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TD Economics

Data Release: Canadian manufacturing sales tick up 0.1% in July

- Canadian manufacturing sales increased by 0.1% in July, following a 0.8% jump recorded in June. In real terms, the picture was far better, with volumes up 0.6% during the month.
- July's gain was driven by higher sales of food products (+1.9%), primary metals (+2.9%) and petroleum and coal products (+2.5%). The latter was the result of increased refinery volumes as oil production resumed following wildfire-related shutdowns.
- Providing some offset to this was machinery (-3.3%) and motor vehicles & parts (-2.5%), which retraced somewhat following decent gains in June. The highly volatile aerospace industry (-9%) also saw a marked decline.
- Regionally, sales were up in half the provinces. Quebec recorded the largest dollar gain, as higher sales of chemicals and metals offset the declines in aerospace products. Meanwhile, sales in Alberta were down, as a drop in chemical manufacturing more than offset the gains in petroleum and coal products. Ontario's manufacturing sales were essentially flat in July in nominal terms.
- Inventories rose 1%, reaching the highest level since January. This brought the inventory-to-sales ratio up to 1.41 from 1.40 in June. New orders slipped 2.9% in July, due largely to a drop in aerospace, while unfilled orders edged down 0.1% on the month.

Key Implications

- The rebound in manufacturing over the last two months has certainly been a welcome development for the Canadian economy. However, sales have yet to make up all the ground lost earlier this year, as volumes remain 2% below January levels.
- Fortunately, further gains appear to be in store. Oil sands production was essentially restored through the end of July, with petroleum and coal manufacturing likely to show further strength in the coming months as refining activity resumes fully. Moreover, economic activity in the U.S. is expected to gain some momentum over the second half of this year, and combined with a weak currency, should help to spur demand for Canadian manufactured products and exports.
- The revival of the manufacturing sector in June and July provides a strong handoff for the third quarter. We expect manufacturing volumes to remain strong in the coming months, helping to lift overall economic growth in the second half of the year and into 2017.

Dina Ignjatovic, Economist
416-982-2555

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