



Cdn Manufacturers Say “Whoa is We”

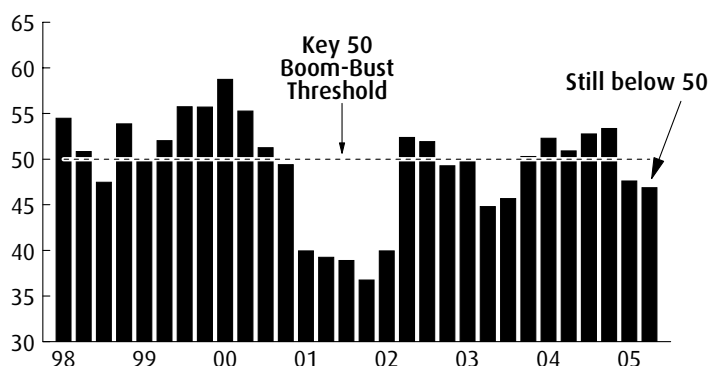
Canadian manufacturing sentiment weakened further at the start of the second quarter, with notable concern over order books and finished inventories on hand, according to the latest Business Conditions Survey by Statistics Canada. Converted into an ISM-style index, the survey reported a drop to 46.9 in Q2 from a downwardly revised 47.6 (was 48.5) reading in Q1, both below the key 50 threshold. The soft results contrast vividly with the surprisingly perky readings in the Bank of Canada’s recent Business Outlook Survey. The discrepancy may reflect the more recent nature of the StatsCan survey, which might be picking up the emerging soft patch in U.S. activity and the crunch from record oil prices.

Two of the five sub-indexes managed to eke out gains in Q2, as both production and employment climbed back above the 50 level. Expectations to nudge up output and hiring levels simply do not square with the very weak levels of unfilled orders and sky-high inventories. The share of manufacturers reporting that they were comfortable with inventory levels dropped to the lowest reading in over three years. Meantime, the backlog of unfilled orders index fell to 39.0, the second weakest result since the U.S. recession in 2001. Against this backdrop, it is difficult to believe that the relatively sanguine readings on production and employment can be maintained, especially if U.S. growth begins to falter.

The latest survey also found that 12% of firms reported “other production difficulties”, one of the highest levels on record. The transportation equipment industry accounted for most of these responses, saddled with unsold product and a lack of orders.

The Bottom Line: The auto sector may be at the heart of the U.S. soft patch, and that slowdown is reverberating into Canada’s car-heavy factory sector. Battling the headwinds of a still-strong loonie and a struggling auto industry, caution among Canadian manufacturers is understandably deepening.

BMO Nesbitt Burns Business Conditions Index



	05Q2	05Q1	04Q4	04Q3
Total	46.9	47.6	53.4	52.8
Orders	47.5	49.5	56.5	53.5
Production	50.5	49.5	55.5	55.5
Backlogs	39.0	42.5	49.5	51.0
Employment	51.5	48.5	53.5	53.0
Inventories	38.5	43.0	44.0	46.0

Sources: Statistics Canada and BMO Nesbitt Burns

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