



The Daily

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MAJOR RELEASES

- **Monthly Survey of Manufacturing, May 2003** 2
Finished-product inventories continued to accumulate and unfilled orders remained lethargic in May, as manufacturing activity weakened further. Manufacturers' shipments fell 0.8% to \$42.4 billion, following April's sharp drop of 3.4%.

NEW PRODUCTS



MAJOR RELEASES

Monthly Survey of Manufacturing

May 2003

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Several hurdles facing the Canadian economy

In recent months, the strength of the Canadian economy has faced various obstacles. The war in Iraq contributed to soaring petroleum prices and, consequently, to record high shipment levels. April's outbreak of the severe acute respiratory syndrome (SARS), followed by a second wave in May, has been a significant blow to the Canadian tourism industries, especially in the Toronto area.

The detection of a single case of bovine spongiform encephalopathy (BSE), or mad cow disease, in Alberta resulted in the closure of foreign borders to the export of Canadian beef products. This ongoing situation had a negative impact on the meat products industry of the manufacturing sector.

The Business Conditions Survey reported that 31% of manufacturers would decrease production in the second quarter, because of concerns with lower levels of new and unfilled orders. Coupled with the appreciating value of the Canadian dollar and the ongoing weak state of the US economy, these factors will continue to test the strength of the Canadian manufacturers and the economy as a whole in the months to come.

Shipments weaken in the second quarter

The second quarter began with widespread declines in manufacturing production. April was dominated by a sharp drop in petroleum prices, as well as lower shipments of motor vehicles and parts. In May, manufacturers reported lower shipments for a second month, as 13 of 21 industries, accounting for almost three-quarters of total shipments, reported decreases.

Quebec manufacturers' shipments fall to a 17-month low

In May, seven provinces and the territories reported lower shipments. Widespread decreases in Quebec's

Note to readers

In addition to current-month estimates, data for the previous three months are regularly revised. Factors influencing revisions include late receipt of company data, incorrect information reported earlier, replacement of estimates with actual figures (once available), and seasonal adjustments. Consult the appropriate CANSIM tables for revised data.

***Non-durable goods industries** include food, beverage and tobacco products, textile mills, textile product mills, leather and allied products, paper, printing and related support activities, petroleum and coal products, chemicals and plastic and rubber products.*

***Durable goods industries** include clothing, wood products, non-metallic mineral products, primary metals, fabricated metal products, machinery, computer and electronic products, electrical equipment, appliance and components, transportation equipment, furniture and related products and miscellaneous manufacturing.*

***Unfilled orders** are a stock of orders that will contribute to future shipments assuming that the orders are not cancelled.*

***New orders** are those received whether shipped in the current month or not. They are measured as the sum of shipments for the current month plus the change in unfilled orders. Some people interpret new orders as orders that will lead to future demand. This is inappropriate since the "new orders" variable includes orders that have already been shipped. Readers should take note that the month-to-month change in new orders may be volatile. This will happen particularly if the previous month's change in unfilled orders is closely related to the current month's change.*

Not all orders will be translated into Canadian factory shipments because portions of large contracts can be subcontracted out to manufacturers in other countries.

manufacturing sector contributed to a \$158 million (-1.6%) decrease to \$9.7 billion, the lowest level of shipments since December 2001. The primary metals and petroleum industries were the main contributors to the decline.

Shipments in Alberta fell by \$71 million (-2.0%) to \$3.5 billion, the second decrease in a row. Following a strong first quarter, Alberta's manufacturing sector has been hit hard by April's steep decline in petroleum prices, as well as by the current problem of mad cow disease, which has shut down Canada's export market for beef products. Lower shipments of food, primarily due to the export ban, was the main contributor to Alberta's overall decline in shipments for May.

Shipments by province and territory

	April 2003	May 2003	April to May 2003
Seasonally adjusted			
	\$ millions		% change
Newfoundland and Labrador	184	195	6.2
Prince Edward Island	109	114	4.5
Nova Scotia	737	737	0.0
New Brunswick	1,087	1,018	-6.3
Quebec	9,893	9,736	-1.6
Ontario	22,830	22,819	-0.0
Manitoba	982	950	-3.2
Saskatchewan	621	610	-1.8
Alberta	3,570	3,499	-2.0
British Columbia	2,782	2,760	-0.8
Yukon, Northwest Territories and Nunavut	6	5	-12.8

The impact of mad cow disease

On May 20, a single case of mad cow disease was detected in Alberta. Key export markets, including the United States, Japan and other countries, quickly closed their borders to Canadian beef products. In May, shipments of meat products (including beef, pork and lamb, and excluding poultry) increased by a modest 2.5% at the Canada level, well below the average May increase observed in previous years. May is typically the month when consumers gear up for the summer barbecue season.

Alberta shipments of meat products dropped 5.6% in May, and animal slaughtering (excluding poultry) fell 8.4%. The decreases reflect the fact that the export ban on beef products was in effect for only the last 11 days of May. The impact is expected to be more significant in the coming months as the international trade ban remains.

Manufacturing employment continues to decline in June

Employment in manufacturing continued its downward trend that began at the end of 2002. According to the latest release of the Labour Force Survey, manufacturing employment fell by 23,000 in June, the sixth decrease in the last seven months. There are now 89,000 fewer factory workers (-3.7%) than in November 2002.

Widespread decreases

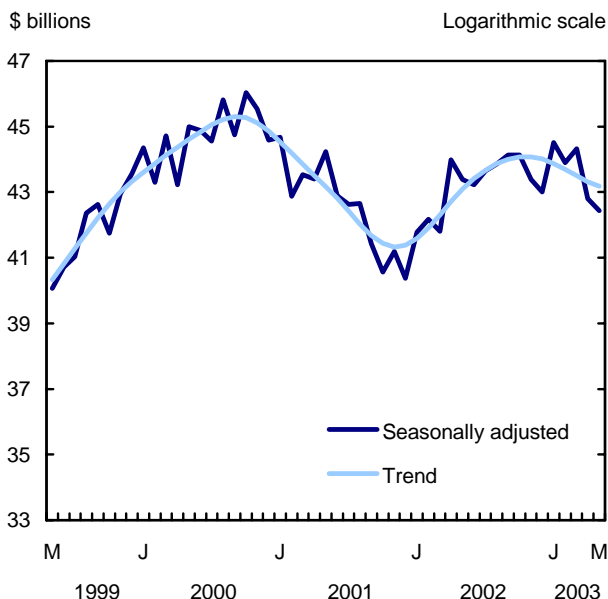
The primary metals industry was the principal contributor to the lower shipments in May. Shipments declined 3.5% to \$2.6 billion. Falling US demand for primary metals, coupled with lower industrial prices in

several sectors of the industry, had a negative impact on shipments in recent months.

Shipments of petroleum and coal products eased back 2.3% to \$2.9 billion, following April's steep 18.8% drop. As the war in Iraq drew to a close, prices of petroleum and coal products tumbled almost 18% since their apex of April. In addition to the price effects, several refineries have slowed production in recent months for maintenance purposes.

The food industry also contributed to lower shipments in May, reporting a 1.2% drop to \$5.3 billion. As noted above, a slowdown in the meat products industry due to the export ban on beef, was mostly responsible for the decline.

Shipments decline for a second consecutive month



Inventories decline for the first time since January

Inventories, which had been accumulating since February, fell 0.5% to \$63.4 billion in May. Despite the drop, manufacturing inventories continued their upward trend.

The main contributor to the decline was the aerospace products and parts industry. Aerospace inventories fell 2.8% to \$7.7 billion, the first decrease in four months. Plummeting orders and weak shipment levels over the last year and a half had a severe impact on the aerospace industry.

Inventories of petroleum and coal products, which reached a 19-month high in April, fell back 7.8% to \$1.6 billion in May. Meanwhile, inventories of motor

vehicles decreased 3.8% to \$1.4 billion, the lowest level since September 1999. Manufacturers continued to streamline inventories, as demand for new motor vehicles in North America remained uncertain.

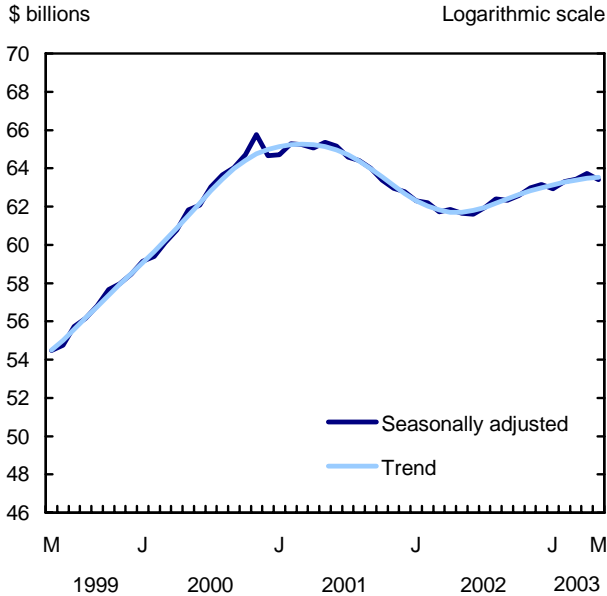
Lower raw materials and goods-in-process pull down total inventories

Decreases in raw materials and goods-in-process inventories contributed to the decline in total inventories. Raw materials fell 1.0% to \$27.5 billion, the lowest level since January. Meanwhile, goods-in-process inventories slipped 0.5% to \$15.8 billion in May, largely offsetting April's 0.6% increase.

Finished-products continue to accumulate

The ongoing weakness of the economy in the United States, Canada's largest trading partner, is contributing to the recent build-up of finished-product inventories. Finished-products increased 0.3% to \$20.1 billion in May, edging closer to the record high of \$20.2 billion established in June 2001. Following the fourth increase in a row, finished-product inventories are at the highest level since June 2001.

Inventories decrease in May



Inventory-to-shipment ratio unchanged

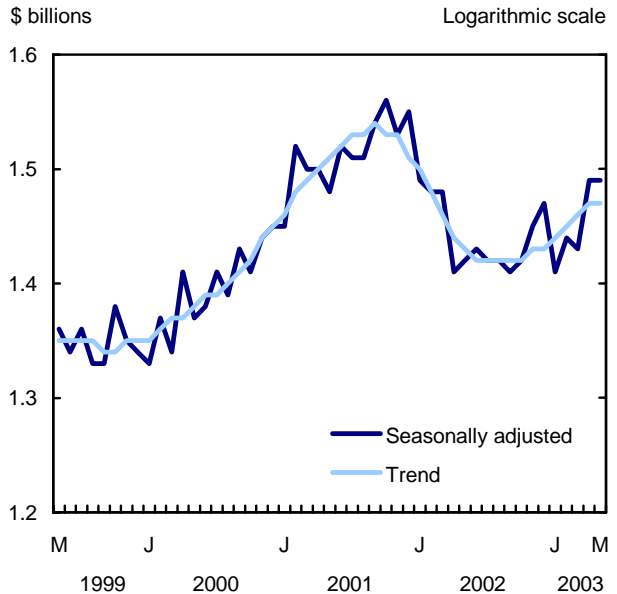
Following a big jump in April, the inventory-to-shipment ratio remained constant at

1.49 in May, the highest level since December 2001 (1.55). Declining shipments and inventories contributed to the stable ratio.

The inventory-to-shipment ratio had remained stable around 1.43 in the first quarter. A higher ratio indicates some difficulty by manufacturers to clear inventories as a result of weakening demand.

Despite May's increase in finished-product inventories, the finished-product inventory-to-shipment ratio was unchanged at 0.47 for the second consecutive month. In May, the ratio remained at the highest level since the economic downturn of 2001. The ratio has been on an upward trend since the autumn of 2002. The ratio is a measure of the time that would be required in order to exhaust finished-product inventories if shipments were to remain at their current level.

The inventory-to-shipment ratio remains stable



Unfilled orders remain bleak

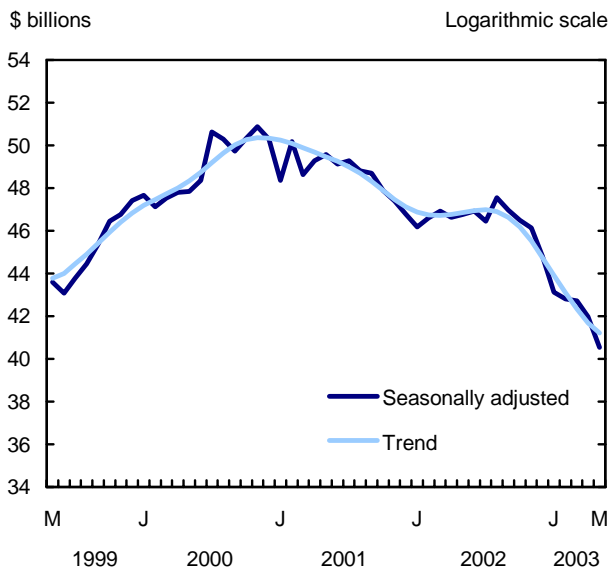
In May, unfilled orders fell 3.4% to \$40.5 billion, the lowest level since June 1998. Unfilled orders have decreased for nine consecutive months, the longest string of declines since 14 were reported during the 1990–1991 recession.

May's decrease was concentrated in the machinery and aerospace products and parts industries. Following a strong build-up earlier in the year, unfilled orders for the machinery industry declined 10.8% to \$6.3 billion in May. Partly as a result of the sharp drop in petroleum prices,

significant decreases in orders were reported by the mining and oil and gas field machinery manufacturing industry.

The ongoing downturn in the global aviation sector continued to pose obstacles for aerospace manufacturing. In May, the aerospace products and parts industry reported a 3.2% drop in unfilled orders to \$12.7 billion. Unfilled orders have now decreased for 20 consecutive months, and are almost 40% below levels of September 2001, the last month to report higher orders for aerospace products and parts.

Unfilled orders continue to fall



Fewer new orders in May

Manufacturers received fewer new orders in May. New orders fell 2.5% to \$41.0 billion, the second decline in a row. Decreases were concentrated in the machinery and primary metals industries.

Available on CANSIM: tables 304-0014 and 304-0015.

Definitions, data sources and methods: survey number 2101.

The May 2003 issue of the *Monthly Survey of Manufacturing* (31-001-XIE, \$15/\$147) will be available soon. See *How to order products*.

Data for shipments by province in greater detail than normally published may be available on request.

All data are benchmarked to the 1998 Annual Survey of Manufactures.

For general information or to order data, contact the dissemination officer (1-866-873-8789; 613-951-9497; fax: 613-951-9499; manufact@statcan.ca). To enquire about the concepts, methods or data quality of the release, contact Russell Kowaluk (613-951-0600; kowarus@statcan.ca), Manufacturing, Construction and Energy Division.

□

Shipments, inventories and orders in all manufacturing industries

	Shipments		Inventories		Unfilled orders		New orders		Inventories-to-shipments ratio
	Seasonally adjusted								
	\$ millions	% change	\$ millions	% change	\$ millions	% change	\$ millions	% change	
May 2002	43,380	-1.4	61,657	-0.3	46,761	0.3	43,500	-0.4	1.42
June 2002	43,228	-0.3	61,612	-0.1	46,933	0.4	43,400	-0.2	1.43
July 2002	43,649	1.0	61,958	0.6	46,440	-1.1	43,156	-0.6	1.42
August 2002	43,851	0.5	62,407	0.7	47,556	2.4	44,968	4.2	1.42
September 2002	44,134	0.6	62,320	-0.1	46,963	-1.2	43,541	-3.2	1.41
October 2002	44,132	0.0	62,580	0.4	46,491	-1.0	43,660	0.3	1.42
November 2002	43,385	-1.7	62,989	0.7	46,127	-0.8	43,021	-1.5	1.45
December 2002	42,998	-0.9	63,161	0.3	44,820	-2.8	41,690	-3.1	1.47
January 2003	44,520	3.5	62,929	-0.4	43,123	-3.8	42,823	2.7	1.41
February 2003	43,901	-1.4	63,307	0.6	42,807	-0.7	43,584	1.8	1.44
March 2003	44,320	1.0	63,433	0.2	42,716	-0.2	44,230	1.5	1.43
April 2003	42,799	-3.4	63,717	0.4	41,971	-1.7	42,054	-4.9	1.49
May 2003	42,442	-0.8	63,405	-0.5	40,529	-3.4	41,001	-2.5	1.49

Manufacturing industries except motor vehicle, parts and accessories

	Shipments		Inventories		Unfilled orders		New orders	
	Seasonally adjusted							
	\$ millions	% change	\$ millions	% change	\$ millions	% change	\$ millions	% change
May 2002	35,058	-0.1	58,179	-0.4	45,046	0.2	35,135	1.0
June 2002	34,865	-0.6	58,174	0.0	45,234	0.4	35,052	-0.2
July 2002	34,846	-0.1	58,383	0.4	44,707	-1.2	34,319	-2.1
August 2002	35,261	1.2	58,914	0.9	45,663	2.1	36,218	5.5
September 2002	35,787	1.5	58,808	-0.2	44,932	-1.6	35,056	-3.2
October 2002	35,834	0.1	59,130	0.5	44,532	-0.9	35,434	1.1
November 2002	35,260	-1.6	59,403	0.5	44,195	-0.8	34,923	-1.4
December 2002	35,740	1.4	59,410	0.0	42,967	-2.8	34,511	-1.2
January 2003	36,284	1.5	59,376	-0.1	41,307	-3.9	34,624	0.3
February 2003	35,825	-1.3	59,728	0.6	41,027	-0.7	35,546	2.7
March 2003	35,964	0.4	59,942	0.4	40,991	-0.1	35,928	1.1
April 2003	34,758	-3.4	60,223	0.5	40,289	-1.7	34,056	-5.2
May 2003	34,413	-1.0	60,002	-0.4	38,910	-3.4	33,034	-3.0

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MAJOR RELEASES

- **Urban transit, 1995** 2
Despite the emphasis on taking urban transit, Canadians are using it less and less. In 1996, only Canadian took an average of about 4.1 per cent on some form of urban transit, the lowest level in the past 20 years.
- **Productivity, hourly compensation and unit labour cost, 1995** 4
Growth in productivity among Canadian businesses was noticeably weak again in 1996 accompanied by sluggish gains in employment and slow economic growth during the year.

OTHER RELEASES

- **High-wind index, May 1997** 3
- **Short-term Expectations Survey** 3
- **Steel primary forms, week ending May 31, 1997** 12
- **Egg production, April 1997** 12

PUBLICATIONS RELEASED 11

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