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TD Economics

Data Release: Manufacturing disappoints, but real GDP growth will not

- Manufacturing sales fell 0.8% in October, retracing most of the gains made between August and September. The decline in dollar shipments was a combination of both falling prices and demand, with the volume of shipments down a heftier 1.7% during the month.
- The drop in nominal shipments was largely broad-based across most sectors, with the biggest drivers being primary metals (-2.4%), petroleum and coal products (-1.7%), and machinery (-2.5%). Statistics Canada noted that some of the decline in petroleum and coal products was due to maintenance related shutdowns.
- There were some bright spots in the report, including clothing manufacturing (+10.6%), paper manufacturing (+1.0%) and aerospace (+5.3%). More importantly, unfilled orders were up 0.8%, suggesting that shipments may have picked up since.
- Shipments fell in 7 of the 10 provinces, led by Ontario (-0.8%), Quebec (-1.2%) and Alberta (-2.0%) as these provinces were most impacted by the decline in transportation, food, and petroleum and coal manufacturing.

Key Implications

- Despite today's weak manufacturing print, the Canadian economy is still estimated to grow by a relatively healthy 2.2% in the fourth quarter of the year – largely due to factors outside of the export sector. The economy is still waiting for a rotation towards exports, with much of the growth remaining tied to the housing market.
- With the Federal Reserve in the U.S. continuing on a hiking cycle, and telegraphing a pick-up in the pace of rate hikes next year, the Canadian dollar is expected to depreciate a little more through the first half of 2017. Combined with healthy U.S. demand, this should offer some support to the export-heavy manufacturing sector in Canada. As such, TD Economics continues to believe that modest growth in manufacturing will help offset what is expected to be a moderation in housing activity through 2017 and 2018. However, with the pick-up in exports struggling to gain significant momentum, real GDP growth will be held to a sub-2% rate throughout our forecast horizon.

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