

Daily Economic Update

February 14, 2019

Energy sector woes showing up in Canadian manufacturing

The final quarter of last year was a tough one for Canada’s manufacturing sector. Sales volumes were down an annualized 4%, retracing much of the previous quarter’s increase. Emerging weakness in the energy sector was apparent with petroleum and coal sales posting sizeable declines in November and December (though refinery maintenance shutdowns were reportedly a factor as well). Other manufacturing subsectors provided little support. While US manufacturing held up well toward the end of last year, the global industrial sector and manufacturing sentiment weakened over the second half of 2018. Some of that might be washing up on Canada’s shores. With manufacturing once again acting as a slight drag on growth—and the energy sector slowdown showing up in other areas (drilling activity fell sharply toward the end of last year—it looks like we won’t see much of a rebound in December GDP following November’s 0.1% decline. That is consistent with our monitoring for GDP growth to slow to 1.1% annualized in Q4/18 from 2% in the prior quarter.

Highlights:

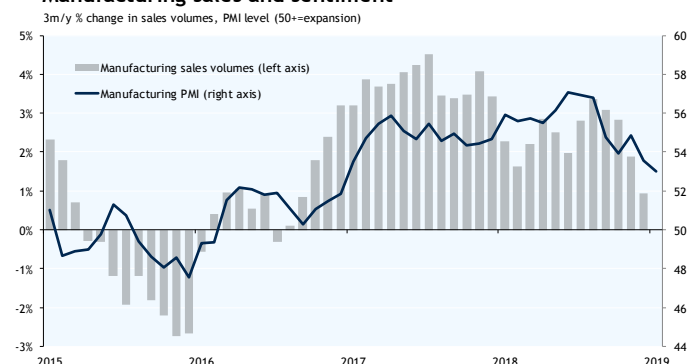
- Manufacturing sales were down 1.4% in December, with a similar decline in volumes.
- As in November, petroleum and coal sales were a source of weakness.
- We don’t think the manufacturing component of GDP will be as weak as this report indicates, thanks to an increase in inventories and weakness concentrated in petroleum and coal sales. A similar dynamic played out last month. That said, manufacturing was likely a drag on GDP in December.

Canadian manufacturing sales summary

	m/m %			y/y %
	Oct-18	Nov-18	Dec-18	Dec-18
All mfg industries	-0.1	-1.7	-1.3	0.8
Nondurable	0.8	-3.8	-3.4	0.0
Petroleum & coal	1.9	-14.5	-10.4	-9.8
Durable	-0.9	0.3	0.6	1.5
MV & parts	1.0	-1.6	-1.0	-2.2
Aerospace	-7.6	7.9	4.2	19.4
Sales volumes	0.2	-1.0	-1.2	-1.1

Source: Statistics Canada, RBC Economics

Manufacturing sales and sentiment



Source: Statistics Canada, IHS Markit, RBC Economics Research

Josh Nye | Senior Economist | (416) 974-3979 | josh.nye@rbc.com
 For more economic research, visit our web site at www.rbc.com/economics

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.