



February 16, 2016

## TD Economics

### Data Release: Canada's manufacturing sector ends 2015 with momentum

- Canadian manufacturing sales ended the year on a bright note, rising for a second consecutive month. Nominal sales grew by 1.2%, while volumes were up by 1.3%. The inventory to sales ratio fell to 1.40 (previously 1.44) as inventories slipped 1.6% during the month.
- December's gains were driven by sales of wood products (+5.5%) which hit the highest level seen since 2006, and motor vehicles sales (+3.6%) which were up for a third straight month. On the flipside, sales of petroleum and coal products were down 2.4%.
- Regionally, the increase was widespread, with Quebec (+1.7%), Ontario (+0.7%), and New Brunswick (+16.8%) posting the biggest gains. With December's jump, New Brunswick recouped some of the outsized losses recorded during the prior two months. Alberta (-2.4%) recorded its sixth consecutive decline due to the drop petroleum and coal products.
- New (-2.1%) and unfilled (-2.2%) orders were down in December, due largely to the volatile aerospace industry.
- While manufacturing shipments as a whole were disappointing last year (down 1.5%), a closer look at the data shows that the performances varied across industries. Among the top performers were transportation (+8.9%), plastics and rubber (+5.4%), and food (2.9%) manufacturing, all of which are at or near their all-time highs. Wood (+4.0%) and paper (+7.5%) manufacturing also had decent momentum this year, although both have a long way to go before reaching previous highs. On the flipside, commodity-related industries including petroleum and coal (-28.4%) and primary metals (-6.6%) struggled last year.

### Key Implications

- Despite the increased momentum in manufacturing sales to close out the year, the weak handoff from the third quarter means that the sector will be a drag on growth in the fourth quarter, which is currently on track for a flat performance. That said, manufacturing entered 2016 with some steam, which we expect to continue going forward, particularly in the non-commodity based industries.
- The low loonie and healthy demand south of the border will play a key role in propping up Canadian manufacturing. Indeed, the relationship between the exchange rate and the top performing manufacturing sectors tends to be lagged – by up to six quarters – suggesting that the biggest impact of the recent depreciation in the loonie has yet to be felt. As such, there is still significant upside for currency-sensitive sectors.

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