



**Canadian Fluid
Power Association**

**Association canadienne
d'énergie des fluides**

Factory Sales Post Modest Growth in October

HIGHLIGHTS

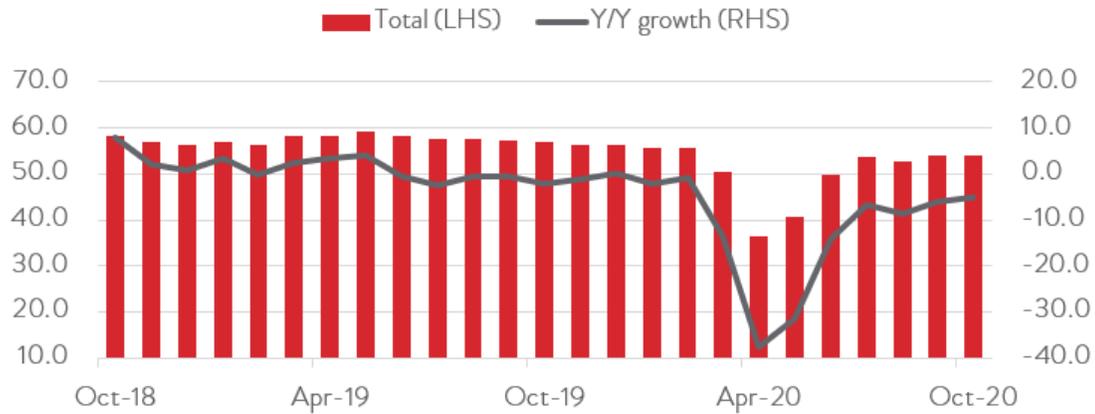
- Manufacturing sales rose 0.3 per cent to \$54.1 billion in October, bringing them to within 3.0 per cent of their pre-pandemic levels.
- Sales were up in 8 of 11 major industries, led by strong gains in paper and in petroleum and coal products.
- Sales were also up in 7 of 10 provinces, with New Brunswick and BC making the biggest contributions to growth.
- The inventory-to-sales ratio dipped slightly from 1.61 in September to 1.60 in October.
- Forward-looking indicators were weak, with new and unfilled orders down 3.9 per cent and 2.3 per cent, respectively.
- The capacity utilization rate dipped from 78.4 per cent in September to 77.8 per cent in October, though it remained above its February 2020 level of 76.4 per cent.
- Today's numbers came in below Statistics Canada flash estimate released just a few weeks ago, which projected a 0.6 per cent advance in October. Add to that the fact that forward-looking indicators were also weak, and this provides further evidence that the sector is losing steam.

FACTORY SALES INCREASE 0.3 PER CENT IN OCTOBER

Manufacturing sales rose 0.3 per cent to \$54.1 billion in October, bringing them to within 3.0 per cent of their pre-pandemic levels. However, sales in constant dollars were unchanged, indicating that the increase was driven entirely by higher prices.

TOTAL MANUFACTURING SALES

Canada (billions \$, seasonally adjusted, per cent)



Sources: CME; Statistics Canada.

Today's numbers came in below Statistics Canada flash estimate released just a few weeks ago, which projected a 0.6 per cent advance in October. Add to that the fact that forward-looking indicators were also weak, and this provides further evidence that the sector is losing steam. As with the overall economy, the manufacturing industry is likely feeling the effects of COVID-19's second wave and stricter public health measures. On a positive note, the industry's prospects will brighten once a sufficient proportion of the population has been vaccinated and everyday life gets closer to normal.

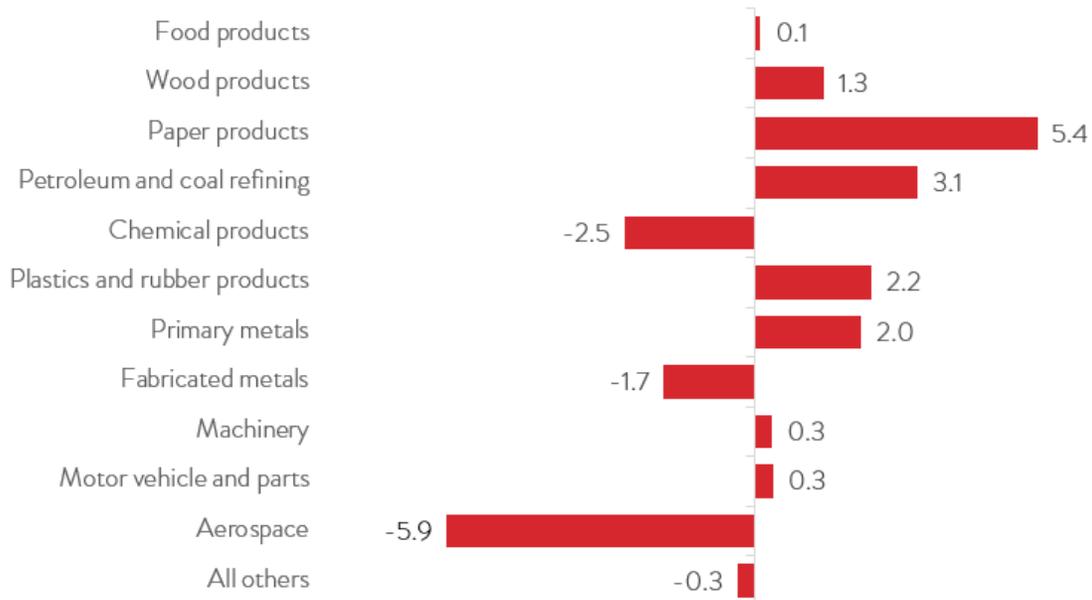
MOST MAJOR INDUSTRIES SEE GAINS

Sales were up in 8 of 11 major industries. Sales of paper products rose 5.4 per cent, the second straight monthly gain, thanks to strength in the pulp, paper and paperboard mills industries. As of October, paper product sales stood 5.1 per cent and 5.6 per cent, respectively, above their February and year-over-year levels.

Sales in the petroleum and coal products industry increased 3.1 per cent, as higher prices more than offset a decline in volumes. Unfortunately, the industry's recovery remains slow. Petroleum and coal product sales in October were 29.4 per cent below pre-pandemic levels and were down 39.0 per cent compared to the same month last year.

MFG. SALES BY INDUSTRY, OCTOBER 2020

Canada (m/m growth, seasonally adjusted)



Sources: CME; Statistics Canada.

The woods product industry continued to build on strong gains in previous months, with sales rising 1.3 per cent in October. As a result, sales were more than one-third higher than in February and 45.7 per cent higher than in October 2019. This is far and away the strongest recovery of any major industry.

On a negative note, sales of chemical products fell 2.5 per cent, the first decline in three months. According to Statistics Canada, the decline was mostly attributable to lower sales of resin, synthetic rubber and artificial and synthetic fibres, as well as pharmaceuticals and medicine.

In addition, sales in the aerospace industry fell 5.9 per cent in October. Aerospace has been hit hard by the pandemic and the associated collapse in air travel. Sales in October were 25.1 per cent and 22.3 per cent, respectively, below February and year-ago levels.

SALES UP IN 7 OF 10 PROVINCES

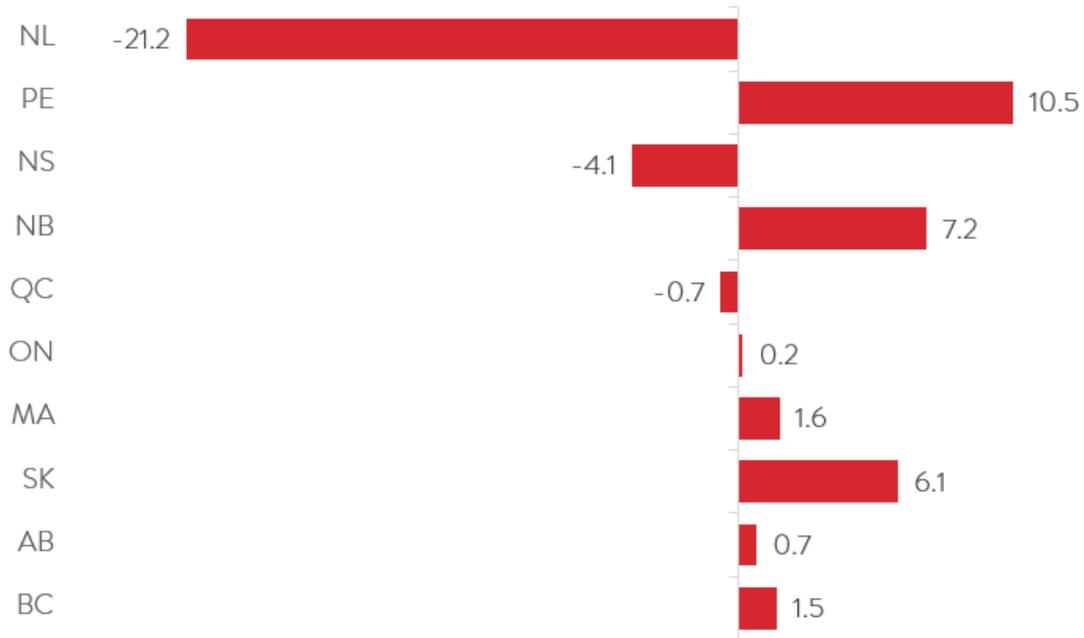
Sales were also up in 7 of 10 provinces, with New Brunswick (+7.2 per cent) and BC (+1.5 per cent) making the biggest contributions to growth. BC's gains were largely attributable to higher sales of paper and wood products.

At the other end of the spectrum, Quebec (-0.7 per cent) and Newfoundland and Labrador (-21.2 per cent) posted the largest declines. This was Quebec's first decline in six months and reflected

lower sales in the aerospace industry. Sales in Newfoundland and Labrador were weighed down by lower sales of durable goods.

MFG. SALES BY PROVINCE, OCTOBER 2020

(seasonally adjusted, m/m growth)



Sources: CME; Statistics Canada.

INVENTORY-TO-SALES RATIO FALLS SLIGHTLY

Following two straight monthly gains, total inventories declined 0.4 per cent to \$86.5 billion in October. This, combined with the increase in sales, pushed the inventory-to-sales ratio down slightly from 1.61 in September to 1.60 in October. This ratio represents the number of months it would take to exhaust inventories assuming sales remain at their current level.

INVENTORY-TO-SALES RATIO DOWN A NOTCH

Canada (ratio of total inventory to sales)



Sources: CME; Statistics Canada.

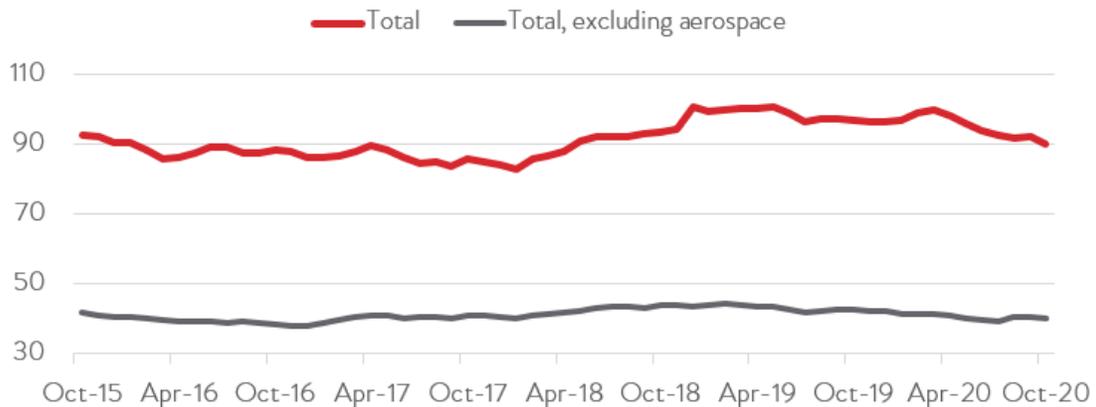
FORWARD-LOOKING INDICATORS SEND NEGATIVE SIGNAL

Forward-looking indicators were discouraging in October. Unfilled orders decreased 2.3 per cent to \$90.0 billion, due mainly to lower unfilled orders of aerospace products and parts. In fact, total unfilled orders of aerospace product and parts fell to their lowest level since October 2018.

At the same time, new orders fell 3.9 per cent to \$52.0 billion, the second decline in three months. The transportation equipment industry was largely responsible for the drop.

UNFILLED ORDERS DOWN IN OCTOBER

Canada (billions \$, seasonally adjusted)



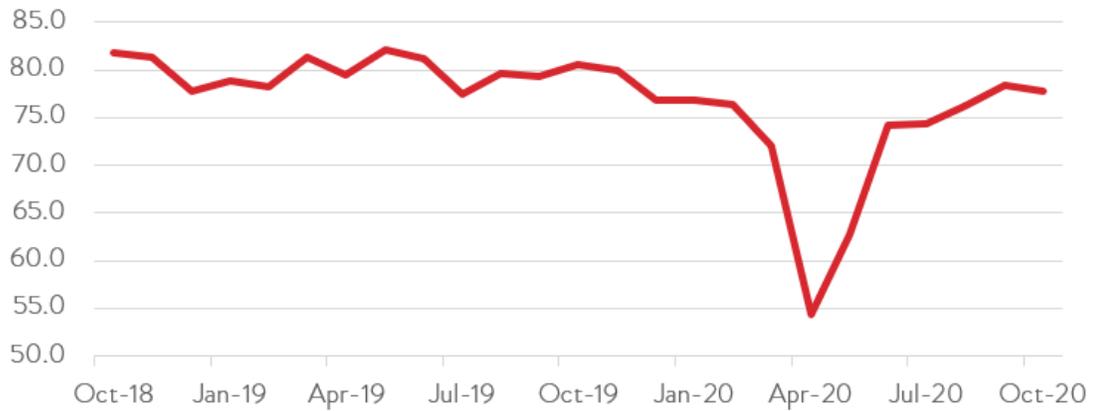
Sources: CME; Statistics Canada.

CAPACITY UTILIZATION RATE DIPS A TOUCH

Finally, the sector's capacity utilization rate dipped from 78.4 per cent in September to 77.8 per cent in October, though it remained above its February 2020 level of 76.4 per cent.

CAPACITY UTILIZATION RATE EDGES DOWN

Canada (manufacturing capacity utilization rate, percent)



Sources: CME; Statistics Canada.