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"With the changing economy, no one has lifetime employment. But education provides lifetime employability." **-Barack Obama**

With the provincial election in full swing, we thought we might focus this month's IMI on our fair province and some of the economic issues facing the manufacturing sector and the government's role in supporting employment within Ontario. Given that a large portion of our clients work in the manufacturing sectors of Southern Ontario, we are privileged to get updates from a variety of different businesses vying for market share in all sorts of different industries.

Since the 'Great Recession' of 2008, many manufacturers have faced significant headwinds to their long-term viability. In this essay version of the IMI, we contend that three particular concerns need to be addressed to help make the province competitive again and to keep these jobs in Ontario.

The Canadian Dollar
For many exporters from Ontario, the United States is the final destination for their wares. Given that their product is sold in $USD while their costs of production are priced in $CAD, profits are intricately linked to the dollars ebbs and flows. In 2007, before the cracks started to show in the US housing market, the $CAD traded in the mid 80 cent range, while it hovered below 80 cents near the turn of the century. In such a competitive industry wherein single digit profit margins are the norm, movements of 10% on the currency, as we experienced in 2011 when the dollar crested above parity, can make production uneconomical for all but the healthiest of companies.

Although this cannot be controlled directly, I believe that Mr. Poloz and the Bank of Canada should not try and keep pace with rising interest rates in the United States until the currency slides into the mid-eighties where it benefits industry and employment in the province.

Energy costs
While a lack of investment in energy infrastructure translate into higher prices for electricity in Ontario, the United States is benefitting from a substantial drop in the price of natural gas and the energy it produces, thanks in large part to the exploitation of shale gas from the Bakken oil fields of North Dakota.

According to the Association of Major Power Consumers of Ontario (AMPCO), Ontario now has among the highest industrial electricity rates in North America, 68 percent higher than in neighbouring New York State. This is the sign of a bloated power generation industry combined with a lack of real investment to keep up with growing demand. In this author's opinion, further investment in nuclear energy in the province will benefit generations to come, both as consumers and corporate stakeholders.

Productivity
As it stands, we cannot compete with wages in second and third world countries, so our manufacturing efforts need to make use of our educated workforce by leveraging more sophisticated machinery. Tax incentives to invest in equipment in Ontario in new industries such as 3D-printing could help the manufacturing sector establish long-term competitiveness. Further, businesses that can react quickly and bring goods to market sooner can compete better with low-cost alternatives that take months to ship their wares across oceans. Manufacturing incentives in the province should be directed to 'smart' producers while grants and training programs should be extended to help workers increase productivity.

Transportation
Pearson International is among the most expensive places to land an airplane in the world while traffic congestion on major highways in Toronto jeopardize just-in-time manufacturing and increase the costs of bringing goods to market efficiently. The railway system in Canada is derelict by international standards and passenger travel by rail is non-existent outside of major urban centers. It is clear that a lack of investment in infrastructure is starting to leech its way into the indirect costs of doing business in Ontario and a province-wide strategy to improve the movement of goods need to be implemented.

What does all this mean to you?
In large part, the threat to manufacturing in the province is already over the hump as the $CAD has begun to slide back to levels that allow exporters to compete in other markets. As investors, we stand to benefit from drops in the $CAD while investment infrastructure would also benefit us as citizens. Our target portfolio is under-weight Canadian manufacturers while key positions in large-cap tech stocks can profit from investment in information technology. As always, we will continue to monitor your portfolio to ensure that we are positioned to take advantage of opportunities as they present themselves.