CANADA

The manufacturing sector is still on an upswing

HIGHLIGHTS

- Manufacturing sales posted a 2.5% increase in July.
- The increase was fairly widespread, with 16 of the 21 main industries showing gains for the month.
- The automobile industry stood out, with an 11.6% surge.
- With the exception of Alberta and Prince Edward Island, all other provinces saw an increase in manufacturing sales in July.
- Expressed in real terms, sales were up 2.8%, while inventories advanced by 0.2%.

COMMENTS

The increase in manufacturing sales for July exceeded expectations. On one hand, advances in the automobile industry were inflated by the shorter than usual shutdowns this summer. On the other, other industries excluding the automobile sector have clearly been trending upward since the start of 2014. Moreover, sales in the aerospace sector have soared 17.9% since the start of the year.

This is excellent news for Canada’s economy. It signals that Canada is finally riding the wave of foreign demand, especially from the United States. Several indexes also suggest that manufacturing sales are poised to remain brisk in the months ahead. The backlog remains very high. Thus, the backlog to sales ratio rose to 1.7 in July, while the historical average is 1.1.

Given that the manufacturing sector is a big player in the Quebec and Ontario economies, both provinces will be the first to benefit from this recovery.

Implications: The manufacturing sector’s contribution to economic growth in the third quarter is likely to remain energetic. Under these conditions, we should expect the annualized quarterly change in real GDP this summer to be around 3.5%. This finding has prompted us to revise our forecast for 2014 upward, from 2.2% to 2.4%.