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## TD Economics

### Data Release: Canadian manufacturing sector ends 2016 on a solid note

- Canadian manufacturing sales were up by a consensus-beating 2.3% in December. This was well above the 0.3% m/m gain that was expected and follows a large increase in November which was revised up from 1.5% to 2.3% m/m. Volumes were up just as much (2.3% m/m) in December, with price effects negligible on the month.
- Both durable and nondurable goods sales helped, up 2.4% and 2.1% respectively. Petroleum and coal products accounted for most of the gain on the nondurable front, up 11.6% on the month. On the durable side, transport equipment led the way, up 7.4%, as motor vehicles (2.3%), and aerospace (5.7%) posted solid gains, while railroad and shipbuilding shipments surged by double digit growth rates. Electrical equipment also had a good month, up 5.1%.
- Regionally, manufacturing sales were up in six provinces with Saskatchewan (5.4%) and Alberta (+2.9%) both posting strong gains in the Prairies. Central Canada also saw strong gains led by Quebec (+4.1%) and Ontario (+2.3%). New Brunswick (+1.6%) and Newfoundland (+1.3%) were the only Atlantic provinces to see gains, with B.C. and Manitoba seeing declines in the value of manufacturing shipments.
- Inventories were down 0.3% on the month, nudging the inventory-to-sales ratio down to 1.30 (previously 1.34). Forward looking indicators were not encouraging, with unfilled orders down 1.9% while new orders pulled back 0.6%.

### Key Implications

- This was generally a really good report, cementing the notion that despite a difficult several months, the Canadian manufacturing sector is ending 2016 on a solid note. Shipments in both dollar and volume terms were up strongly in December, with positive revisions to boot, suggesting that Canadian manufacturing performance during the last quarter was the best it had been since the first quarter of the year.
- The report corroborates the notion that the Canadian economy performed quite well during the fourth quarter, with our assessment of growth of real GDP at about 2.2% during 16Q4. Moreover, the report provides some hope that the momentum in manufacturing, on the back of a still low loonie and strong U.S. growth – where consumers are out in full force according to this morning's retail sales data – bodes well for economic growth into early-2017.
- Having said that, there remain quite a lot of uncertainties as far as the manufacturing and export sector is concerned. While President Trump, who met with PM Trudeau early this week, suggested that NAFTA would only be "tweaked" as far as Canada is concerned, there is no doubt that many unknowns remain – something that, alongside the existing economic slack, is likely keep the Bank of Canada on the sidelines for some time still.

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