

CANADA

A disappointing rebound in manufacturing sales

HIGHLIGHTS

- Manufacturing sales rose 1.2% in June, following a gain of just 0.2% in May.
- The increase was fairly widespread, with 18 of the 21 primary industries advancing in June.
- The petroleum and coal products industry is among those that experienced difficulties in June, falling 1.2%. Manufactured metal products also retreated significantly (-8.2%).

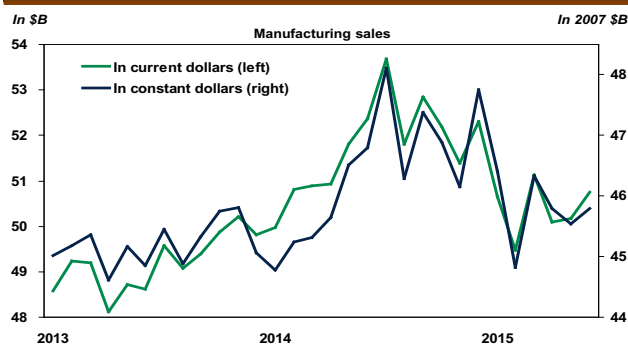
COMMENTS

Despite the major increase in manufacturing sales recorded in June, the result still disappoints. Given the 6.3% rise in merchandise exports during the month, most forecasters expected very strong growth in manufacturing sales. As such, the consensus forecast called for a 2.7% gain in June, more than double the result ultimately obtained.

Expressed in constant 2007 dollars, the results are even more disappointing, as much of the increase in the value of sales stems from a rise in prices. This shows the direct effect of the depreciation of the Canadian dollar, as many exporters sold their products denominated in U.S. dollars. As such, manufacturing sales expressed in real terms only advanced 0.5%. Since inventories expressed in real terms declined 0.7%, the overall manufacturing sector could make a slightly negative contribution to economic growth in June.

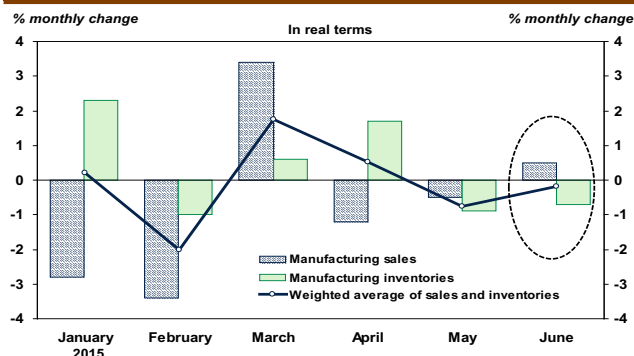
Implications: Several results are still outstanding for June, particularly for wholesale and retail sales. However, we must conclude that the advance in real GDP by industry could be lower than we thought last week, when merchandise export data were released. Under these conditions, it is highly unlikely that real GDP growth by industry will be high enough in June to avoid a downturn in production for the second quarter as a whole. That said, the coming months should paint a better picture, with a weaker loonie and stronger U.S. and global demand. Accordingly, June's increase in manufacturing sales is still a step in the right direction.

Manufacturing sales resumed growth in June



Sources: Statistics Canada and Desjardins, Economic Studies

Will the manufacturing sector make another negative contribution to economic growth?



Sources: Statistics Canada and Desjardins, Economic Studies

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