



**Bank
Financial
Group**

TD Economics

Commentary

May 15, 2008

MANUFACTURING SHIPMENTS SLUMP IN MARCH

- Shipments fall 1.6% in March
- First quarter shipments down 11.3%

After kicking off the year on a more positive note, the Canadian manufacturing sector fell back with a thud in March. Shipments fell by 1.6% on the month, entirely wiping out the gains posted during the first two months of the year. The slump in March, which was much worse than the 0.4% drop expected by the markets, left shipments down by 3.7% (annualized) for the first quarter as a whole. In real terms, shipments fell by 3% on the month, and a whopping 11.3% during the first quarter. This was the third consecutive quarterly decline and represents the largest volume drop since the first quarter of 2001.

While the slide in the value of shipments was fairly widespread, with 18 of 21 industries losing ground, the auto sector was the key culprit. Indeed, in March, motor vehicle shipments tumbled by 6.2% on the month, as labour disputes in the auto parts industry limited the supply of parts to the automakers. Sluggish U.S. demand and high energy prices also contributed to the slowdown in this sector, which now stands 33% below year-ago levels.

Excluding autos, the picture was slightly better, with shipments down by a more modest 1% in March, and up 0.4% on the quarter. Other industries posting sizable drops include clothing (-8.9%), textile mills (-8.4%) and computer and electronic products (-7.6), while shipments of chemical products slid 3% on the back of shipping delays. On the flip side, aerospace products and parts surged by 17%, following a 12% jump in February. Strength in the aerospace industry offset losses elsewhere in Quebec, resulting in a slight 0.3% rise in shipments for the province. In contrast, Ontario – home to the majority of Canadian auto manufacturing plants – saw shipments fall 2.9% on the month.

While inventories held relatively steady in March, the

CANADIAN MANUFACTURING				
March-08				
	Total		Ex-Autos*	
	% Chg. M/M**	% Chg. Y/Y	% Chg. M/M**	% Chg. Y/Y
Sales	-1.6	-10.7	-1.0	-5.8
Inventories	0.2	-1.3	0.3	-0.8
Unfilled Orders	3.7	20.2	3.7	--
New Orders	2.9	-7.6	4.3	--
	Current Level	Year-ago Level	Current Level	Year-ago Level
Inventory-Ship. Ratio	1.34	1.25	1.46	1.42

*Ex-Autos defined as excluding motor vehicle, parts and accessories
 **Calculated with seasonally adjusted data; Source: Statistics Canada

decline in shipments brought the inventory-to-shipments ratio back up to the recent peak of 1.34 seen in December and January. Manufacturers' new and unfilled orders also increased in March, with unfilled orders reaching a record \$61.6 billion – 20% higher than year-ago levels. Growth in both types of orders was largely attributable to robust demand in the aerospace industry, as ex-aerospace orders fell 2.2% and 0.2% for new and unfilled orders respectively.

While some of the factors putting downward pressure on the manufacturing sector will likely prove to be temporary – namely labour disputes and shipping delays – the high-flying Canadian dollar, high energy costs and the U.S. economic slowdown will continue to leave the manufacturing sector struggling. Overall, this morning's report indicates that weakness in manufacturing will weigh heavily on real GDP in both the month of March and the overall quarter. More specifically, March real output could come in slightly negative, leaving the first quarter roughly flat. As such, there appears to be a downside risk to the Bank of Canada's latest published forecast of 1%.

Dina Cover, Economist
416-982-2555

The information contained in this report has been prepared for the information of our customers by TD Bank Financial Group. The information has been drawn from sources believed to be reliable, but the accuracy or completeness of the information is not guaranteed, nor in providing it does TD Bank Financial Group assume any responsibility or liability.