

Canadian Manufacturers Charge Back

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

Actual: 1.4

Scotia: 0.3

Consensus: 0.4

Prior: -1.1 (revised from -1.3)

- This is a much stronger report than expected.** At the margin, while manufacturing doesn't carry the day by any stretch, the strong beat reinforces the BoC's forecast for GDP growth to come in at the top end of consensus in Q2 and incrementally lends itself toward no interruption in monetary tightening but with a lot of road ahead between now and September 5th. That said, USDCAD and the Canadian front end are largely ignoring the release with Fed Chair Powell ahead.
- Sales volumes were up by 0.9% m/m and so more of the dollar gain in sales was driven by volumes rather than higher prices.** That means much of this report will flow through to GDP.
- How much so? **May GDP growth is tracking at +¼% m/m** using a model-based approach keyed off of the higher frequency readings we have to date but with Friday's retail sales report a key missing ingredient. The estimate is very dependent upon the manufacturing gain as housing starts fell (but sharply rebounded the next month) and hours worked were flat (and then slipped a touch in June). Therefore, don't read too much into it at this stage. Assuming a flat month of June for GDP until we have more data for that month would result in about 2.4% annualized growth tracking in Q2 using the monthly GDP figures. That is using the monthly production figures whereas the BoC's 2.8% q/q growth forecast is based upon expenditure accounts.
- New orders were up by a whopping 4.9% m/m** led by big-ticket durables (+2.1%). Much of that was a price effect as the volume of new orders climbed by a still respectable +1.4% following a rise of 1.9% the prior month.
- By industry, breadth was decent with sales gains in 14 of 21 sectors.** In weighted contribution terms, the wood products, chemicals and machinery sectors drove much of the gain without any help from the transportation sector.
- Revisions were relatively minor** but lessened the pace of sales contraction during the prior month to -1.1% instead of -1.3%.
- Capacity utilization in manufacturing increased to 81.9%** (unadjusted) which is up by 1.3 points the prior month.
- Sales were up in seven of ten provinces.** Quebec (+1.0% m/m), Alberta (+7.9%) and BC (+3.2%) posted gains across the three out of four main manufacturing provinces with **the notable absence of Ontario** where sales dipped 0.2%. The one notable stand-out to the downside was a 29.7% m/m drop in shipments out of Newfoundland but with a weight of less than 1% in the national total.
- Inventories increased only modestly (+0.4%) and less than the sales increase and so **the inventory-to-sales ratio dipped** a tick to 1.44. It isn't a cyclical stand-out by any stretch, but it is slightly toward the high side of recent years.

CONTACTS

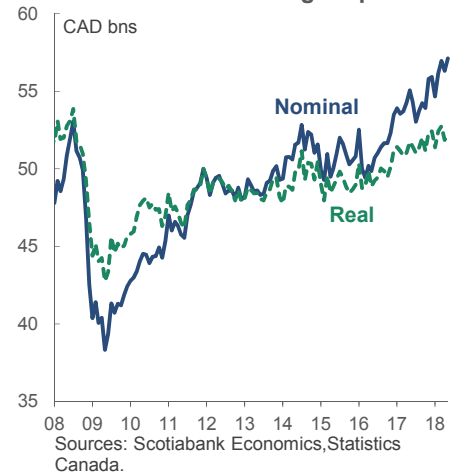
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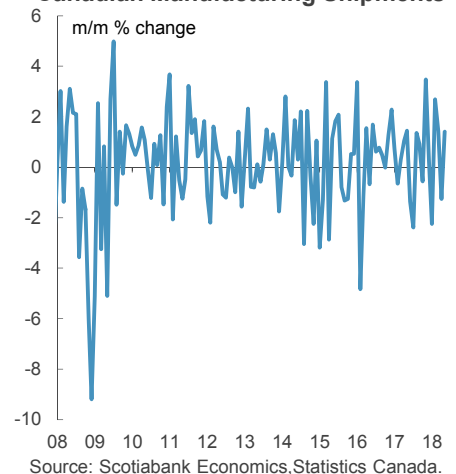
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Canadian Manufacturing Shipments



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