March 15, 2019

Canadian Manufacturing Rebound Ignored By Markets Focused On Other Factors

Canada, manufacturing shipments, m/m %, January:

Actual: 1.0

Scotia: 0.5

Consensus: 0.4

Prior: -1.1 (revised from -1.3)

- **Canadian manufacturing sales came in better than expected.** A large jump in the dollar value of sales will flow through to monthly GDP as it was all volume-based. Momentum is nevertheless doubtful. This is one reason why CAD is depreciating and short-term yields are falling. Other reasons include external influences (US short-rates also abruptly rallied) and a weak Canadian home sales report.

- Canadian home sales fell by 9.1% m/m (seasonally adjusted) which is the second biggest decline since 2010 January 2018's -14.5% drop. I suspect that very cold and snowy weather in large markets played a role in addition to tightened housing regulations that continue to bite like B-20 and the BC and Ontario provincial measures. Swings from February over January tend to be more about seasonal adjustments and questioning their stability than underlying activity. For example, from January to February, the seasonal adjustment factor swings from 1.6 to 1.18 times the underlying raw sales figures and this large swing is always vulnerable to debating whether seasonal factors are stable from year to year. The home sales figures are bad, but likely stimulus in Tuesday's budget and expected stabilization over 2019 are still expected while ginormous job gains should offer support.

- Manufacturing sales volumes were up 1.4% m/m. Given a 1% rise in the value of sales, this means prices slipped somewhat.

- Sales volumes are tracking a 1.3% q/q annualized rise in Q1 so far after a 3.6% drop in Q4.

- The value of new orders fell -11.9% m/m. Some of that was due to lower prices, but new order volumes fell 7.4%. After a 6.9% q/q SAAR jump in Q4, new order volumes are tracking 14% lower in Q1. New orders have been on a downward trend since May. The chart below shows that transportation and clothing were the biggest sources of decline in new orders.

- 8 of 10 provinces saw a higher dollar value of manufacturing sales so regional breadth was high. The exceptions were Quebec (-2.8%) and Newfoundland and Labrador (-2.3%). The biggest gain was in New Brunswick (+15.4%). Ontario was up 1.7%, Alberta was up 2.5% and BC was up 2.4%.

- Out of 21 industrial sectors, 6 were lower and 15 higher which connotes decent breadth. In weighted terms, just over half (55.9%) of industries were higher on the dollar value of shipments so less than the unweighted 15 of 21.

- By industry, the biggest percentage gains were in ship and boat building (+34% m/m), electrical equipment and appliances/components (+13%), textile mills (+12.4%), and several other sectors in the 1–3% range. The biggest declines were in broad transportation sector sales (-0.9%) as aerospace (-12.4%) and railroad rolling stock (-13.8%) fell but paper (-2.7%) and clothing (-3.9%) also fell sharply.

CONTACTS

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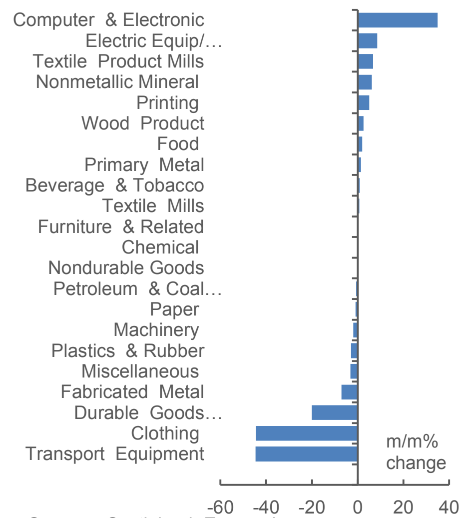
January's New Manufacturing Orders



Sources: Scotiabank Economics, Statistics Canada.

- **I'm now tracking monthly GDP growth of 0.2-0.3% m/m for January** but obviously with still a fair amount of information to incorporate like next week's retail and wholesale figures. If this sticks, then it would **slightly raise Q1 GDP tracking to 0.9% q/q** SAAR using the production side monthly GDP numbers. So Q1 is tracking softly. As usual, beware of tracking Q1 this early since we're still getting January data and have very little February data and zero March data.