TD Economics

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Data Release: Canadian manufacturing begins 2017 on a strong note

- Canadian manufacturing sales were up by a consensus-beating 0.6% in January – well above the 0.3% contraction expected by the markets. The story was even better when discounting price differences, with volumes up an even stronger 0.7% on the month.

- Non-durable shipments were the crux of the story, rising 2.3% during January, while durable sales fell -0.8% m/m in nominal terms. Petroleum and coal products (+7.0%) and chemicals (+2.5%) accounted for most of the gain on the nondurable front, with some help from food & beverage shipments also. On the durable side, despite rising motor vehicle shipments transport equipment pulled back, down 2.9%, after lofty gains in the previous month, as aerospace (-11.8%) and other transport equipment shipments pulled back after a strong December print. Fabricated metals helped offset some of the losses on the durable side, up 2.4% in January.

- Regionally, manufacturing sales were up in all but three provinces with Nova Scotia (-5.3%) and Quebec (-1.5%) posting the weakest readings given their non-auto transport equipment sectors. B.C.'s shipments were largely flat, at -0.3%. On the other hand, P.E.I. and oil-producing provinces of Newfoundland & Labrador, Saskatchewan, and Alberta saw the largest gains at 5.6%, 3.4%, and 2.7%, respectively.

- Inventories were up 1.1% on the month, nudging the inventory-to-sales ratio down to 1.31 (preciously 1.30). Forward looking indicators were very encouraging, with new orders up 4.6% and unfilled orders up 0.3% in January.

Key Implications

- This was another good news report for the Canadian manufacturing sector, suggesting that the momentum in the sector that heated up in late-2016 carried over into the beginning of 2017. The report provides some potential upside to our already solid first-quarter forecast of 2.6% for the Canadian economy (See our latest Quarterly Economic Forecast).

- The report is also encouraging as far as future activity is concerned, with leading indicators such as new and unfilled orders looking better this month than they did prior. This suggests that the relatively low loonie and robust U.S. and global demand have proven beneficial for Canadian industry, with net trade likely to continue supporting economic growth for the rest of the year.

- Having said that, there of remain a lot of uncertainties as far as the export sector is concerned, with "America First" trade rhetoric posing some downside risks as far as investment and net exports are concerned. These risks, alongside existing labor slack and a likely cooling in housing activity, should ensure the Bank of Canada remains on the sidelines until late next-year.

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