

Shipments disappoint in April

Manufacturing sales for April:
Latest: -1.3% (actual), +0.6% (expected)
Previous: +1.4% (unrevised)

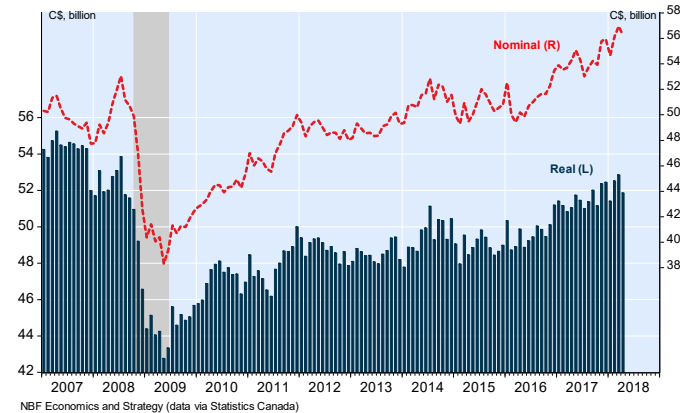
FACTS: Manufacturing shipments fell 1.3% m/m in April to C\$56.2 billion (top chart). Sales fell in 10 of the 21 broad industries surveyed including petroleum/coal products (-10.9%), transportation equipment (-2.3%) and machinery (-4.0%). These declines were more than enough to offset a rise in shipments for the food manufacturing (+1.9%) and primary metal (+3.8%) categories. Nationally, total manufacturing shipments regressed in 6 of the 10 provinces, namely Quebec (-3.4%), Alberta (-5.3%), New Brunswick (-3.5%), Newfoundland (-4.8%), PEI (-8.6%) and British Columbia (-0.1%). On the flip side, Saskatchewan posted the steepest increase in shipments (+6.7%), followed by Ontario (+0.2%), Nova Scotia (+3.4%) and Manitoba (+0.8%). If the effects of price changes are removed, total factory sales fell 1.9% on a monthly basis. Real inventories, meanwhile, were up 2.0%. This rise, combined with wilting shipments, translated into a 6 tick increase to 1.45 of the real inventory-to-sales ratio.

OPINION: The Canadian factory report came in weaker than expected in April following two healthy prints in February and March. Shipments declines were concentrated in a select few industries with petroleum and coal products accounting for a sizeable portion of the retreat. The latter industry experienced poor sales volumes stemming from transitory maintenance work at plants. The transportation category didn't fare much better due to drawbacks in motor vehicle parts and aerospace products (-2.5% and -6.4% respectively). That said, we take comfort from the fact that the motor vehicles sub-category was up 3.5% after a retreat in March. Despite a lackluster reading in April the more reliable 12 month change still shows a decent increase (+3.6%) thanks to broad-based gains (middle chart). Of concern is the steady increase since the end of 2016 of the real inventory-to-shipments ratio, which hit an 8 year high in April after experiencing its largest monthly upswing in over 3 years and hints towards manufacturers having difficulty clearing inventory (bottom chart). Such an inventory buildup is not reassuring for future production, especially in a context of growing trade uncertainty.

Kyle Dahms

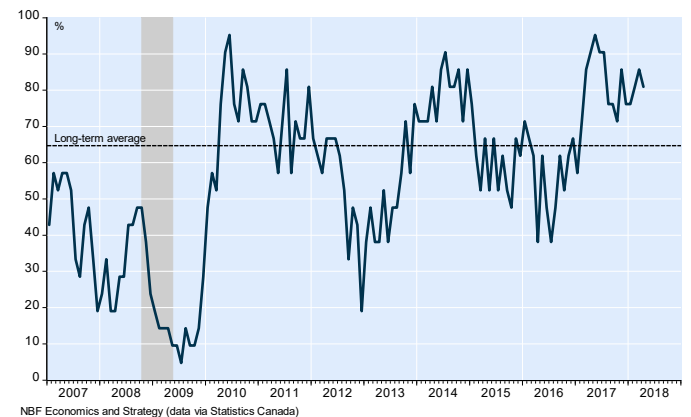
Canada: Manufacturing sales contract in April

Nominal vs. real factory sales. Last observation: April 2018



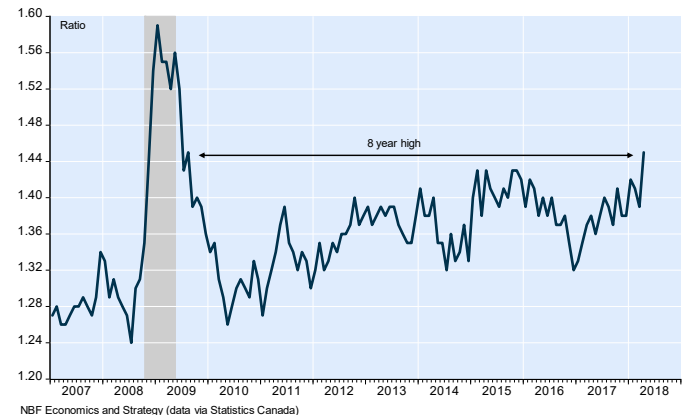
Canada: Manufacturing growth still broad-based

Percentage of manufacturing categories for which sales expanded year on year. Last observation: April 2018



Canada: Real inventory-to-shipments ratio highest since recession

Real inventory-to-shipments ratio. Last observation: April 2018



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