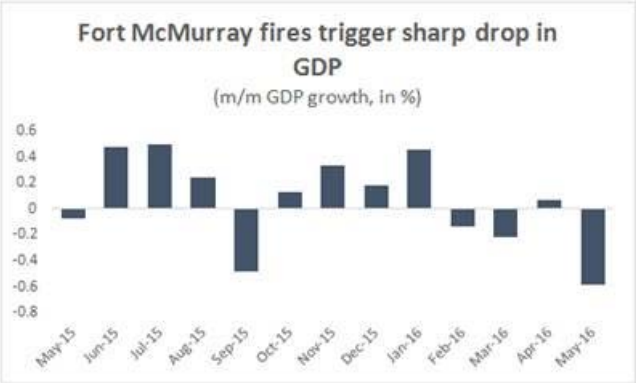
Canadian Fluid Power Association

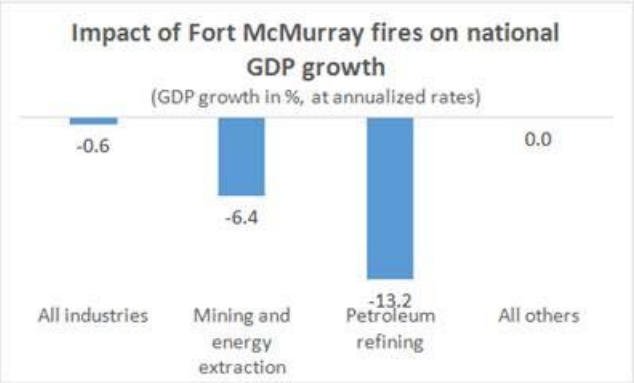
Association canadienne d'énergie des fluides

Manufacturing GDP Analysis – May 2016

Fort McMurray fires drive the Canadian economy down in May

The release of May's GDP numbers offers the first look at the direct impact of the Fort McMurray wildfires on the Canadian economy. The news is not good. The city-wide evacuation and shutdown of operations at oil sands production facilities and refineries had a profound effect on the national economic picture, driving Canadian GDP down by 0.6 per cent compared to April. That represents Canada's worst month-over-month decline in more than seven years - back to the heart of the 2008-2009 economic and financial crisis.

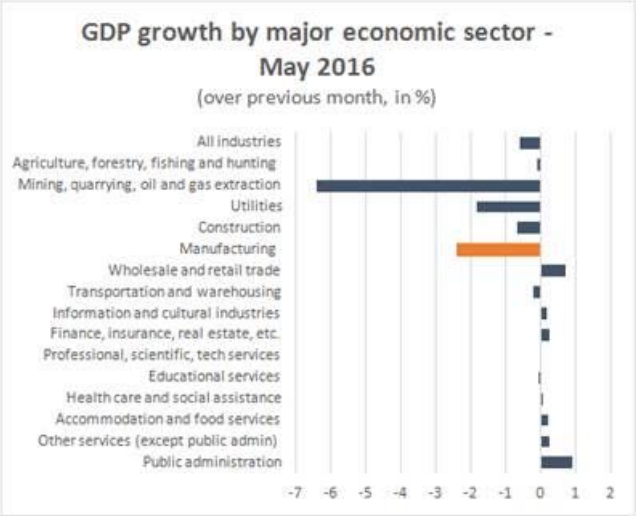


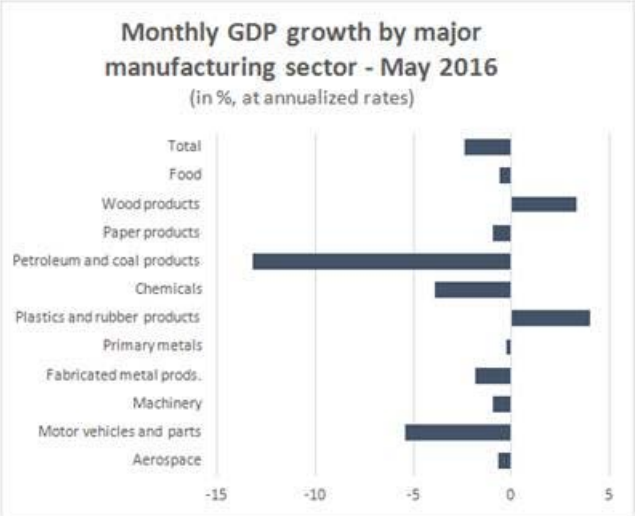


While provincial-level GDP data are not available on a month-to-month basis, the links between this dismal GDP report and the fires is clear. GDP in the energy sector fell by 6.6 per cent in May, including a massive 13.2 per cent drop in petroleum refining. While the economic losses in northeast Alberta extend beyond the energy sector, growth elsewhere in the country was enough to offset those losses. Excluding the energy sector, Canadian GDP eked out a very small gain in May.

Disasters like these wildfires expose one of the major flaws in the calculation and use of GDP as a measure of economic activity and wealth. The loss of 2,400 buildings in Fort McMurray is sure to trigger a massive boom in housing starts and non-residential construction activity in and around the city. That, in turn, will have a strong positive impact on GDP. The problem is that the rebuilding effort does not represent new wealth being created as much as the replacement of that which burned away. GDP does distinguish between creating new assets and replacing lost ones; both appear in the numbers as unambiguously positive activities.

On an industry-by-industry basis, there were heavy losses in goods-producing industries in May, while the services sector emerged largely unscathed. Mining and energy extraction fell by 6.4 per cent, while manufacturing (which included petroleum refining) was down 2.4 per cent for the month. There were also smaller (but still significant) declines in utilities (1.8 per cent) and construction (0.7 per cent).





On the positive side, one of the largest increases in economic activity came in public administration, which was up 0.9 per cent compared to April. While the linkages are less clear, that too may be tied to the forest fires through government emergency response efforts. There were also gains in wholesale trade (1.0 per cent) and in finance and insurance (0.6 per cent).

Within the manufacturing sector, by far the largest decline was in petroleum refining which, as noted above, was down more than 13 per cent compared to April. There was also a sharp drop in chemicals manufacturing (3.9 per cent) as the impact of the fires spread through to petrochemicals producers.

In fact, May was a poor month for manufacturers even in industries with no direct link to northeastern Alberta. GDP in motor vehicles and parts was off 5.5 per cent and has fallen in three of the past four months. There was also a drop in aerospace value-added, which has been trending steadily downward since December.

Only two manufacturing industries saw economic activity expand in May and in both cases, the growth was simply a recovery from a dip in April. Businesses in wood products saw GDP rebound 3.3 per cent, while plastics and rubber producers bounced back 6.6 per cent.

Manufacturing GDP by Major Industry				
	Apr-16	May-16	Apr-May	May 2015 - May 2016
	($billions)	($billions)	% growth	% growth
Total Manufacturing	175.5	171.2	-2.4	-0.8
Durables	99.7	97.6	-2.1	-2.8
Non-durables	75.7	73.6	-2.8	1.5
Major Industries				
Food	23.8	23.6	-0.6	5.8

Motor vehicles and parts	18.8	17.8	-5.5	2.7
Chemicals	14.9	14.3	-3.9	2.0
Primary metals	14.2	14.1	-0.3	10.0
Machinery	12.4	12.3	-0.9	-13.6
Fabricated metals	12.0	11.8	-1.8	-9.4
Wood products	9.7	10.0	3.3	10.0
Plastics and rubber prods.	9.3	9.7	4.0	0.9
Paper products	7.6	7.5	-1.0	1.7
Petroleum and coal prods.	6.9	6.0	-13.2	-5.0
Aerospace	6.6	6.5	-0.7	-10.3

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Merchandise Trade Analysis – June 2016

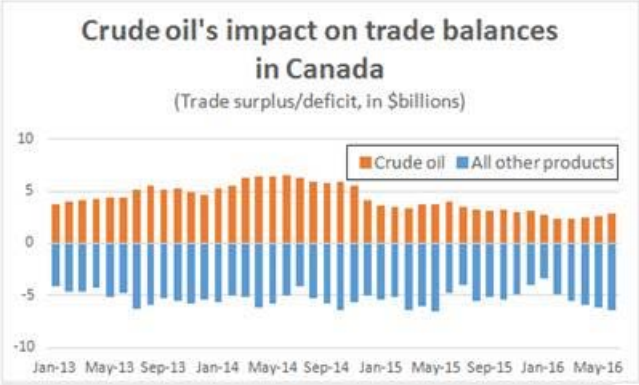
Record trade deficit distracts from modest improvement in export performance

While newspaper headlines focused on Canada's record trade deficit in June, the underlying numbers held some reason for optimism. Overall, exports rose by 0.6 per cent in June - a small increase to be sure, but nevertheless Canada's strongest export performance since January. That growth was eclipsed, however, by a 0.8 per cent increase in imports. As a result, the trade deficit rose from $3.5 billion in May to a new all-time high of $3.6 billion in June.

Canadian Trade Summary			
	Apr-16	May-16	Jun-16
Value ($billions)			
Exports	41.5	41.2	41.4
Imports	45.0	44.7	45.0
Trade Balance	-3.5	-3.5	-3.6
Percentage change			
Export prices	0.1	1.5	0.8

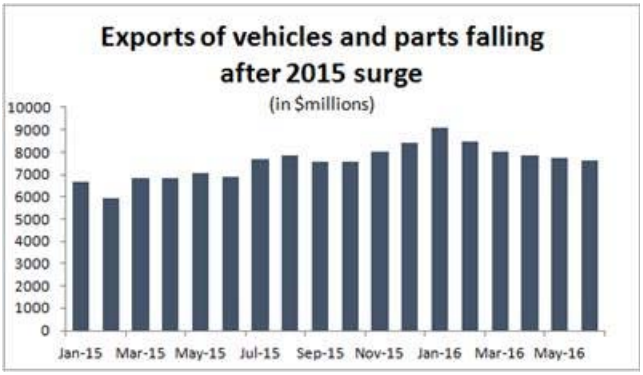
Export volumes	-0.3	-1.9	-1.4
Import prices	-0.2	1.0	0.2
Import volumes	1.1	-0.9	0.6

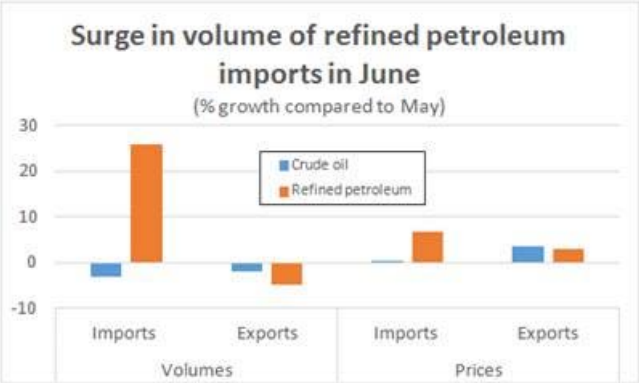
The record trade deficit and Canada's generally weak export performance so far in 2016 is almost entirely the result of the ongoing impact of crude oil prices. For many years, Canada has had a large trade surplus in crude oil which offset a significant trade deficit elsewhere. There remains a large trade surplus in crude oil, but because Canada's crude oil exports are worth less today, that surplus is about half the size it was two years ago. As a result, Canada's trade balance has gone from a $1.5 billion surplus in mid-2014 to a $3.6 billion deficit today.



This is not to say, however, that we should not be concerned about Canada's export performance. After solid growth through much of 2015, there has been a stark deterioration in non-energy exports, which have fallen 11.6 per cent since January. Much of that drop has been because of a sudden reversal of fortune in exports of motor vehicles and parts. Foreign sales of those products rose by nearly 37 per cent from February 2015 to January 2016, but have since fallen by 16.0 per cent.

That trend continued in June with a 1.6 per cent decline - the fifth consecutive month of lower auto sector exports. However, the weakest export performance that month was in metals and mineral products which fell 6.9 per cent. There were also modest declines in machinery and raw metals.



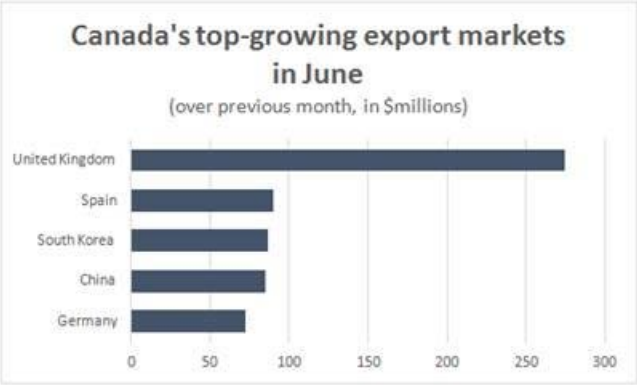


Even so, the gainers outnumbered the losers in June. Buoyed by higher prices, energy export were up 7.2 per cent in June, while chemicals, plastics and rubber products were 5.2 per cent higher. There were also smaller increases in foreign sales of agricultural products and consumer goods.

Higher energy prices should have helped to reduce Canada's trade deficit in June, but the impact was eclipsed by a more dramatic event: the wildfires in and around Fort McMurray. Forest fires shuttered oil production and disrupted refinery activity in the province. Those factors contributed to a massive 30.8 per cent spike in refined petroleum imports into Canada. Removing this impact improves Canada's trade picture somewhat - the trade deficit not including refined petroleum fell from $3.6 billion in April to $3.3 billion in May and then $3.2 billion in June. With production gradually returning to normal, July's trade data should show additional improvements in export totals, as well as a lower trade deficit.

In addition to refined petroleum, there was a surge in Canadian purchases of foreign-made vehicles and parts, which rose 3.6 per cent in June. Imports of electronics also jumped 3.1 per cent. On the other side of the equation, imports of aerospace vehicles and parts fell by 22 per cent, while shipments of agricultural goods, forestry products, construction materials and metal products were also lower.

In terms of major export destinations, the largest growth was in sales to the UK, which rose by $274 million in June. That increase recovers most of the losses from an unexpected drop in exports to that country in May. Exports to Spain, South Korea and China were all higher as well.



Meanwhile, exports to the US fell by $394 million in June, due to the combination of lower exports of vehicles and parts, as well as refined petroleum.