Canadian Data Release: Transportation sector drives manufacturing sales rebound in March

- March manufacturing sales rebounded from their February decline, rising 2.9% on the month. The gain was not broad based, with slightly less than half of industries reporting an increase in sales. Sales were equally strong in volume terms (+2.9%)
- The transportation sector led the way in March, as sales in the volatile aerospace industry jumped 42.3% after a 29.4% drop the prior month. The motor vehicle manufacturing sector rose too (+12.8%), recouping some of the decline over the January to February period. Production in the auto sector had been affected by retooling over the January-February period, and March's rebound represents the beginning of a return to more normal production.
- Another area of strength was food industries, where sales rose 3.0% in March on widespread gains.
- On the downside, sales of fabricated metals industries declined 3.6% on the month. Sales in this industry have been on a downtrend since mid-2014.
- Unsurprisingly, with March's rebound concentrated in motor vehicles and aerospace products, Ontario (+2.6%) and Quebec (+6.9%) saw the largest gains in manufacturing sales. Partially offsetting strength in Central Canada, B.C. saw sales fall 2.2%, reflecting weakness in non-durable goods.
- The outlook for manufacturing sales was mixed, with unfilled orders down 0.2% in March, but new orders up 5.1% reflecting strength in the transportation equipment industry. At the same time, inventories fell 0.4%, moving the inventory-to-sales ratio down to 1.41. The inventory-to-sales ratio had been looking rather high in recent months.

Key Implications

- The March manufacturing sales data closes out what was a soft first quarter for Canada's manufacturing sector. Real activity in the industry contracted for the second straight quarter. Canada's economy looks to have stalled in Q1, as contraction in the energy sector and a soft patch in U.S. growth dealt a one-two punch to Canada's output. While the 2.9% increase in manufacturing sales volumes in March points to better momentum heading into Q2, economic growth overall is still expected to be sluggish.
- With a first quarter slump largely behind us, today's release is unlikely to add too much to the Bank of Canada's thinking on the future path of interest rates. The manufacturing sector is forecast to pick up steam in the second half of the year on stronger demand from the United States. Therefore, the rise in global bond yields and the Canadian dollar in recent weeks is likely of more interest to the Bank. That combination tightens financial conditions in Canada, and the Bank will be watching closely to ensure it does not inhibit the expected export-led rebound in economic growth in the second half of the year.

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