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TD Economics

Data Release: Canadian manufacturing sales continue to rise in April

- Canadian manufacturing sales were up 1.1% in April. This was just above the 0.9% gain expected by economists but came atop of a downward revision to March sales to 0.8% (from 1.0% prev. reported). After accounting for price swings the volume of sales was up a solid 0.5% on the month. But again, this came atop of downward revision to the previous month.

- Most of the gain was in non-durables, which rose 2.0% on the month, with petroleum & coal products (+8.9%), paper (+3.5%), and non-metallic minerals (+2.2%) leading the charge. Durable shipments also increased, albeit by a more muted 0.3%, as gains in primary metals (+3.1%), electronics (+1.9%), and machinery (+1.5%) were partly offset by a decline in transportation equipment (-1.3%) and electrical equipment (-2.1%).

- Regionally, manufacturing sales were up in all but two provinces, falling in Saskatchewan (-6.0%) and largely flat in Manitoba (-0.2%). On the other hand, Newfoundland (+13.8%) led the provincial gains, with Alberta (+3.0%) and New Brunswick (+2.9%) also seeing strong gains on petroleum & coal product exports.

- Inventories were up 0.9% on the month, with the inventory-to-sales ratio unchanged at 1.35. Forward looking indicators were somewhat encouraging, with new orders up 0.4% and unfilled orders up 1.0% in April.

Key Implications

- This report marks yet another good showing from the Canadian manufacturing sector. Despite the downward revisions to previous months, the strong headline – both in nominal and volume terms – suggests the manufacturing sector momentum remains intact, with strong export growth likely to support solid economic growth of about 2.9% during the second quarter.

- Leading indicators, such as new and unfilled orders, also remained relatively encouraging and bode well for the future. This notion is corroborated by U.S. manufacturing industrial production data in April with this metric rising by 1.9% y/y, or the fastest pace in nearly two years. Having said that, U.S. auto sales appear to have peaked in recent months, likely to put some downward pressure on Canadian manufacturing activity over the medium-term.

- Moreover, while the loonie remains relatively low, it has risen sharply in recent weeks and could take some steam out of exports going forward. The Canadian dollar's rise has been related to an accelerating economy which has motivated more hawkish rhetoric from the Bank of Canada, bringing forward anticipated rate hikes. Should the economic momentum remain resilient, we expect the Bank of Canada to raise rates in October, with two more hikes likely over the next year.

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