

# Canada: Cars, no cars.

## February unit vehicle sales surge 8.0%. Manufacturing shipments flat

**Vehicle unit sales at the retail level jump 8.0%*m/m* in February, at the same time that manufacturers were shipping less product.**

**Canada's manufacturing shipments number proved a bit of a disappointment. Market median had been looking for a 1.0%*m/m* pick up in sales, the actual for February came in at 0.1%*m/m*. Our own forecast proved a little too pessimistic having been looking for a decline of -0.5%. On a constant dollar basis the picture is slightly improved, rising to 0.3%*m/m*.**

Downward revisions to the previous month's data were unhelpful with January's manufacturing shipment sliding from a robust 2.4%*m/m* to a still robust 1.8%*m/m*.

Non-durable goods sales kept the manufacturing shipments report head above water, rising by 0.4%*m/m* whilst durables shipments declined by -0.3%*m/m*. Although this makes for a rather narrow report with only 12 of 21 sectors reporting sales gains.

Transportation (-1.8%*m/m*), primary metals (-1.4%*m/m*) and petroleum and coal (-3.9%*m/m*) were the primary drags on the headline number. On the upside, chemicals (+4.3%), plastics (+4.4%), fabricated metals (1.5%) and machinery (1.2%) were significant drivers of total sales.

Statcan points out that the declines in the energy category were a function of refinery fires and lower pricing metrics.

Auto sector sales were hampered by temporary shutdowns causing vehicle shipments to slide by a little over 1.0% although harder hit were the components feeding into the production chain with parts dropping by -3.4%*m/m*. We had speculated that winter storm activity in the US would have impacted the supply chain. Interesting to note a 70% pick up in shipments of rail road rolling stock. Although year over year shipments in this category are still depressed, -23%*y/y*, it may be another kernel of data to be added to the broader economic recovery story.

The picture on manufacturing orders is encouraging with both unfilled orders (1.5%*m/m*), and new orders (1.4%*m/m*) rising smartly. Further to the story, it is encouraging that the unfilled orders category is being driven by a significant build up in machinery orders which would pander to the idea that business demand is picking up in the post recession period. A very necessary element for the North American economic recovery story.

Overall inventories remain depressed, rising only 0.2%*m/m*, down -9.5%*y/y*. Canada has yet to significantly benefit from an inventory correction with Statcan characterizing the picture as having stabilized. In short, Canada has yet to experience the typical inventory fueled spike in growth that often accompanies the transition from recession to economic recovery, much as has been the case in the US whereby the largest contribution to growth in the fourth quarter came out of the transitory changes to inventories.

Also out at 8:30 was the new motor vehicle sales report which jumped a greater than expected 8.1%. Preliminary evidence had suggested sales were up ~7.0%*m/m*. Although translating units sales into dollar sales is a tricky business. Vehicle mix is

important here given the disparate pricing points between domestic and imports, SUV/trucks and passenger cars. Import and SUV categories tend to have higher pricing points than domestic and passenger car category. For today's report sales were driven equally between both the passenger car category and SUV categories. The sales split between domestic and imports favored domestics by a wide margin (+10.1 vs 5.9%).

Overall, we are not expecting that unit sales gains of 8% will generate an 8% jump in dollar sales which funnels into next week's retail sales report. Instead, it is believed that sales were boosted by discounting as car companies fought for market share in and amongst a number a high profile product recalls. So too do we have to take into consideration the emphasis on domestic sales vs. imports. As such, we are inclined to discount the percentage gain in unit sales when attempting to get a handle on dollar sales.

# Disclosure appendix

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