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TD Economics

Data Release: Manufacturing takes a breather in February

- Following three months of hefty increases manufacturing shipments in Canada fell 3.3% in February – well below the consensus estimate for a 1.5% pullback – giving back most of the gains accumulated since November. Stripping away the price story, manufacturing shipments fell by a lesser (but still sizeable) 2.0%, reversing just about half the gains seen since November.
- In nominal terms, the weakness was fairly broad based across most categories, with sales down in 16 of 21 industries. Most of the decline was in petroleum and coal products (-12.6% m/m) which is largely a price story with oil hitting its lowest level in mid-February. Outside of petroleum and coal, the transportation sector (-7.6%) posted the biggest monthly decline, with the weakness driven by a 10.5% drop in motor vehicles. However, sales of motor vehicle parts (-2.9%) and aerospace (-4%) were also down in the month. Despite the decline manufacturing shipments of transportation items remain elevated, up 30% year-over-year.
- The regional break down also reflected the industry composition, with Ontario (-3.2%), Quebec (-4.1%) and New Brunswick (-17.2%) posting the biggest declines. While sales were flat in Nova Scotia and Alberta, Prince Edward Island (+12.1%) was the sole province to see any real gains in manufacturing shipments during the month.
- Forward looking indicators weren't any more encouraging, with unfilled orders down 2.3% in February. Inventories did fall to their lowest level since March 2015, but set against weaker demand, the sales-to-listings ratio still edged up slightly.

Key Implications

- Some payback was expected following the strong momentum experienced in manufacturing sales since November, and overall manufacturing is still expected to contribute strongly to economic activity in Q1 2016. However, February's contraction in manufacturing shipments throws some cold water on the potential upside surprises to our Q1 estimate for GDP growth of close to 3%.
- Today's report does support our view that the pop in economic activity in Q1 will prove temporary and that real GDP growth will settle into a sub-2% pace for the remainder of the year. Looking forward, the recent rally in the Canadian dollar to 78 US cents, in combination with a still soft global backdrop, will likely temper some of the momentum in Canadian exports ultimately weighing on the manufacturing sector.

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