

Real factory sales reached a post-recession high in May

Manufacturing sales for May:

Latest: +1.1% (actual), +0.8% (expected)

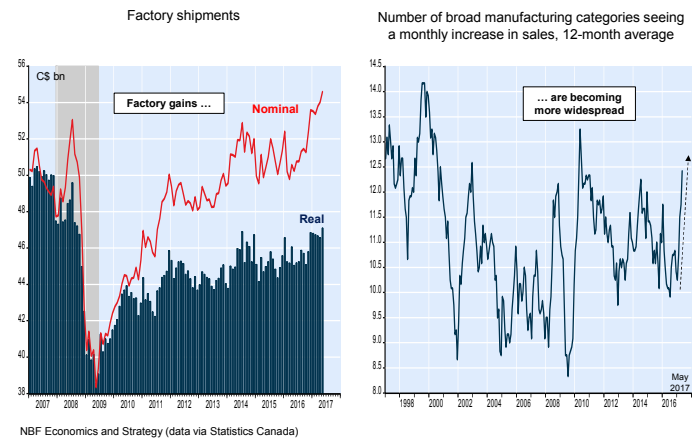
Previous: +0.4% (revised down from +1.1%)

FACTS: Manufacturing shipments rose for a third consecutive month, with May's 1.1% advance taking nominal sales to an all-time high. While the monthly increase beat the consensus forecast by three ticks, some of the shine was taken off by a sizeable 7-tick downward revision to the prior month's figure (+0.4% instead of the 1.1% initially reported). May's sales increased in 16 of the 21 industries including textile products (+3.9%), chemicals (+2.4%), machinery (+2.2%), and transportation equipment (+4.2%). Those gains more than offset declines in food products (-1.2%), petroleum and coal (-3.4%) and non-metallic mineral products (-0.8%). Looking at provinces, on a year-on-year basis sales were strong not only in Ontario (+7.4%), Quebec (+8.1%) and BC (+8.2%), but also in Alberta (+18.4%), Saskatchewan (+8.9%), and Newfoundland & Labrador (+29.0%). In real terms, factory sales also rose 1.1% to a post-recession high in May.

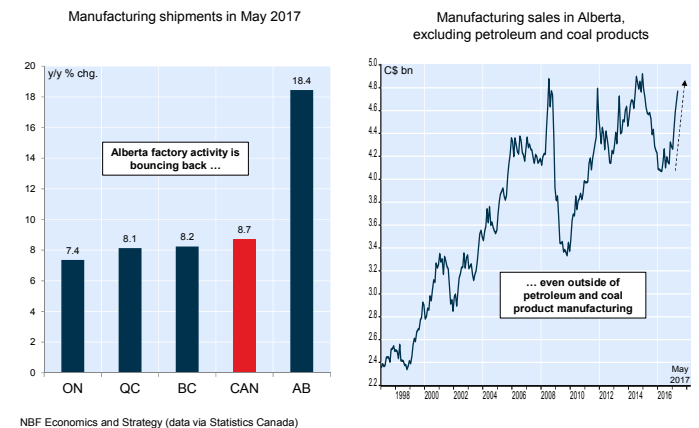
OPINION: Canadian factories have picked up steam as of late. Nominal sales are at an all-time high after expanding 8.7% in the 12 months to May, the steepest year-on-year increase since July 2014. Adding to the good news is the fact that factory gains are becoming more widespread across industries (top chart). Also encouraging are increases in oil-levered provinces (Alberta, Saskatchewan, Newfoundland & Labrador) which are complementing continued strength in Ontario, Quebec and BC. Note that gains in Alberta have not been driven solely by petroleum and coal products because sales even excluding those items have surged in recent months (middle chart), which suggest the province is recovering nicely from the oil shock. Overall, the solid volume gains for Canada's factories point not only to a strong May, but also to a more than decent Q2 – both shipments and inventories seem to have expanded further in volume terms in that quarter (bottom chart). And with the services sector also in good shape, Q2 Canadian GDP growth could end up in the 2.5-3.0% range.

Krishen Rangasamy / Jocelyn Paquet

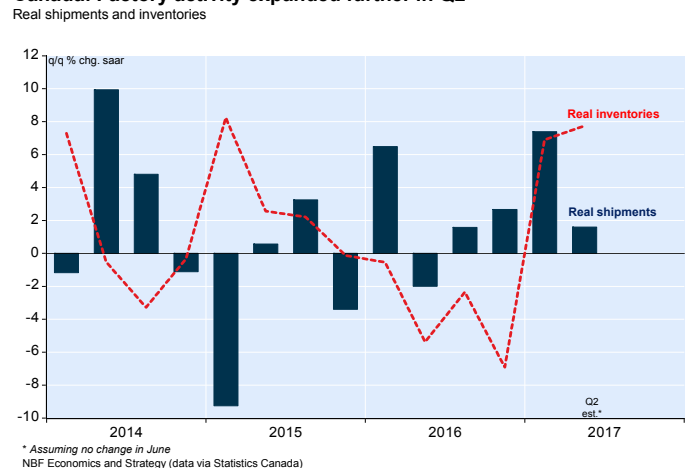
Canada: Increase in factory activity becoming more widespread



Canada: Alberta factories are bouncing back



Canada: Factory activity expanded further in Q2



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