

Canada: Disappointing end to 2018 for manufacturing shipments

By Jocelyn Paquet

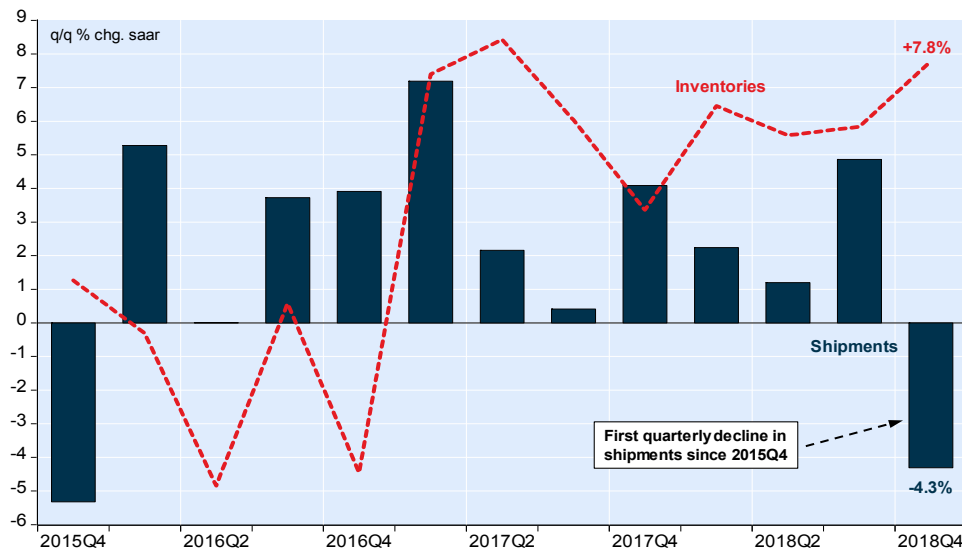
Canadian manufacturing sales came in significantly below expectations in December. True, shipments of petroleum and coal products, which suffered from lower prices and dwindling volumes in roughly equal measure, weighed on the headline figure. But ex-petroleum sales were not stellar either, posting a 0.3% retreat in the month. What's more, December's weakness could not be blamed on prices alone, as volumes slipped 1.2%. Looking at quarterly data, real total shipments fell an annualized 4.3% in the fourth quarter, interrupting the longest streak of positive print since data collection began in 2002 (11 straight quarters). Falling shipments should act as a drag on Q4 GDP but that blow may be softened by a 7.8% annualized increase in real inventories, the steepest since 2017Q2 (see chart on the left). This sharp upswing in inventory, as salutary as it may prove for Q4 GDP, may hinder Q1 production in the manufacturing sector. Keep in mind, the real inventory-to-sales ratio now stands at its highest level since the recession, hardly the harbinger of a ramp up in production. Even a poor Q4 could not spoil what has been a rather positive year for the manufacturing sector. Indeed, shipment volumes rose 2.1% in 2018, marking a third straight annual increase. Inventories also contributed to growth last year, surging 5.8%, the most on record (see chart on the right).

HIGHLIGHTS:

- Manufacturing shipments fell 1.3% in December to C\$56.4 billion. That result followed a downwardly-revised -1.7% print the prior month (initially reported as a 1.4% drop).
- Sales were down in 12 of the 21 broad industries including petroleum and coal products (-10.4%), chemicals (-1.8%), food manufacturing (-2.3%) and machinery (-1.8%).
- These declines were more than enough to offset rising shipments for plastics/rubber products (+1.2%), aerospace products (+4.2%) and primary metals (+3.0%).
- Nationally, total manufacturing sales declined in 6 of the 10 provinces including Alberta (-4.0%), British Columbia (-3.1%) and Saskatchewan (-6.3%). Shipments also edged down in Ontario (-0.8%) but advanced in Quebec (+0.5%)
- With the price effect removed, total factory sales sank 1.2% m/m, while inventories edged down 0.2%. As a result, the real inventory-to-sales ratio gained two ticks at 1.48, the highest level since the recession.
- The unadjusted capacity utilization rate in Canada's manufacturing sector, meanwhile, retraced no less than 6.1% in December to 75.9%.

Canada: Shipments and inventories on different trajectories in Q4

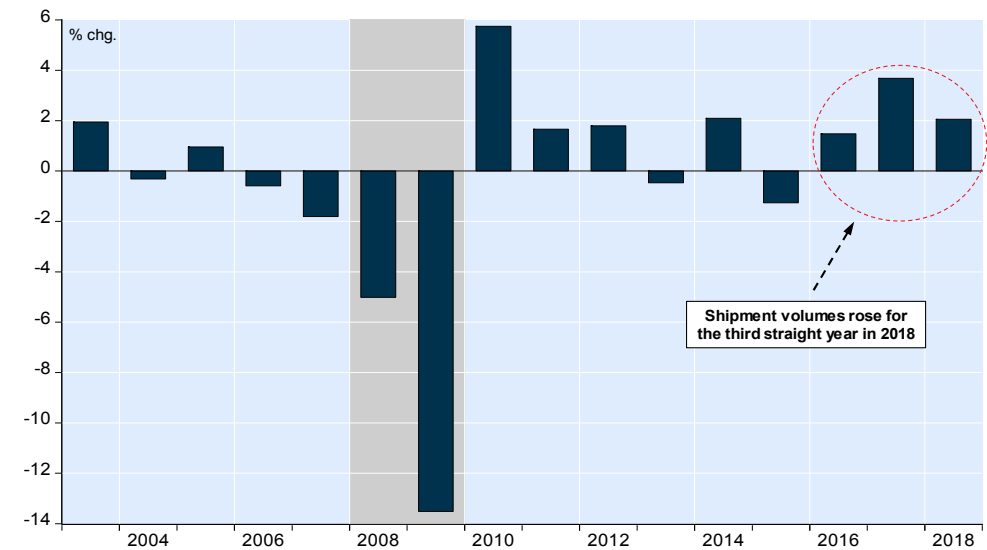
Real manufacturing shipments and inventories



NBF Economics and Strategy (source: Statistics Canada)

Canada: A good year for the manufacturing sector in 2018

Real manufacturing shipment



NBF Economics and Strategy (source: Statistics Canada)

Montreal Office

514-879-2529

Stéfane Marion

Chief Economist and Strategist
stefane.marion@nbc.ca

Krishen Rangasamy

Senior Economist
krishen.rangasamy@nbc.ca

Kyle Dahms

Economist
kyle.dahms@nbc.ca

Matthieu Arseneau

Deputy Chief Economist
matthieu.arseneau@nbc.ca

Paul-André Pinsonnault

Senior Fixed Income Economist
paulandre.pinsonnault@nbc.ca

Jocelyn Paquet

Economist
jocelyn.paquet@nbc.ca

Marc Pinsonneault

Senior Economist
marc.pinsonneault@nbc.ca

Angelo Katsoras

Geopolitical Analyst
angelo.katsoras@nbc.ca

Toronto Office

416-869-8598

Warren Lovely

MD & Head of Public Sector Strategy
warren.lovely@nbc.ca

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