

# Its big and its real

## Canadian manuf. sales (Mar) jump by 1.2% m/m, volumes up 1.7%

**Canadian manufacturing sales for the month of March rose by a greater than expected 1.2% m/m, ahead of the median at 1.0% m/m and just behind our own forecast for a gain of 1.3% m/m. More importantly, the run up in sales is real, with shipment volumes rising by a robust 1.7% m/m. This is the real stuff that will translate into a pretty decent contribution to GDP for the month of March and to a robust quarter overall.**

**X-autos, sales were up 0.9% m/m.**

Sales drivers included food, up 3.5% m/m which may have been a by product of an early Easter holiday that may have compressed more activity than normal into the category. Non-metallic and primary metal products were all stronger, supported by a surge in both demand and firmer pricing metrics. Statcan also points out that warmer weather supported activity and demand in the concrete and cement product lines. Also worth recalling the trade report for both February and March which reflected very strong external demand for key metals and ores.

Machinery sales were up 3.7% m/m which dovetails nicely with the theme of economic recovery as businesses recapitalize. Alas, the question is, are we looking at sales spurred by domestic business demand or is it a function of robust sales into the US. Q4/09 GDP saw business investment in plant and equipment down. And of course, as expected, motor vehicle sales bounded back, rising 3.6% m/m after having declined by -1.1% m/m in February on the back of temporary shutdowns in the sector.

On the down side, computer and electronics sales plunged by -5.3%. Aerospace down -9.6% m/m, which held back overall transportation gains to a moderate 0.7% m/m only. This follows a decline of -0.4% m/m for aerospace in February. Petroleum and coal products dropped by -1.5% m/m although this may be related to temporary refinery shutdowns and thus a transitory event.

The orders picture not that encouraging with new orders down -0.7% m/m, unfilled orders down -0.4%, and inventories down -1.1% m/m. Still, given the fact that industrial production in the US rose by 0.8% m/m (manufacturing up 1.0% m/m), and on the basis that the factory floor stretches north of the 49th parallel, seems to suggest that April's manufacturing shipments report may not be quite as dodgy as the orders data suggests. That said, the US industrial production data did contain a rather significant -2.2% m/m drop in the motor vehicle category. The weighting in the US IP data is significantly less than the weighting for the category in the Canadian manufacturing shipments data (3.7% vs 8.7% in Canada). Of course the flip side to this is the fact that Canadian vehicle manufacturers, in some cases by sheer luck, are producing some of the most popular North American models that may have insulated Canada from the full brunt of the April down turn in US motor vehicle production.

Net, net, the report is broadly in line with our expectations in that the drivers would be found in transportation (motor vehicles) and metals. And in that the goods producing sector bore the brunt of economic recession (service sector generally continued to churn out growth throughout the recession, albeit anemic), so too would it be expected to provide a good deal of the upside for the economic recovery. Year over year, durable goods sales are up 11.5%.

Also out this morning was the release of unit auto sales for the month of March. As was largely expected, unit sales fell by -4.2% (median and HSBC looking for -4.0% m/m in keeping with preliminary evidence). Preliminary evidence suggests that April unit sales are down another 5% m/m following February's 8.1% m/m run up.

Translating unit sales into dollar sales for the purpose of forecasting retail sales is rather tricky. Knowing the unit sales mix provides some insight into what the dollar sales may look like given that the SUV/truck and foreign vehicle categories tend to come in at higher MSRP than the North American passenger car group. In other words, changes in unit sales for the SUV and truck categories will tend to have a bigger impact on the retail sales report (measured in dollar sales) than changes in the number of unit sales for passenger vehicles.

Given that the bulk of the sales declines came in the truck, SUV, van category (-5.7% m/m) tends to suggest that the impact of dollar sales was greater than the -4.2% decline in unit sales. Although this would be moderated by a rise of 1.5% in unit sales of foreign passenger cars which tend to come in at higher pricing points than the North American passenger cars (-5.7%).

# Disclosure appendix

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