

Volume factory sales gains confirmed in Q1

Manufacturing sales for March:

Latest: +1.0% (actual), +1.3% (expected)

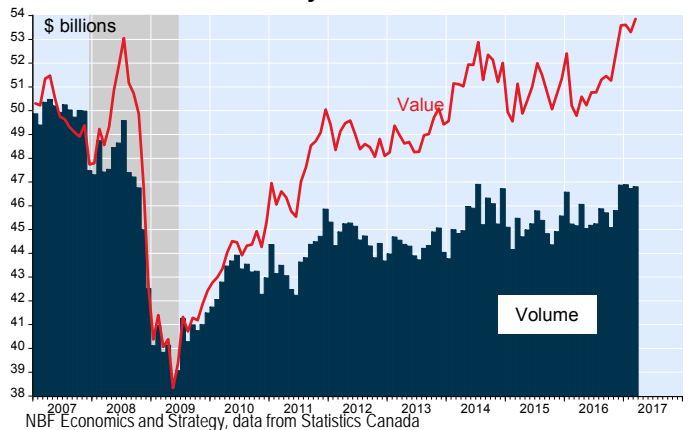
Previous: -0.6% (revised down from -0.2%)

FACTS: Manufacturing shipments rose 1.0% in March after a downwardly-revised 0.6% decline in February. Doing so, it broke the preceding record reached in January. March's advance was fairly generalized, as 16 industry groups out of 21, representing 71% of the manufacturing sector, saw an increase in March. Gains in food (+2.6%) and motor vehicles (+4.5%) easily offset a decline in petroleum and coal products (-1.7%). However, if the effect of price changes are removed, factory sales increased only 0.2%, not totally recouping the ground lost in February (-0.3%). In real terms, inventories (+0.7%) rose for a third month in a row, and the inventory-to-sales ratio edged up from 1.36 to 1.37. Real unfilled orders (+0.5%) also increased for a third consecutive month.

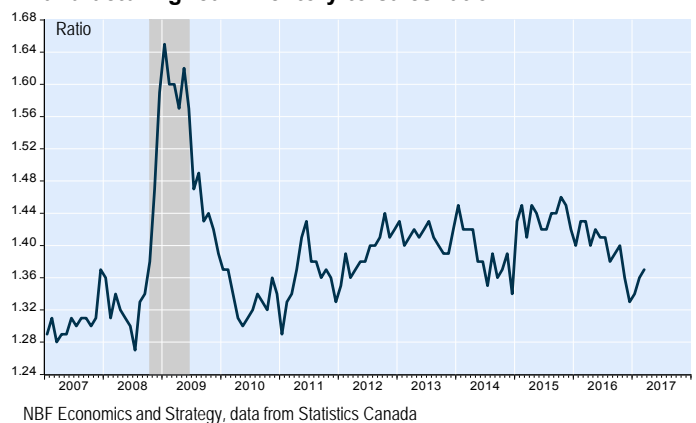
OPINION: Nominal factory sales reached a new record in March, but volume sales are still a touch below their post-recession high of July 2014 (top chart). That being said, it is good to see the jump that occurred over the last two months of 2016 being consolidated in Q1. Over the last 5 months, no less than 18 industry groups out of 21 saw an increase in their volume sales, with two industries (food, plastics and rubber products) reaching in March their highest level since 2007 at least. Moreover, Q1's increase in real inventories +6% annualized, the biggest increase in two years) is not alarming, as the inventory-to-sales ratio remained low by historical standards (middle chart). Together with inventories, volume factory sales have contributed to economic growth in Q1, having risen at an annualized rate of 7.9%, the best performance since 2014 (bottom chart). Due to the imposition of countervailing duties by the U.S. on the Canadian lumber, prospects are uncertain in that industry. An escalation of trade disputes between Canada and the U.S. is a threat pending on Canadian manufacturing, but otherwise it is clear that Canadian factories' gains at the end of last year have proven to be sustainable.

Marc Pinsonneault

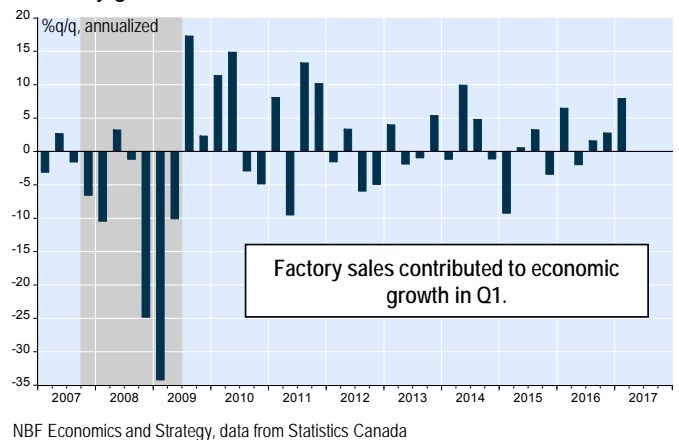
Nominal and volume factory sales



Manufacturing real inventory-to-sales ratio



Manufacturing sales in constant dollars
Quarterly growth



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