

Unexpected rise for manufacturing sales

Manufacturing sales for September:
Latest: +0.5% (actual), -0.5% (expected)
Previous: 1.4% (revised downward from 1.6%)

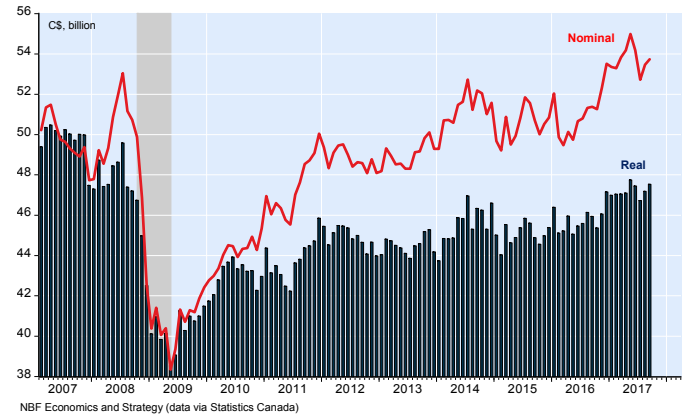
FACTS: Manufacturing shipments increased 0.5% month on month in September after a downwardly revised 1.4% advance the prior month. September's print was significantly above Bloomberg's median forecast (-0.5%). Sales expanded in only 7 of the 21 broad industries surveyed including petroleum/coal products (+10.3%, the biggest jump in 18 months), machinery (+1.9%), and printing (+1.0%). Alternatively, a significant drop was recorded in the transportation category (-0.7%) as sales of motor vehicles and parts slid 5.9%. Shipments of food products (-1.0%), computer and electronics (-1.4%) and fabricated metal products (-1.5%) also weakened. Nationally, total manufacturing shipments improved in 7 of the 10 Canadian provinces, led by a 1.7% hike in Quebec. Ontario (-0.9%), on the other hand, registered a third decline in sales in the last four months. In the country as a whole total factory sales increased 0.7% on a monthly basis if the effect of price changes are removed. Meanwhile, real inventories shrank 0.5%, leading the real inventory-to-sales ratio to slide from 1.40 in August to 1.38 in September.

OPINION: Factory shipments in September came in significantly above expectations for the second month in a row (top chart) but the details of the report drew a less positive picture of the situation. To start with, the good result was entirely due to surging sales of petroleum and coal products. Without the latter, shipments actually sank 0.5% month on month. The provincial data also highlighted significant regional divergences since the beginning of the year (middle chart). While manufacturing sales in Quebec have been encouragingly strong since January (+6.8% to an all-time high of C\$13.3 billion) thanks in part to surging sales of aerospace products and parts (+22.8% year-to-date countrywide), the situation has been much bleaker in Ontario. Indeed, shipments in Canada's most populated province were down 4.8% year-to-date, a reflection of the poor showing in the motor vehicles (-15.3%) and parts (-8.2%) segments since the beginning of 2017. Looking at the quarterly picture, real shipments decreased 2.4% countrywide in annualized terms in Q3 (bottom chart), the first negative figure since 2016Q2. Meanwhile, inventories progressed 2.5%, much less than the 8.1% surge registered in Q2. Taken together, these quarterly results are in line with our view that Canadian GDP softened in the third quarter.

Jocelyn Paquet

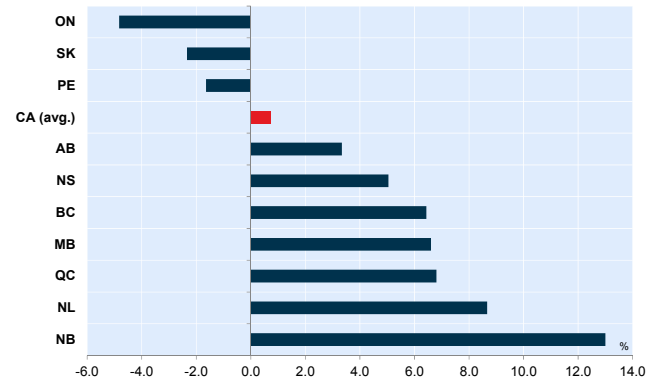
Canada: Manufacturing sales unexpectedly rise in September

Nominal vs. real factory sales. Last observation: September 2017



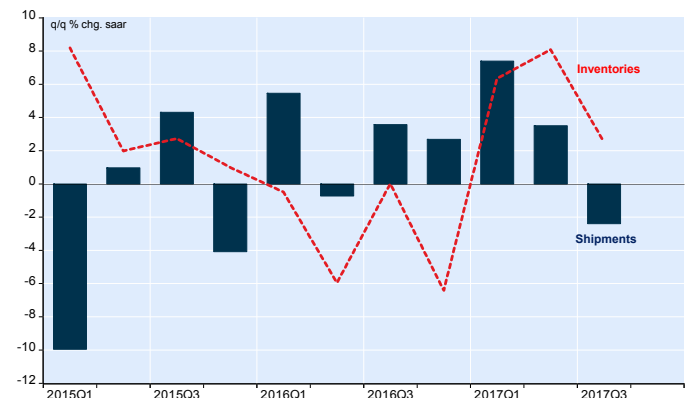
Canada: Diverging provincial fortunes in the manufacturing sector

Nominal manufacturing shipments by province, year-to-date increases



Canada: Factory output growth likely softened in Q3

Real manufacturing shipments and inventories



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