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TD Economics

Data Release: Canadian manufacturing sales point to a weak fourth quarter

- Canadian manufacturing sales were down again in October, falling 1.1%. This comes on the heels of a 1.5% decline in September, and marks the third consecutive monthly decrease. In real terms, sales were down 1%, indicating that the overall drop was largely due to a fall off in volumes sold.
- Leading sales lower was petroleum and coal product manufacturing, which was down 5.7% in October, the fifth straight month of decline. Statistics Canada reported that more extensive than usual maintenance shutdowns were partly responsible for the sizeable pullback. Machinery manufacturing sales, and the volatile aerospace industry also saw sizeable drops on the month.
- From a provincial perspective, a sales decline was observed in five provinces, with New Brunswick leading the way (down 23.9%, from an already small base). Alberta saw sales fall 1.9%, with declines seen in the chemical and manufacturing sectors. On a year-over-year basis, Alberta manufacturing sales were down 18.1%.
- With sales dropping, inventories picked up somewhat, rising 0.5% in October. With inventories up and sales down, the inventory-to-sales ratio rose again in October, reaching 1.46.
- The forward-looking components of the data were also weak, with unfilled orders down 1.3% in October. New orders were 1.4% lower in October as well, the third consecutive monthly decline.

Key Implications

- Manufacturing sales came in much as expected in October, as the strong recovery in auto production over the summer months has faded. When compared with the third quarter's strong performance, October's data suggests that more modest sales activity is likely for the final quarter of 2015. This translates into a much slower pace of expansion to close out the year, with fourth quarter GDP growth currently tracking just 0.9% annualized (Q3: +2.3%).
- From a longer-term perspective, the fundamentals for Canadian manufacturing remain favourable. Growth should pick up as some of the temporary factors holding back the sector fade and manufacturers benefit from the low level of the Canadian dollar vs. its U.S. counterpart and an improving U.S. economy. However, other currencies (notably the Mexican Peso) have also depreciated against the greenback, meaning that the competitive landscape will likely remain challenging, tempering sales growth. Recent analysis suggests that the level of the currency is becoming less important for export growth, while foreign demand is becoming increasingly important. With the strength and composition of U.S. growth expected to remain supportive, we continue to see continuing strength in manufacturing in coming years as exports take the driver's seat for Canadian GDP growth.
- With exports playing a major role in the growth outlook, external developments are the key risk. The Bank of Canada is expected to keep its interest rate on hold until mid-2017, consistent with a modest but steady absorption of economic slack. Should export growth fail to materialize however, we cannot rule out further Bank of Canada easing to offset the resulting growth underperformance.

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