



July 15, 2016

TD Economics

Data Release: Manufacturing shipments slip in May

- Following a short lived recovery in April, manufacturing sales declined 1.0% in May – the third decrease in five months. Stripping away price changes, manufacturing shipment volumes were down and even larger 2.1%, highlighting a lower level of activity during the month.
- In nominal terms, sales decreased in more than two-thirds of industries (15 of 21). Sales of motor vehicles was the primary driver of the decline, falling 4.2% in May, while auto parts sales fell 2.3% on the month. Statistics Canada noted that both declines were a result of supply interruptions associated with the April earthquake in Japan.
- The report also highlighted the early impacts on manufacturers of the wildfires in Northern Alberta as sales of petroleum and coal products fell 2.2% attributed entirely to lower volumes.
- The regional story corroborated the industry themes with largest declines experienced in Alberta (2.0%) and Ontario (1.4%), provinces where petroleum and autos, respectively, make up a large share of manufacturing production. On the other hand, sales in Quebec edged up 0.1% from the previous month, with stronger aerospace manufacturing helping provide some lift.
- Forward looking indicators gained ground in May, with unfilled and new orders up 1.3% and 0.3%, respectively. As well, inventories declined for the fourth consecutive month to their lowest level since December 2014, suggesting some upside to production.

Key Implications

- The decline in this month's report was slightly larger than expectations, though is largely a result of transitory disruptions to supply chains. The auto industry disruption should dissipate in June but those attributed to wildfires in Alberta are likely to persist, manifesting in what will likely be a 0.9% contraction in GDP during the second quarter.
- The small advance in Quebec, while concentrated aerospace, reversed some of the losses in previous months. We have been looking for a stronger response from Quebec manufacturers to the stimulus of a lower Canadian dollar and healthy US demand, and the 2.8% uptick in aerospace unfilled orders has renewed our hope for stronger provincial growth.
- Looking further out, reconstruction in Fort McMurray and stronger U.S. demand should boost demand across other sectors. However, in light of the recent rally in loonie and increased global economic uncertainty highlighted by the recent Brexit vote, we expect support from rising export activity will not be as pronounced as it has been in previous quarters.

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