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Releases

Monthly Survey of Manufacturing, July 2005
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## Releases

## Monthly Survey of Manufacturing <br> \author{ July 2005 

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July's decrease in shipments, the fourth so far in 2005, was wide ranging as 16 of 21 industries, accounting for $92.5 \%$ of total shipments, posted declines. The trend for shipments, negative since November 2004, has been declining at a slow but relatively steady pace.

## Manufacturers face challenges

Manufacturers continued to face challenges in 2005 that remained largely beyond their control. The soaring cost of inputs, the heightened value of the Canadian dollar and increased foreign competition have taken a toll on the sector. At 1997 prices, factory shipments dropped $1.3 \%$ to $\$ 46.2$ billion, as manufacturers cut production volumes.

According to the latest Labour Force Survey, manufacturers continued to shed jobs during the summer. Following a decline of 26,000 in July, manufacturing employment was trimmed by another 8,500 in August. The number of factory jobs has fallen by $4.7 \%$ or 108,000 since August 2004.

In other manufacturing-related news, weak export growth in the second quarter of 2005 contributed to the first decline in four quarters of the manufacturing sector's capacity utilization rate. According to the release of industrial capacity utilization rates, the rate for the manufacturing sector fell 0.4 percentage points to $86.7 \%$ in the second quarter. The transportation equipment, chemicals and non-metallic mineral products industries contributed most to the drop.

## Shipments slide in several provinces

Ontario and Alberta led the six provinces and territories reporting lower shipments in July.

In Ontario, a larger-than-seasonal decline in motor vehicle manufacturing, coupled with decreases in shipments of primary metals and plastics and rubber products, contributed to a $\$ 525$ million ( $-2.0 \%$ ) decrease overall. Shipments were $\$ 25.4$ billion in July, comprising just over one-half of Canada's total.

## Note to readers

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

Durable goods industries include wood products, non-metallic mineral products, primary metals, fabricated metal products, machinery, computer and electronic products, electrical equipment, appliances 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 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 shipments, provinces and territories

|  | $\begin{aligned} & \text { June } \\ & 2005^{p} \end{aligned}$ | $\begin{gathered} \text { July } \\ 2005^{p} \end{gathered}$ | June <br> to <br> July <br> 2005 |
| :---: | :---: | :---: | :---: |
|  | Seasonally adjusted |  |  |
|  | \$ mill |  | \% change |
| Canada | 50,826 | 50,101 | -1.4 |
| Newfoundland and Labrador | 251 | 253 | 0.9 |
| Prince Edward Island | 132 | 120 | -9.5 |
| Nova Scotia | 857 | 797 | -7.1 |
| New Brunswick | 1,295 | 1,238 | -4.4 |
| Quebec | 11,875 | 12,144 | 2.3 |
| Ontario | 25,974 | 25,448 | -2.0 |
| Manitoba | 1,081 | 1,127 | 4.3 |
| Saskatchewan | 810 | 846 | 4.5 |
| Alberta | 4,950 | 4,730 | -4.4 |
| British Columbia | 3,592 | 3,392 | -5.5 |
| Yukon | 1 | 1 | 4.3 |
| Northwest Territories including Nunavut | 8 | 4 | -49.1 |

$r$ Revised data.
p Preliminary data.
Alberta's manufacturers also reported widespread declines, led by computer and petroleum manufacturing. Shipments were down $\$ 219$ million ( $-4.4 \%$ ) to $\$ 4.7$ billion in July.

Counterbalancing some of the weakness, Quebec's manufacturers posted the third increase in shipments in four months. Shipments jumped by $\$ 268$ million $(+2.3 \%)$ to $\$ 12.1$ billion, propped up by gains in aerospace manufacturing.

## US manufacturers report big gain in shipments of nondurable goods

While the Canadian manufacturing sector faltered in July, Canada's largest trading partner, the United States, began the summer with a $0.7 \%$ boost in shipments to $\$ 389.3$ billion.

Steep industrial prices for nondurable goods industries, including petroleum and chemical products, were more than enough to offset some weakness in the durable goods sector. Excluding the petroleum and chemical products industries, US shipments edged back 0.2\%.

## Both durable and nondurable goods manufacturing pull back

Traditionally, July is the month when some factories seasonally slow production for annual employee vacations, introduce product changes on assembly lines and carry out maintenance shutdowns. July 2005 was no exception, with key industries including motor vehicles and wood products reporting shipment declines that were somewhat larger than in previous years.


Shipments of motor vehicles dropped $4.7 \%$ to $\$ 5.5$ billion in July. Summer shutdowns at various assembly lines, in addition to extended shutdowns at some plants, have contributed to a larger-than-seasonal decline in shipments this year. Compared to one year ago, motor vehicle shipments were down almost $15 \%$ in July.

The trend for shipments of motor vehicles has been steadily weakening since the summer of 2004, as some companies attempted to clear their retail inventories with incentive programs and low cost financing.

Paper manufacturers posted shipments of $\$ 2.6$ billion in July, a decrease of $5.6 \%$. Lower prices for pulp and paper, coupled with maintenance shutdowns contributed to the fifth decrease thus far in 2005. In addition, the price of lumber and other wood products decreased $1.4 \%$ in July, also contributing to a $3.6 \%$ decline in wood product shipments.

Partly offsetting the overall decline in shipments, production of aerospace products and parts surged $23.7 \%$ to $\$ 1.3$ billion, as manufacturers worked through orders. Recent contracts in the railroad rolling stock industry also contributed to a $29.1 \%$ jump in production to $\$ 377$ million.

## Manufacturers' inventories on a steady rise

Big gains in raw materials (+1.3\%) and goods-in-process (+1.7\%) contributed to a 1.0\% jump in total inventories to $\$ 65.8$ billion in July. This marked the $18^{\text {th }}$ increase in the last 19 months, and the highest level of inventories in four years.


Popular demand for certain Canadian-manufactured models of motor vehicles, coupled with soaring petroleum prices contributed to the sharp rise in raw materials, which stood at $\$ 28.6$ billion in July. Goods-in-process inventories also added fuel to the overall build-up in total inventories with robust successive increases since May.

Finished product inventories rose $0.4 \%$ to $\$ 22.2$ billion. Finished products have been on an upward trend since the start of 2004.

The strength in the inventory build-up was split between nondurable and durable goods industries. Inventory gains were reported by the petroleum and coal products ( $+5.9 \%$ ) and chemical products ( $+2.4 \%$ ) industries, in addition to motor vehicles ( $+9.2 \%$ ) and aerospace ( $+2.3 \%$ ) manufacturing.

## Inventory-to-shipment ratio at the highest level since the summer of 2003

July's sizable drop in shipments was more than enough to send the inventory-to-shipment ratio to the recent high of 1.31 from 1.28 in June. The ratio is now at the highest level since the August 14, 2003, when the electrical blackout in Ontario temporarily impeded factory production during the month, boosting the August 2003 ratio to 1.38 .


The inventory-to-shipment ratio, which has been on a gradual rise over the last year, now stands well above the recent low of 1.20 set last summer.

The inventory-to-shipment ratio is a key measure of the time, in months, that would be required in order to exhaust inventories if shipments were to remain at their current level.

## Backlog of unfilled orders, onwards and upwards

In July, unfilled orders rose for the fifth month in a row, led by gains in the transportation equipment industry. The backlog of orders jumped $2.4 \%$ to $\$ 41.6$ billion, the highest level since November 2002 ( $\$ 44.6$ billion).

The railroad rolling stock ( $+12.5 \%$ ), aerospace products and parts (+1.5\%) and motor vehicle (+13.0\%) industries contributed to the rise in orders overall.

In recent months, Canadian manufacturers' unfilled orders have been more in-sync with those of their US counterparts. US manufacturers of transportation equipment contributed to another healthy $1.0 \%$ gain in unfilled orders to $\$ 580.5$ billion, following strong increases in May ( $+2.3 \%$ ) and June ( $+2.8 \%$ ).


## New orders edge down

Manufacturers' new orders fell $0.4 \%$ to $\$ 51.1$ billion in July. Despite a stream of new contracts for the aerospace and railroad rolling stock industries, they
were not enough to reverse an overall decline in the level of new orders for various industries, including computers and plastics and rubber products.

## Revisions

With the July release, all data have been re-benchmarked to the revised 2001 Annual Survey of Manufactures (ASM). Estimates of shipments, inventories and orders have been revised back to January 2000. Although the historical month-to-month movements were preserved, there were minor adjustments made to the levels of the Monthly Survey of Manufacturing (MSM).

These adjustments were due to several factors: the use of new and revised data; the updating of the seasonal adjustment factors; and the re-benchmarking of the MSM to the revised 2000 and 2001 ASM levels.

The average level of adjustment for shipments from reference year 2000 to 2005 was 0.24\%.

For more detailed information on the revision process, please refer to the MSM's concepts, methods
and data quality report. To view the report, click on survey number 2101 listed below.

Available on CANSIM: tables 304-0014, 304-0015 and 377-0008.

Definitions, data sources and methods: survey number 2101.

Data from the August Monthly Survey of Manufacturing will be released on October 14.

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 |  |
| July 2004 | 50,776 | 1.1 | 60,887 | 0.8 | 37,894 | 1.3 | 51,262 | 1.6 | 1.20 |
| August 2004 | 51,068 | 0.6 | 61,892 | 1.7 | 37,667 | -0.6 | 50,840 | -0.8 | 1.21 |
| September 2004 | 50,798 | -0.5 | 62,299 | 0.7 | 37,243 | -1.1 | 50,375 | -0.9 | 1.23 |
| October 2004 | 50,336 | -0.9 | 62,447 | 0.2 | 37,042 | -0.5 | 50,134 | -0.5 | 1.24 |
| November 2004 | 50,373 | 0.1 | 62,547 | 0.2 | 36,791 | -0.7 | 50,122 | 0.0 | 1.24 |
| December 2004 | 50,089 | -0.6 | 62,990 | 0.7 | 36,694 | -0.3 | 49,992 | -0.3 | 1.26 |
| January 2005 | 51,448 | 2.7 | 64,046 | 1.7 | 38,714 | 5.5 | 53,468 | 7.0 | 1.24 |
| February 2005 | 50,877 | -1.1 | 64,048 | 0.0 | 38,637 | -0.2 | 50,799 | -5.0 | 1.26 |
| March 2005 | 49,879 | -2.0 | 64,273 | 0.4 | 39,541 | 2.3 | 50,783 | 0.0 | 1.29 |
| April 2005 | 50,506 | 1.3 | 64,663 | 0.6 | 39,656 | 0.3 | 50,621 | -0.3 | 1.28 |
| May 2005 | 50,479 | -0.1 | 64,887 | 0.3 | 40,221 | 1.4 | 51,044 | 0.8 | 1.29 |
| June 2005 | 50,826 | 0.7 | 65,165 | 0.4 | 40,657 | 1.1 | 51,261 | 0.4 | 1.28 |
| July 2005 | 50,101 | -1.4 | 65,845 | 1.0 | 41,622 | 2.4 | 51,066 | -0.4 | 1.31 |

Manufacturing industries except motor vehicle, parts and accessories

|  | Shipments |  | Inventories |  | Unfilled orders |  | New orders |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Seasonally adjusted |  |  |  |  |  |  |  |
|  | \$ millions | \% change | \$ millions | \% change | \$ millions | \% change | \$ millions | \% change |
| July 2004 | 41,771 | 1.2 | 56,963 | 0.8 | 35,771 | 1.2 | 42,202 | 1.7 |
| August 2004 | 41,913 | 0.3 | 57,857 | 1.6 | 35,643 | -0.4 | 41,784 | -1.0 |
| September 2004 | 41,602 | -0.7 | 58,328 | 0.8 | 35,324 | -0.9 | 41,283 | -1.2 |
| October 2004 | 41,667 | 0.2 | 58,519 | 0.3 | 35,224 | -0.3 | 41,568 | 0.7 |
| November 2004 | 41,903 | 0.6 | 58,696 | 0.3 | 34,956 | -0.8 | 41,634 | 0.2 |
| December 2004 | 41,437 | -1.1 | 59,082 | 0.7 | 34,770 | -0.5 | 41,251 | -0.9 |
| January 2005 | 42,233 | 1.9 | 60,120 | 1.8 | 36,614 | 5.3 | 44,078 | 6.9 |
| February 2005 | 42,085 | -0.4 | 60,263 | 0.2 | 36,357 | -0.7 | 41,828 | -5.1 |
| March 2005 | 41,891 | -0.5 | 60,435 | 0.3 | 37,249 | 2.5 | 42,783 | 2.3 |
| April 2005 | 42,228 | 0.8 | 60,748 | 0.5 | 37,406 | 0.4 | 42,385 | -0.9 |
| May 2005 | 42,280 | 0.1 | 61,037 | 0.5 | 37,994 | 1.6 | 42,868 | 1.1 |
| June 2005 | 42,408 | 0.3 | 61,268 | 0.4 | 38,520 | 1.4 | 42,934 | 0.2 |
| July 2005 | 42,002 | -1.0 | 61,735 | 0.8 | 39,366 | 2.2 | 42,849 | -0.2 |

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