

Canadian Manufacturing Inventories Are At A Cycle Peak

Manufacturing shipments, m/m % change, February:

Actual: -0.2

Scotia: -0.1

Consensus: -0.1

Prior: +0.8 (revised from +1.0)

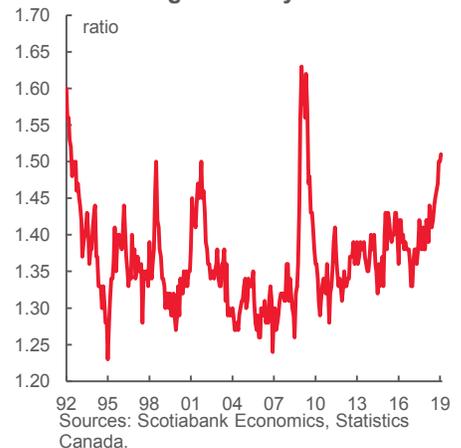
- As far as payback goes, this one is relatively mild in nature but underlying details suggest further risks are ahead. The strong 0.8% rise in the value of shipments during January was revised a bit lower from the 1% initial reading and not surprisingly February's sales slipped. The underlying details were mixed and GDP is still tracking a mild monthly and quarter gain.
- Shipment volumes fell by 0.5% m/m but this was after a large 1.5% rise in January that reversed all of the decline in December. For Q1 overall, sales volumes are tracking a decline of 0.8% q/q at a seasonally adjusted and annualized rate.
- I figure that **GDP is so far tracking little changed with downside risk for February** given a 0.7% drop in hours worked, a 0.5% decline in manufacturing shipment volumes and an 18% drop in housing starts ahead of an expected gain in retail sales on Thursday and next week's wholesale trade. For Q1 overall, GDP growth is tracking just beneath 1½% q/q at a seasonally adjusted and annualized rate.
- **New orders were up 1.5% m/m in both value and volume terms.** Unfilled orders fell 0.4% m/m in value terms but climbed by 0.3% in volume terms. Combined, the volume figures that exclude price effects point to a bit more momentum toward future shipments but both measures have been on a bit of a rollercoaster ride over the months.
- **A key debate concerns inventory management. The inventory-to-sales ratio is at its highest since the global financial crisis.** Since last summer, the manufacturing I:S ratio has jumped to 1.51 (see chart). Much of this has been in the transportation manufacturing sector (second chart). This may portend production cuts as manufacturers rein in inventories, or it may reflect anticipatory inventory building as manufacturers smoothed through transitory shocks to the economy over Q4/Q1. It's probably a bit of both effects at work. **Increased working capital financing requirements may be vulnerable to adjustment in this picture.**
- Manufacturers' capacity utilization fell a half point to 78.2%.
- Overall breadth was weak. By sector, shipments fell in 15 of 21 industries that account for about two-thirds of output. Sales fell in six of ten provinces.

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Canada Mfg Inventory/Sales Ratio



Canada Transportation Mfg Inventory/Sales Ratio



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