Components

Changing Position

Canada's auto parts sector is undergoing a shift in the marketplace.

BY DAVE S. CLARK

While the automotive parts manufacturing sector in Canada is poised to grow by 1.6 percent in 2016, production is expected to fall by 4 percent in 2017, due in part to a decrease in new vehicle production in Canada, according to a study conducted by the Conference Board of Canada.

The study, titled *Canadian Industrial Outlook: Canada's Motor Vehicle Manufacturing Industry*, highlights that model shutdowns at two Oshawa-based General Motors facilities could lead to the loss of production of 167,000 vehicles.

Sabrina Bond, author of the study, says that this will have a considerable impact on the parts manufacturing sector because roughly 40 percent of Canadian-made parts stay in the country and the vast majority are used to supply new vehicle manufacturers in Canada. While the potential loss of production at Oshawa's Consolidated and Flex plants will have a major impact on Canada's overall vehicle manufacturing sector, it won't hit the parts sector as hard.

Even if some Canadian vehicle assembly shifts elsewhere, the impact on parts demand isn't expected to be hugely significant.

50 percent

"You have about 50 percent of the impact of the GM potential loss of product filtering through the parts sector," says Bond, who noted that GM hasn't announced any future plans for the two Oshawa facilities, other than the product line cuts. Those two facilities are particularly vulnerable because the products manufactured at them can also be made in other GM plants.

"The worst case scenario we're looking at, assuming that all the vehicles except for the Equinox are shifted to other plants outside of Oshawa, we're looking at a 7.6 percent production hit," she said. "But where you might see a 7 percent drop as the floor for the vehicle manufacturing sector, for parts, it's going to be considerably less."

Softening the blow for parts manufacturers is a recovering U.S. economy, since the country is the largest market for Canadian-made auto parts. According to Bond, roughly 60 percent of parts produced in Canada are headed for the U.S. market.

"Because of high export share of production of the parts sector, recovery in the U.S. is also offsetting some of the domestic demand shortages that are going to be stemming from the Oshawa closures," she says.

Offsetting demand shortages

Bond also says that Canadian parts manufacturers are setting themselves up to be leaders in new technology, by taking advantage of public innovation funds to develop new products like driverless vehicle aids, which will allow manufacturers to add more value to their products within Canada.

"The parts sector is actually really nicely positioned to pivot as an industry going forward because traditionally it has been an input to the vehicle sector, but the leading manufacturers like Magna and Linamar are really moving into the product designing and engineering space. They are moving up the value chain and increasingly investing in designing new technologies. Things like integrated vehicle systems and moving into components of potential automated vehicles," she says.

For example, Linamar is working towards having a higher dollar share of their parts in the automated vehicle sector than they have in the conventional parts, according to Bond.

Overall, Canadian parts manufacturers are expected to hit $1.6 billion in pre-tax profit in 2016. With cost containments, the industry will also post average profit margins for 5.4 percent between 2016 and 2020, according to the study.