



CANADA

Manufacturing sales tumbled in August

HIGHLIGHTS

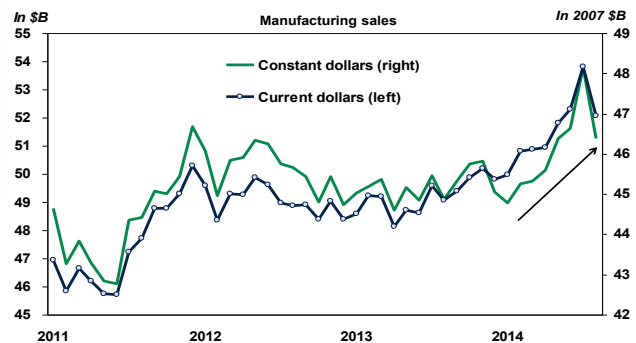
- Manufacturing sales fell 3.3% in August, the first monthly drop in 2014.
- August's slide wiped out much of the gains made in June and July.
- Nearly half of August's decline in manufacturing sales can be chalked up to slides of 12.0% in the auto industry and 10.8% in the automotive parts industry.
- Overall, 16 of the 21 primary industries posted a slowdown in sales for August.
- In real terms, manufacturing sales dropped 3.7%, while inventories fell 0.9%.

COMMENTS

Although sharper than anticipated, August's decline by manufacturing sales does not come as a surprise. Growth in previous months had been extraordinary and even overly fast, with a gain of 2.9% in July (revised upwards from the initial estimate of 2.5%), among other things.

The auto industry had a big hand in the major fluctuations seen in recent months, due to turbulence within seasonal effects. As these factors are now behind us, the movement by manufacturing sales will likely return to a stabler trend and, despite August's poor performance, the trend still appears to be solidly positive. Since the start of 2014, manufacturing sales are up 4.5%. At this time last year, growth from the start of the year was just 1.4%. Clearly, the effects of accelerating U.S. demand and the weaker Canadian dollar have been having a positive impact on manufacturing since early this year.

Manufacturing sales are up sharply since early 2014, despite August's dip



Sources: Statistics Canada and Desjardins, Economic Studies

What now remains to be seen is whether the recent major disruptions in the global economic landscape will turn into a marked slowdown by Canada's manufacturing sector. Our scenario assumes that the adverse effects will be smaller in North America; this should allow Canadian manufacturing sales to stay on their uptrend. That said, the uncertainties have grown.

Implications: In real terms, manufacturing sales currently have a 1.7% carryover for the third quarter, while inventories are down just 0.2%. Despite the blips, everything suggests that the manufacturing sector will once again make a sizable contribution to economic growth in the third quarter.

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