

Canadian Green Shoots In Manufacturing and Not-Fake Jobs

Chalk up another pair of green shoots in Canada's favour. Both manufacturing and ADP payrolls zoomed higher and fit the pattern of an unambiguously solid rebound underway. While that fits our narrative, I'm frankly astounded by the universal breadth and magnitude of the gains being registered across every major reading of economic activity of late.

Canada, Manufacturing Shipments, m/m %, March:

Actual: 2.1

Scotia: 1.0

Consensus: 1.5

Prior: -0.19 (revised from -0.2)

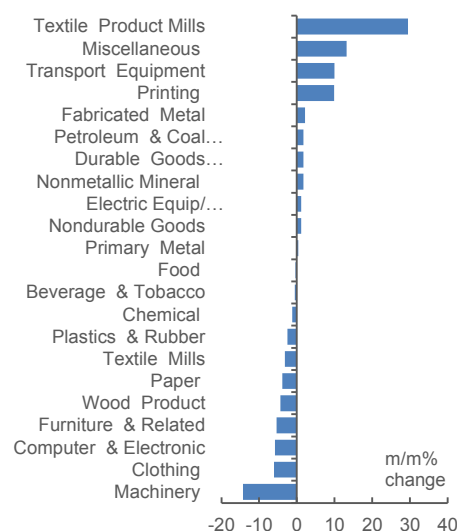
- **Manufacturing shipments were up by 2.1%** and most of that was due to higher volumes (+1.6%) with relatively little derived from higher prices.
- **How does 0.4% March GDP growth sound for Canada?** That's what I'm tracking now with a regression model that I run against several activity readings, pending next week's retail and wholesale numbers. Recall that hours worked were up by 1% in March, manufacturing shipment volumes were up 1.6%, housing starts were up 14%, export volumes were up 2.6%, import volumes were up 1.2%, existing home sales increased by 0.9% before zooming higher in April. April's few readings are reinforcing this momentum with housing starts up 23% and hours up 0.4% with existing home sales up 3.6%.
- **This translates into GDP growth of 1.1%** or so using monthly production based GDP estimates but we'll firm up our nowcast estimates a little later. The BoC forecast 0.3% q/q annualized Q1 GDP growth using expenditure based figures. The risks are tracking more favourably than the BoC forecast but translating monthly readings into quarterly GDP is still bracketed by uncertainty toward inventory and import leakage effects that are captured on the expenditure side.
- **Thus, the rebound narrative is intact with green shoots across the board. Expect Governor Poloz to emphasize this a little later this morning** (report 10:30amET, presser 11:15amET). I would still expect him to flag risks to trade policy that remain subject to binary possibilities that are premature to judge with much clarity at this point.
- **New orders were up by 1.5% in value terms and 1.6% in volume terms** as prices slipped a touch. This indicates future momentum for shipments. By sector, the gain in new orders didn't have impressive breadth, however, in that transportation, petroleum products, electrical equipment and a few other categories registered increases while machinery and several other categories were quite weak (see chart).
- **Inventories climbed by 1% m/m**. Inventory volumes were up by 0.6% m/m for the third straight gain. **The inventory to sales ratio, however, slipped for the first time since June (see chart).** Inventories are still elevated and

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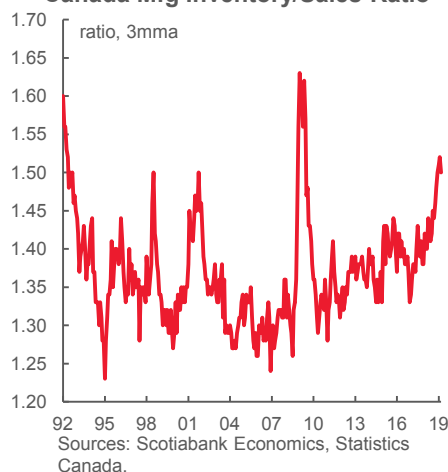
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March's New Manufacturing Orders



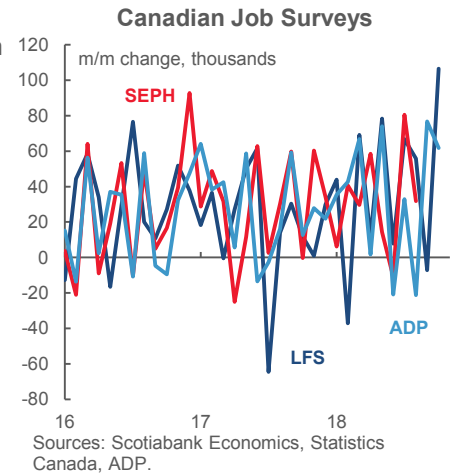
Sources: Scotiabank Economics, Statistics Canada.

Canada Mfg Inventory/Sales Ratio



pose a production risk going forward unless new orders and shipments continue to rebound solidly and drive the I:S ratio downward by pulling up the denominator.

- **For the first quarter overall**, manufacturing shipment volumes were up 1.4% at an annualized rate after falling by 2.6% in Q4. New order volumes were down 12.9% in Q1 after a 10% rise in Q4. Unfilled orders were up 12.8% in Q1 after a 14% jump in Q4. Inventories adjusted for price effects are tracking 7% higher after an 8.6% rise in Q4.
- **Lost in the fray may have been CDN ADP which confirmed Canada is indeed in a jobs boom.** It never gets market attention, but ADP was up by 61,700 jobs in April after an upwardly revised gain of 76,714 in March. Payrolls data is supposed to be harder than the LFS household survey, and the payrolls data points to 138k jobs created over the past two months. Ka-zing! Eat that rate cut pricers. This follows Friday's LFS report that recorded over 106.5k for an all-time record gain. Directionally the two surveys are consistent. SEPH lags way behind and is only up to February so we'll see that that one says in two reports from now!
- **Broadly, fade the fake data bias especially in terms of the trend as all three CDN jobs surveys are pointing toward strong employment growth of comparable magnitude ever since job growth began to accelerate after mid-2016.** The updated comparisons of cumulative job growth via all three surveys since job gains began to accelerate from mid-2016 onward are: 972k for LFS, 899k for SEPH and 927k for ADP. Defined over identical periods only up to this February to account for SEPH's lag yields 873k for LFS, 899k for SEPH and 789k for ADP. The assertion that April's job gain last Friday was to be dismissed as fake data is something I've been hearing from bears that have spent the past three years glancing at the jobs data while saying "didn't see that," or "not happening," or "fake data," or "don't believe it."
- Indeed, if data is fake, then one has to have a solid reason for why all of it is given the uniformity of the recent gains across every single reading of activity in the Canadian economy.



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