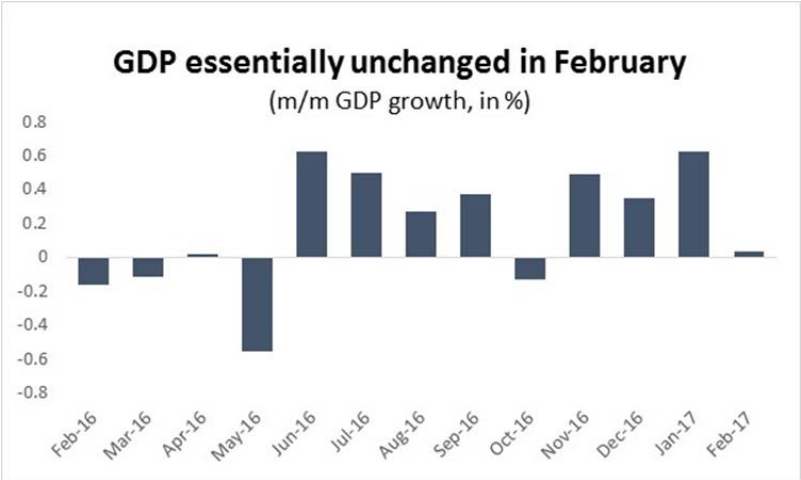
Canadian Fluid Power Association
Association canadienne d'énergie des fluides

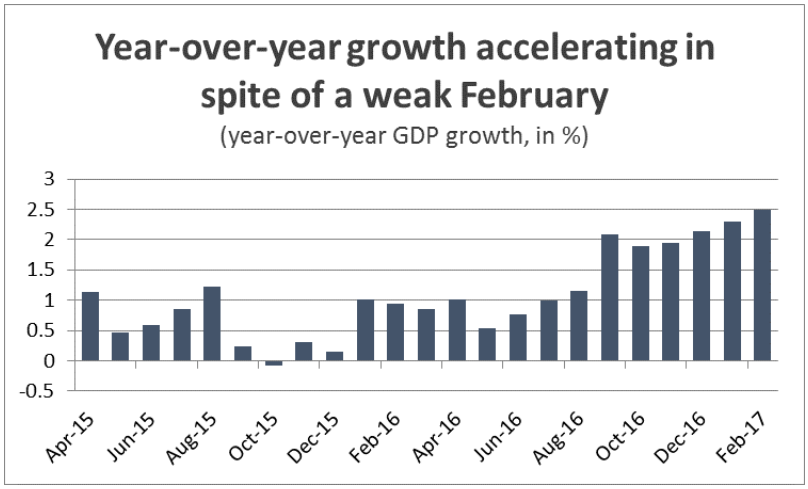
Manufacturing GDP Analysis – February 2017

Economy slows to a crawl in February as manufacturing activity falls

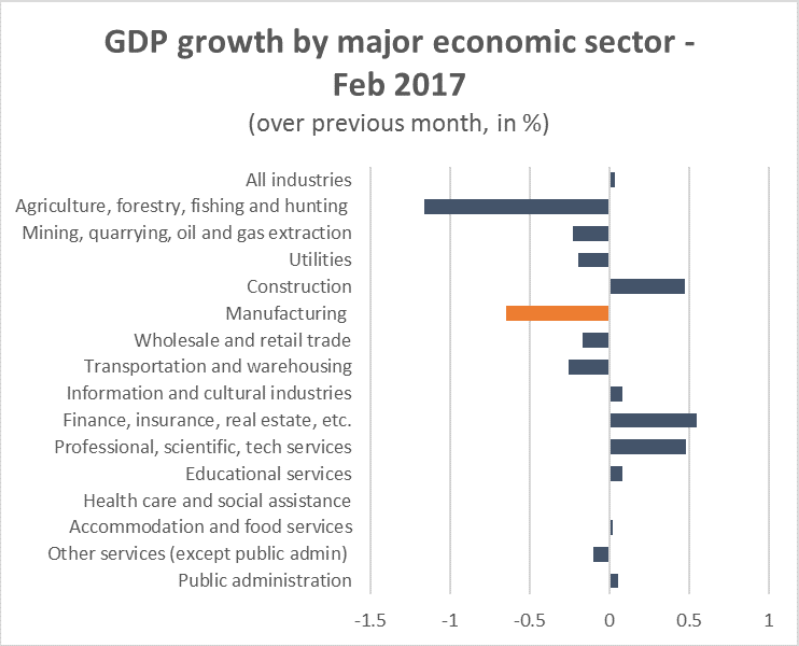
After an excellent start to the year, economic growth in Canada came to a halt in February as weakness in manufacturing and resource industries cancelled out gains in financial and business services. Overall, GDP grew by just 0.03 per cent in February, a far cry from the 0.62 per cent increase in January. It should be noted, however, that January was an exceptionally strong month for the Canadian economy – its best month-over-month performance in five-and-a-half years.



Although GDP was effectively unchanged in February, January's strong performance, combined with a weak start to the year in 2016, has already set the Canadian economy up for a solid first half of the year in 2017. Through two months, GDP is 2.4 per cent higher than over the same period last year. Given last year's struggles (GDP fell in three out of four months from February to May 2016), year-over-year growth is likely to accelerate in the coming months.

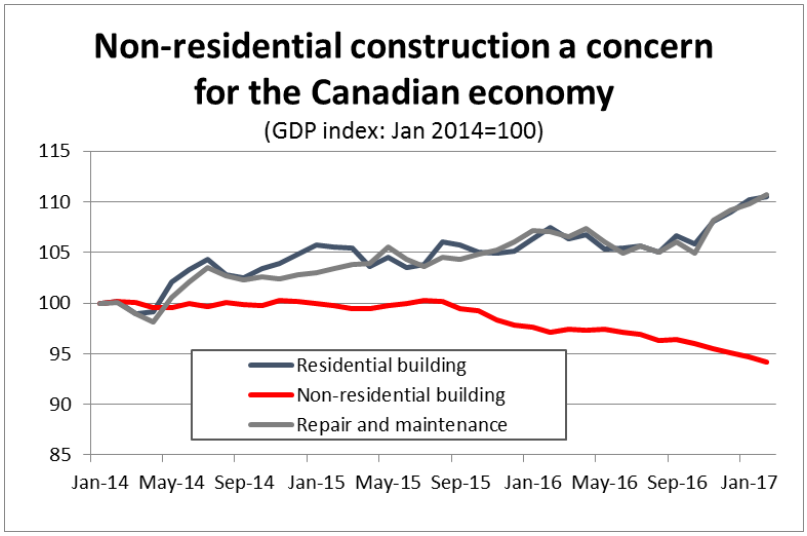


As noted above, economic growth was dragged down by a decline in manufacturing and resources. GDP in agriculture, forestry and other renewable resource industries was down 1.2 per cent in February, while value-added output in manufacturing was 0.65 per cent lower. However, those sectors were by no means alone. There were notable declines in mining, energy, and utilities, as well as in wholesale and retail trade. It should be noted, however, that in most cases these declines came after unusually strong performances in January. This was especially true of manufacturing, energy, and wholesale trade.



In total, eight of the fifteen major economic sectors in Canada saw positive growth in February. However, there were meaningful gains in just three: finance, insurance and related services; professional, scientific and technical services; and construction.

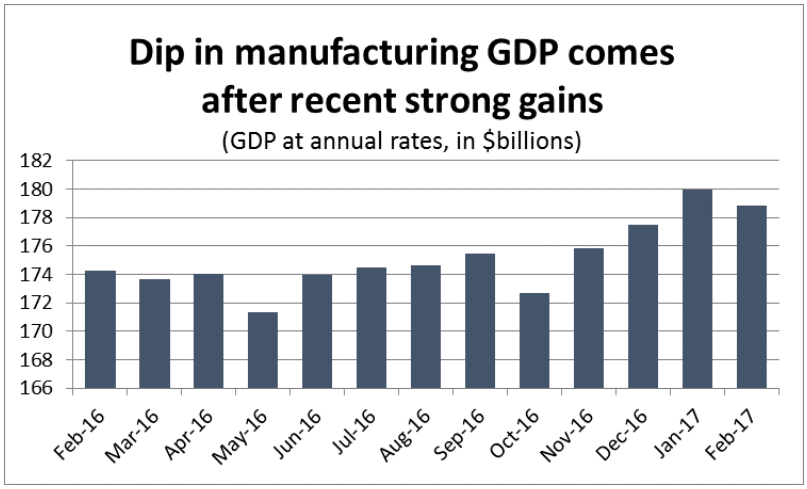
Of those, the most interesting story has been in construction. Construction has been an anchor on the Canadian economy since the collapse in oil prices in late 2014. It has only begun to turn around in the last few months, led by residential building and, to a lesser degree, by repair and maintenance spending. While this is certainly good news in the short term, there remain deep longer-term concerns. GDP in non-residential building construction has been falling steadily now for more than two years. While energy-related construction is at least partly to blame, the lack of offsetting growth elsewhere suggests that all is not well on the business side of the economy.



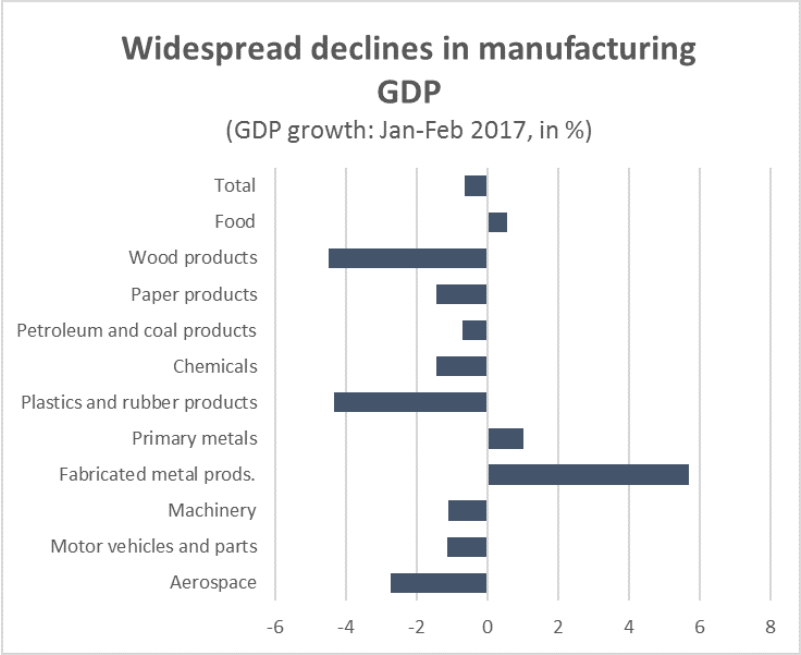
Looking specifically at manufacturing, February's GDP decline of 0.65 per cent was fairly severe, but it also came on the heels of three consecutive months of spectacular gains. As a result, even with the drop in February, manufacturing GDP remains higher than at any point since the 2008-2009 recession.

Manufacturing GDP by Major Industry				
	Jan-17 ($billions)	Feb-17 ($billions)	Jan-Feb % growth	Feb 2016-Feb 2017 % growth
Total Manufacturing	180.0	178.8	-0.6	2.6
Durables	103.7	103.0	-0.6	1.4
Non-durables	76.4	75.9	-0.7	4.1
Major Industries				
Food	24.8	25.0	0.6	8.7
Motor vehicles and parts	18.4	18.2	-1.2	-2.2
Chemicals	14.8	14.6	-1.5	1.0
Machinery	14.5	14.3	-1.1	9.9
Primary metals	14.1	14.2	1.0	2.6
Fabricated metals	13.0	13.8	5.7	5.6
Wood products	10.8	10.3	-4.5	-0.8
Plastics and rubber prods.	10.5	10.1	-4.3	4.3
Paper products	7.3	7.2	-1.4	-2.9
Petroleum and coal prods.	6.4	6.3	-0.7	0.5
Aerospace	6.3	6.2	-2.7	-10.3

Within manufacturing, losses were relatively widespread. Of the eleven leading manufacturing industries in Canada, only three saw positive growth. Leading the way were producers of fabricated metals, who are enjoying a long-awaited turnaround of their own. After nearly two years of steady declines, GDP in fabricated metals has increased by 13.2 per cent since November, including a 5.7 per cent jump in February. There were also smaller gains in food processing and primary metals.

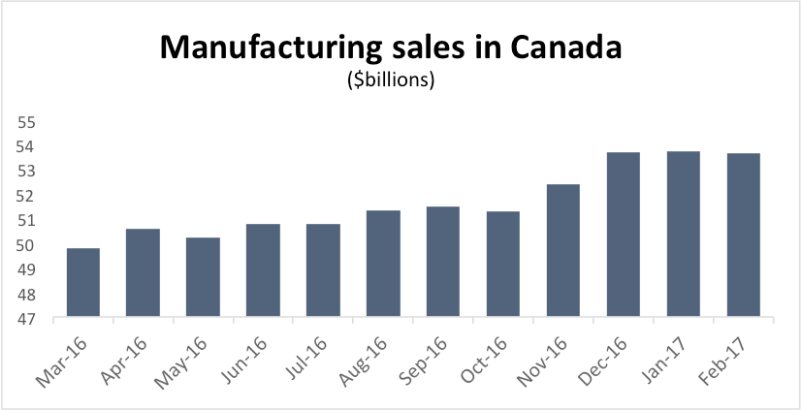


At the other end of the spectrum, GDP fell sharply in wood products (-4.5 per cent), as well as plastics and rubber products (4.3 per cent). There were also notable declines in aerospace (2.7 per cent), chemicals (1.5 per cent) and paper products (1.4 per cent). It is worth noting that the decline in wood products GDP predates the recent imposition of countervailing duties on Canadian lumber exporters by the United States. Those duties are likely to continue to drive GDP in wood products lower in the coming months.

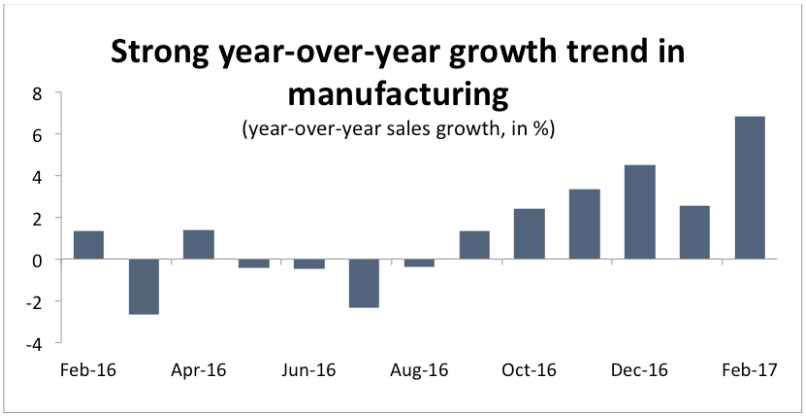


Sales flat in February after a record January

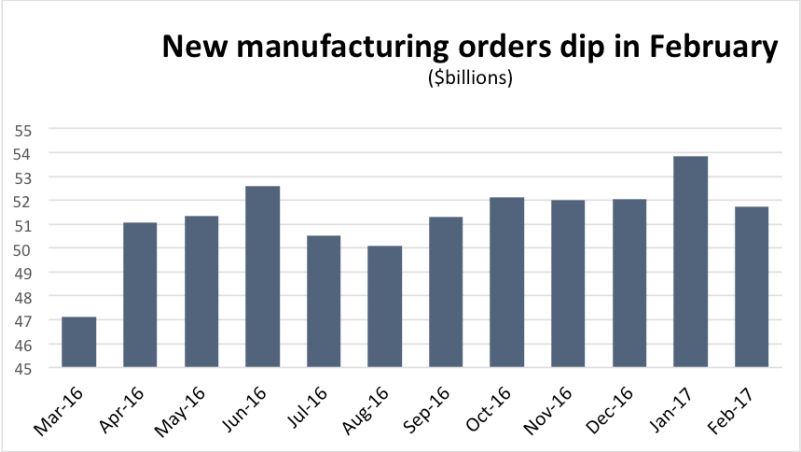
A surge in aerospace deliveries in February offset declines in the auto sector, helping to keep overall manufacturing activity essentially flat after a record-setting January. Overall sales dipped by 0.2 per cent in February to reach $53.6 billion. Even so, that $53.6 billion represents the second-highest (nominal-dollar) monthly sales level on record.



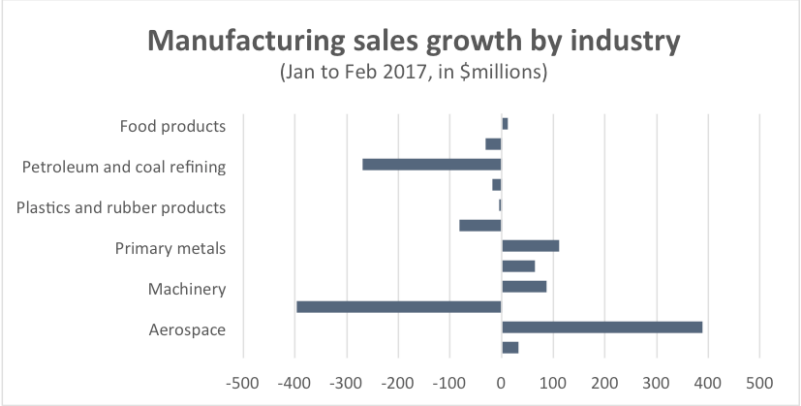
In spite of the month-over-month decline, early returns on 2017 have been very positive for the manufacturing sector. Year-over-year sales have been trending up since the fall, and February's sales numbers were 6.8 per cent higher than they were 12 months earlier. Moreover, recent sales growth has been largely driven by volume gains rather than price effects.



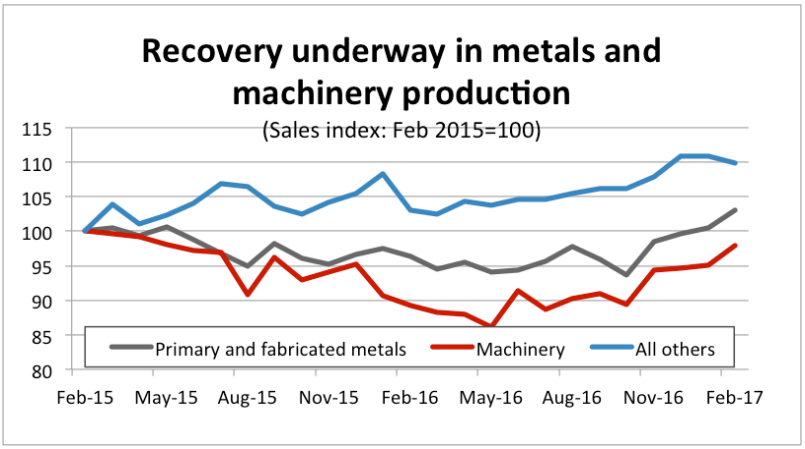
Although sales activity remains solid, February did bring with it a few dark clouds in terms of the short-term outlook for future business. Specifically, new orders for Canadian manufactured goods (not including aerospace) tumbled by 6.3 per cent compared to January, erasing three consecutive months of growing business demand. Similarly, there was an increase in manufacturers' inventory stockpiles, as output in aerospace, primary and fabricated metals and refined petroleum went unsold. Overall inventory levels rose 1.6 per cent in February, led by a 9.0 per cent increase in the aerospace sector.



In spite of that increase in inventories, February was still an excellent month for aerospace production in Canada. After trending steadily downward since last May, sales activity jumped by 27 per cent compared to January to reach its highest level ($1.82 billion) since December 2015. In fact, were it not for the surge in aerospace sales, overall manufacturing activity across Canada would have fallen by 1.0 per cent in February instead of 0.2 per cent.



Aerospace may have been the primary growth driver in February, but it was not the only industry to see gains. Strengthening demand in the energy sector and stabilizing commodity prices are helping spark a recovery in primary and fabricated metals manufacturing, as well as machinery production. All three industries recorded solid gains in February, continuing a trend that began early last summer.



Those gains were offset by losses in two key industries: automobile and parts production, and petroleum refining. In the case of the auto sector, sales fell 4.5 per cent in February as production volumes tumbled after a temporary spike in December and January. Lower volumes were also a major contributor to the 5.0 per cent decline in petroleum and coal refinery sales.

The industry-level story - surging aerospace deliveries and lower auto sales - yielded predictable results in terms of manufacturing activity by province. Quebec led all provinces in sales growth in February, recording a 2.1 per cent increase compared to January. That growth continues a recent string of solid gains in Quebec-based manufacturing; sales from that province are up 11.2 per cent in 12 months. Meanwhile, sales in Ontario were driven down 1.1 per cent by lower auto sector output.

Manufacturing sales were down across Atlantic Canada in February, while the western provinces posted mixed results. Lower output in primary metals and transportation equipment drove Manitoba's monthly sales down by 1.4 per cent, while the 1.7 per cent decline in BC was the result of lower output in chemicals and wood products. In Saskatchewan, sales were up slightly, in spite of a considerable drop in food products manufacturing. And finally in Alberta, chemicals, fabricated metals and machinery all contributed to a 1.4 per cent increase in total sales.