

Shipments drop in January, transportation equipment at fault

Manufacturing sales for January:

Latest: -1.0% (actual), -0.9% (expected)

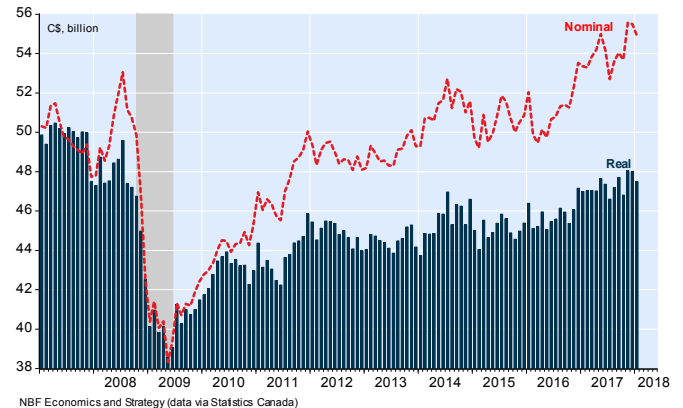
Previous: -0.1% (revised upward from -0.3%)

FACTS: Manufacturing shipments fell 1.0% m/m in January to C\$54.9 billion (top chart), a second consecutive decline following a healthy 3.5% increase in November. Sales contracted in 14 of the 21 broad industries surveyed including transportation equipment (-6.3%), wood manufacturing (-4.1%), and primary metal manufacturing (-2.8%). These declines were partially offset by a rise in shipments for petroleum/coal products (+6.5%) and chemicals (+6.1%). Nationally, total manufacturing shipments retreated in 5 of the 10 provinces, led by Prince Edward Island (-13.0%), Nova Scotia (-7.0%), Manitoba (-3.1%) and Ontario (-2.3%). On the flip side, Saskatchewan posted the steepest increase in shipments (5.7%), followed by Alberta (1.1%) and Quebec (0.3%). If the effect of price changes are removed, total factory sales fell 1.1% on a monthly basis. Meanwhile, real inventories were up 1.1%, causing the real inventory-to-sales ratio to rise three ticks to 1.41.

OPINION: For the second month in a row in January, the Canadian factory report came in weaker than expected but these disappointments come after shipments surged to an all-time high in November. The transportation equipment category was the main driver of the decline in January with the motor vehicles sub-category falling 8.0% as a result of lower volumes (special plant shutdowns). Furthermore shipments in the aerospace portion tumbled 9.5% partly stemming from a stronger currency. The weakness in autos should be transitory as shutdown factories resume production. On a positive note, a recovery was observed for petroleum/coal products which rebounded in January following a temporary weakness in December. Shipments for the latter category appear to be nearing levels seen before energy prices crashed in 2015 (middle chart). Looking on a quarterly basis, real manufacturing shipments are on track to fall 1.2% annualized in the first quarter of the year assuming no change in February and March (bottom chart). This follows a +3.9% reading in Q4 of 2017. All in all, we expect the manufacturing sector to continue contributing to growth in 2018 assuming positive developments in NAFTA negotiations.

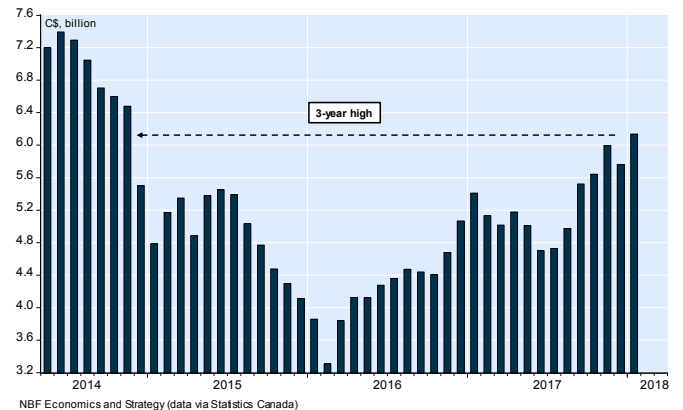
Canada: Manufacturing sales experience pullback in January

Nominal v.s. real factory sales. Last observation: January 2018



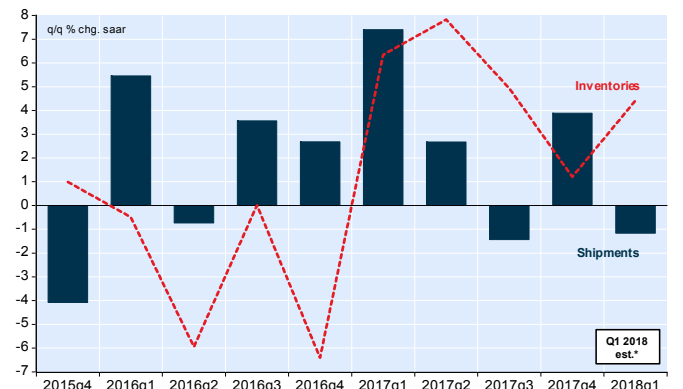
Canada: Petroleum shipments boosted by higher prices

Nominal shipments of petroleum/coal products. Last observation: January 2018



Canada: Factory output could be a drag on growth in Q1

Real manufacturing shipments and inventories



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