Data Release: Canadian manufacturing sales kick the year off on a soft note

- Canadian manufacturing sales kicked off the year on a soft note, falling by 1.7% and entirely wiping out December's gain. Sales have now declined in three of the last four months. In real terms, manufacturing shipments were down by 1.0%.
- The January drop in manufacturing sales was driven largely by a 12% slump in petroleum and coal product sales, which decreased for a seventh straight month and is sitting at its lowest level seen since May 2009. The plunge in oil prices to below US$45 per barrel in January, combined with a slight decrease in production underpinned the drop in sales. Stripping out petroleum and coal products, sales were down by a more modest 0.5%.
- The machinery sector (-8.9%) also recorded a significant decline in January, but the level of sales remains relatively high. Other sources of weakness during the month were the chemical (-4.5%) and primary metal (-4.3%) industries, where sales of both have been trending down over the last six months.
- On the flipside, sales of aerospace products and parts were up by 22%, due in large part to the strengthening US dollar, while computer and electronic product sales (+5.3%) continued to trend up, reaching a 3½ year high.
- Regionally, the declines were fairly widespread, led by Ontario (-3.2%) and Alberta (-7.6%), while Quebec (+3.2%) provided some offset reflecting the rise in aerospace products.
- Inventories increased 2.2% in January, with all but two industries recording gains. As a result, the inventory-to-sales ratio climbed to 1.39 during the month, up from 1.34 in December.
- Forward looking indicators appear to be positive, with a 7.2% increase in unfilled orders and new orders up 12.1%.

Key Implications

- The sharp drop in oil prices is being felt in the manufacturing sector, with lower sales of petroleum products weighing down the headline number. Despite the slight uptick in oil prices in February, a reversal in March, and an expected further drop in prices in the second quarter is likely to remain a headwind for the industry in the coming months.
- As well, the transportation sector is likely to be another weak spot within the manufacturing sector in the very near term, due to the 14-week shutdown of FCA's Windsor assembly plant.
- That said, there are some positive offsets. Demand for Canadian-made goods should pick up thanks to a robust US economy and a weak Canadian dollar – which likely has further room to fall. Moreover, interest rates remain extremely accommodative, which should be supportive for manufacturers who need to increase capacity to meet demand.
- Overall, while the year has gotten off to a soft start, we expect the manufacturing sector as a whole to contribute favourably to growth this year, providing some offset to the impact of low oil prices.

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