

Solid Q1 For Canadian Manufacturing But Momentum Softening

Canada, Manufacturing Sales, m/m%, February:

Actual: -0.2

Consensus: -0.7

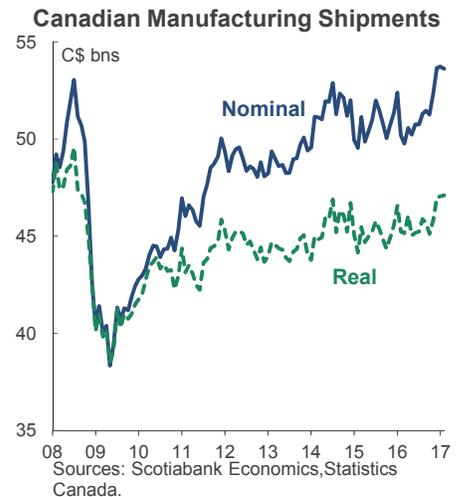
Scotia: -0.5

Prior: 0.1 (revised from 0.6)

- Manufacturing is still on a tear in Q1, but it's almost entirely due to how manufacturers exited Q4 as monthly momentum has largely disappeared.** Shipment volumes that strip out price effects are tracking about 10% growth in q/q seasonally adjusted and annualized terms. That's only about a percentage softer tracking than before we got the February numbers.
- Volumes were up 0.1% m/m in February and January's previously report 0.7% m/m volume rise was revised down to 0.1% now. It was a large 2.5% m/m rise in shipment volumes in December that had activity levels entering Q1 at elevated levels that hard-wired strong growth in Q1. **That should be a concern, when the only real factor driving strong current quarter growth is how the prior quarter ended as it speaks to a one-off momentum surge that isn't being repeated so far in Q1 data.**
- Note that inventories are climbing again and were up 1.6% m/m in February. After five months of falling inventories in volume terms (ex-price effects), inventories have now materially risen for two months including the 1% gain in January. Whether this is anticipatory stocking or a backing up of unsold product that portends softer production ahead remains to be seen.
- A slight majority of 11 out of 21 sectors representing about two-thirds of sales fed increased manufacturing shipments in February in dollar terms.
- The dollar value of sales fell in 7 of ten provinces. Put another way, only Quebec (+2.1% m/m) and Alberta (+1.4% m/m) saw sizeable growth in shipments.

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