shipments for domestic use, market development, by the main sources of supply, is illustrated in the following chart. The decrease of local production combined with further development of exports led to a near-zero contribution to the domestic market.



(Source of Data: Industry Canada – Trade Data online and Statistics Canada, manufacturing data tables)

Imports from the U.S. were valued at US$ 2.04 billion in 2007 and represented 62 percent of total imports. Despite a decrease in overall market size in 2007, imports from the U.S. have been on a steady rise.

The MHM market is composed of 6 main segments with a relatively stable distribution for the past two years. The largest share of the market is the segment of self-propelled work-trucks and tractors. The share of the elevators and conveyors segment (belt, bucket and other types for goods and materials), slowly decreased during the past several years. The share of the lifting machinery segment (fork lifts, self or non-self propelled) increased showing a trend towards more versatile equipment. The cranes-segment (overhead, tower, bridge, mobile, etc), represents a smaller market share because of the much longer life cycle of such equipments.



Total imports of Trucks were valued at US$ 1.8 billion in 2007, 64 percent of which came from the U.S. This is by far the largest segment within the MHM industry, and both overall imports and imports from the U.S. have been on a steady rise.

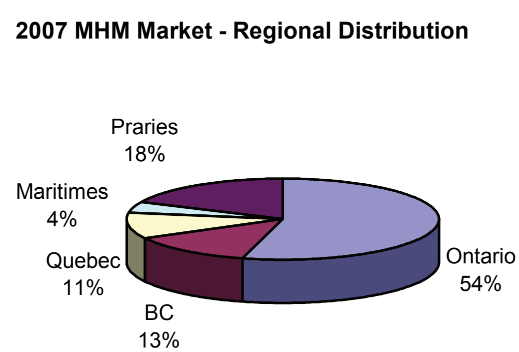
Total imports of Elevators and Conveyors were valued at US$ 247 million in 2007, of which over 70 percent originated from the U.S. This segment represented 8 percent of total imports.

Total imports of Lifting Machinery were valued at US$ 329 million in 2007 and represented 11 percent of total imports. This segment experienced a sudden boost in 2005 and total imports in this market segment increased by over 200 percent. Growth continues to be positive, but has since leveled off. Of the total import market, 47 percent was from the U.S. This make up has remained relatively stable over the years.

The Lifts, Hoists, Escalators and Moving Walkways import market was valued at US$ 140 million in 2007 and represented 7 percent of total imports. In this case, nearly 80 percent of all imports came from the U.S., and this trend has continued for the past five years.

Total imports of Cranes were valued at US$ 286 million in 2007 and represented 9 percent of total imports for the MHM market. U.S. imports into this market have been on the decline, with a decrease of 8 percent between 2006 and 2007 and represented 44 percent of total MHM imports.

Regional market distribution shows a high concentration of activity in Ontario, with 54% of total market share. The distribution is calculated based on imports, which by far has the biggest weight in the total market. Conversely, the export distribution better reflects the state of local manufacturing. In 2007, Ontario, BC and Quebec held 59% 14% and 9% of total exports respectively. Over the past several years, local manufacturing has slowly shifted away from a concentration in Ontario and has gravitated

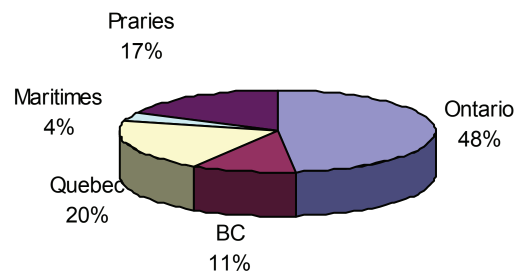


to other provinces. This trend will likely continue as development continues.

The number of active Canadian manufacturers registered federally with Industry Canada is 798. There are a large number of smaller companies who are registered provincially. Again, the territorial distribution of these enterprises is heavily centralized in Ontario.

U.S. companies make up a majority share of Canadian MHM imports. Foreign competition is growing rapidly in this sector and gaining ground. In 2007, while U.S. and European imports decreased, China, Japan and Mexico all made significant inroads into Canada's MHM market.

2007 MHM Enterprises - Regional Distribution



Best Prospects

Some of the best prospects by import volume in 2007, showing significant increases over previous years, include:

Overhead Traveling Cranes on Fixed Support (HS 842611) – in 2007, imports were valued at US$ 42 million, a 373 percent increase from the previous year. U.S. imports reached US$ 6.9 million with an 8 percent decrease from 2006, and represented 16 percent of the total imports in that year.

Mobile Lifting Frames on Tires and Straddle Carriers (HS 842612) – imports were valued at US$ 36 million in 2007, a 100 percent increase from the previous year. U.S. imports were US$ 14 million with a 13 percent decrease from 2006, and represented 39 percent of total imports.

Portal or Pedestal Jib Cranes (HS 842630) – imports were valued at US$ 12.6 million in 2007, a 70 percent increase from the previous year. U.S. import were US$ 11 million with a 73 percent increase from 2006, and represented 87 percent of total imports.

Other Lifting Machinery- Self Propelled- Not on Tires (HS 842649) – import were valued at US$ 111 million in 2007, a 73 percent increase from the previous year. U.S. imports were US$ 43.7 million with an 18 percent increase from 2006, and represented 39 percent of total imports.

Elevators and Conveyors for Goods/Material – For Underground Use (HS 842831) – although smaller in total value, recorded significant growth in 2007.

Other product groups have also interesting opportunities for U.S. manufacturers. The U.S. Commercial Service can assist in identifying these opportunities and in developing the business in the Canadian market.

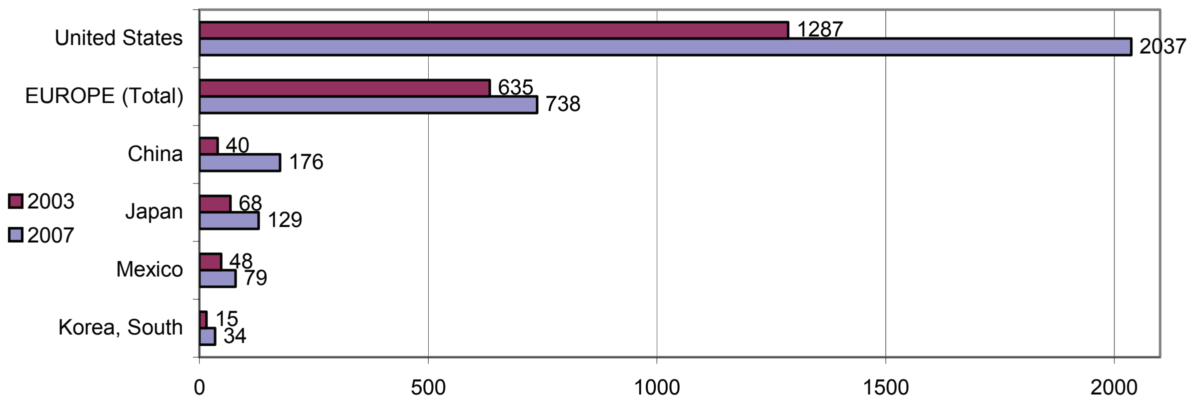
Key Suppliers

Most of the major global manufacturers of material handling machinery have a presence in the Canadian market, including but not limited to the following companies:

Clark Material Handling Company
Mitsubishi Caterpillar Forklift America Inc.
JCB Excavators Limited
Thyssenkrupp Airport Systems Inc.
Hewitt Equipment Limited
Toyota Canada Inc Lexus Division
Komatsu Canada Limited
Ford Motor Company of Canada
Kone Quebec Inc.
OTIS Canada Inc
John Deere Limited
Finning International Inc.
General Motors of Canada Limited

Regarding the top supplying countries during the past 5 years Japan, Mexico and Korea doubled their volume and China increased 4 fold while the EU and U.S. had much slower growth.

Top Supplying Countries - Total Imports [US$ millions]



Prospective Buyers

Generally companies involved in project development, as well as, contractors or equipment manufacturers are the primary purchasers of MHM products. For smaller scale projects, the buyers may be engineering companies, who are also system integrators. The market is highly consolidated and the higher the level of complexity and technology of the equipment, the lower the number of market players. Out of a very large number of MHM importers, approximately 100 companies account for more then 50 percent of total imports.

In addition to the above-mentioned major manufacturers/suppliers, a large number of companies in manufacturing, construction, transportation and logistics sectors are also purchasing material handling equipment directly from abroad or from Canadian manufacturers and importers.

The U.S. Commercial Service offers specific programs that assist U.S. companies in identifying and facilitating contacts with potential Canadian buyers and business partners.

Market Entry

The United States and Canada enjoy a long tradition of co-operative and lucrative trade. The North American Free Trade Agreement (NAFTA) provides a very favorable framework with no significant trade barriers such as tariffs or import quotas impeding imports of MHM equipment into Canada.

With most MHM equipment, there are no significant labeling and regulatory issues, the requirements being similar to those in the U.S. However, for products destined to be marketed to consumers, labeling issues should be considered, mainly language regulations (bilingual English and French requirements) imposed by the Consumer Packaging and Labeling Act.

Standards used in Canada are the same or similar to the ones used in the U.S. Certifications are, however, required: mainly the CSA (Canadian Standard Association) and the ULC (Underwriter Laboratories of Canada). Safety regulations are also similar and the certification authorities are with provincial organizations. In Ontario, the organization is called TSSA (Technical Standards and Safety Authority) and detailed information on the Elevating Devices section is available at http://www.tssa.org/regulated/elevating/default.asp. Additional information on standardization and labeling regulations, including web addresses for Canadian standard and certification organizations, are available in the Country Commercial Guide at Doing Business in Canada – CCG 2008 Chapter 6: Trade Regulations and Standards. In additions, further information on market access can be found on Industry Canada’s website at www.ic.gc.ca.

Entering the Canadian market requires the manufacturer to meet the needs of the end-user, as well as, those of all government specifications. Provided the product has already obtained the required certifications, a manufacturer-representative is generally the best vehicle to penetrate the market. Distributors with strong relationships in the MHM industries are aptly situated to facilitate product entry or improve presence. Additionally, given the advantage held by U.S. firms in R&D, there is room for U.S.-based production companies to establish working relationships with Canadian-based companies who may have an established market share or who can impart industry knowledge.

Associations

Supply Chain & Logistics Association Canada http://www.sclcanada.org/

Trade shows/Conf

- CMW - CANADIAN MANUFACTURING WEEK (Toronto, ON, 23.09 - 25.09 2008) http://www.sme.org/cgi-bin/get-event.pl?--001715-00007-020652--SME-
- **Advanced Manufacturing Expo - Quebec 2009** Montreal, QC, May 19 - 21, 2009
- **Plant Maintenance and Design Engineering Show 2009** Montreal, QC, May 19 - 21, 2009
- **Western Manufacturing Technology Show 2009** Edmonton, June 16 - 18, 2009
- **Canadian Manufacturing Technology Show 2009** Toronto, ON, October 19 - 22, 2009
- BRITISH COLUMBIA CONSTRUCTION SHOW, Vancouver, BC, Feb 2009, http://www.bcconstruct.com/
- **PACEX INTERNATIONAL** Canada's National Packaging, Food Process, Material Handling & Logistics Show Mississauga ON, May 5 – July 5, 2009

For More Information

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