



## CANADA'S MANUFACTURING, WHOLESALE AND TRANSPORTATION SECTOR

November 2017

### Strong economy boosts sector's pace to a six-year high

- Indicators for the manufacturing, wholesale trade and transportation & warehousing (MWT) industries have been overwhelmingly positive so far in 2017 through July.
- Manufacturing, wholesale trade and transportation & warehousing are growing at their strongest pace since 2011 in Canada.
- Regionally, all provinces are experiencing positive growth in manufacturing and wholesale sales. Transportation and warehousing sales are increasing across Canada except in New Brunswick and Manitoba.
- Supply chains activity tied to the energy sector in oil-producing regions of the country continues to improve thanks to a rising trend in oil prices that began in 2016.
- Wholesale trade is leading all MWT industries in growth due in a large part to brisk sales in the machinery and equipment sub-industry.
- Overall, hiring by MWT firms has picked up relative to 2016.
- The volume of goods carried by railway is up after experiencing a decline last year.
- Canadian real merchandise exports returned to growth mode over the first half of this year after declining in 2016 thanks to rising U.S. demand and a competitive value of the C\$.
- The outlook for MWT industries is slightly tempered by cost pressures from a forecasted gradual rise in energy prices and recent strength in MWT wage growth.
- RBC projects the Canadian dollar to dip to 75 U.S. cents early next year before recovering by year-end 2018 as the Bank of Canada resumes raising rates.
- RBC Economics expects the economy to slow over the second half of this year. The outlook for 2018 calls for growth of 2.1%, still slightly stronger than the economy's potential rate.

#### Growth in manufacturing, wholesale, and transportation sector real GDP (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017 ytd*
Manufacturing	-14.0	4.6	3.5	1.6	-0.7	3.4	0.1	1.1	2.9
Wholesale trade	-6.7	7.5	7.6	3.2	4.3	3.9	0.9	1.2	6.7
Transportation and warehousing	-4.1	6.7	4.9	2.6	2.8	5.0	5.3	4.0	5.8
Total supply chains industries	-10.7	5.7	4.9	2.2	1.3	3.8	1.2	1.6	4.5

\*January to July period

Source: Statistics Canada, RBC Economics Research

## Manufacturing, wholesale, and transportation sector snapshot

	GDP		Employment		Business counts by firm payroll size*			
	Million \$**	% of economy	000s***	% of economy	1-9	10-99	100-499	500+
<b>Manufacturing</b>	<b>174,536</b>	<b>10.4</b>	<b>1,450</b>	<b>9.1</b>	<b>27,568</b>	<b>19,319</b>	<b>3,132</b>	<b>290</b>
Food	23,385	1.4	222	1.4	2,616	2,551	540	48
Beverage and tobacco	5,783	0.3	37	0.2	628	482	52	5
Textile, clothing and leather	2,364	0.1	8	0.0	1,654	743	91	3
Wood	10,147	0.6	92	0.6	1,663	1,389	266	7
Paper	7,254	0.4	53	0.3	148	255	155	9
Printing and related support activities	4,069	0.2	49	0.3	2,601	895	90	9
Petroleum and coal	6,505	0.4	19	0.1	155	157	27	4
Chemical	14,829	0.9	89	0.6	930	913	148	23
Plastics and rubber	9,833	0.6	98	0.6	749	1,091	254	20
Non-metallic mineral	5,683	0.3	50	0.3	1,021	1,110	98	3
Primary metal	13,888	0.8	54	0.3	215	234	104	26
Fabricated metal	12,614	0.8	151	0.9	4,013	3,262	278	14
Machinery	13,020	0.8	127	0.8	2,394	1,984	291	18
Computer and electronic	5,890	0.4	55	0.3	883	639	118	13
Electrical equipment, appliance and component	3,498	0.2	33	0.2	604	404	90	3
Transportation equipment	27,414	1.6	192	1.2	882	723	290	75
Furniture and related	4,449	0.3	65	0.4	2,383	1,235	149	8
Miscellaneous	3,911	0.2	56	0.3	4,029	1,252	91	2
<b>Wholesale trade</b>	<b>97,271</b>	<b>5.8</b>	<b>774</b>	<b>4.9</b>	<b>38,267</b>	<b>19,211</b>	<b>1,058</b>	<b>63</b>
Farm product	1,726	0.1	14	0.1	720	408	17	0
Petroleum product	4,877	0.3	16	0.1	588	370	12	0
Food, beverage and tobacco	10,858	0.6	113	0.7	4,593	2,355	267	13
Personal and household goods	13,761	0.8	106	0.7	5,067	1,956	177	23
Motor vehicle and parts	7,868	0.5	63	0.4	2,292	1,611	84	4
Building material and supplies	16,149	1.0	127	0.8	5,892	3,828	128	3
Machinery, equipment and supplies	26,339	1.6	209	1.3	9,511	5,549	227	12
Miscellaneous	12,996	0.8	93	0.6	5,865	2,438	101	6
Electronic markets, and agents and brokers	2,697	0.2	33	0.2	3,739	696	45	2
<b>Transportation and warehousing</b>	<b>74,829</b>	<b>4.5</b>	<b>647</b>	<b>4.1</b>	<b>54,721</b>	<b>10,561</b>	<b>1,051</b>	<b>144</b>
Air	8,504	0.5	76	0.5	639	363	70	15
Rail	6,850	0.4	44	0.3	149	95	30	14
Water	1,483	0.1	n/a	n/a	165	123	20	5
Truck	21,036	1.3	196	1.2	40,297	4,702	265	11
Transit, ground passenger, scenic and sightseeing	7,510	0.4	124	0.8	2,887	1,243	195	28
Pipeline	6,189	0.4	0	0.0	128	34	12	6
Support activities	14,247	0.9	113	0.7	6,231	2,299	195	23
Postal service and couriers and messengers	6,407	0.4	46	0.3	2,585	665	127	32
Warehousing and storage	2,603	0.2	48	0.3	1,640	1,037	137	10
<b>Total supply chains industries</b>	<b>346,636</b>	<b>20.7</b>	<b>2,871</b>	<b>18.0</b>	<b>120,556</b>	<b>49,091</b>	<b>5,241</b>	<b>497</b>

\* Excludes firms with no employees. June 2017.

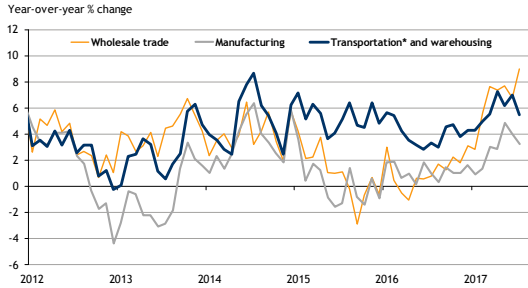
\*\* In 2016, millions of 2007 dollars.

\*\*\* In 2016.

Source: Statistics Canada, RBC Economics Research

Industry trends

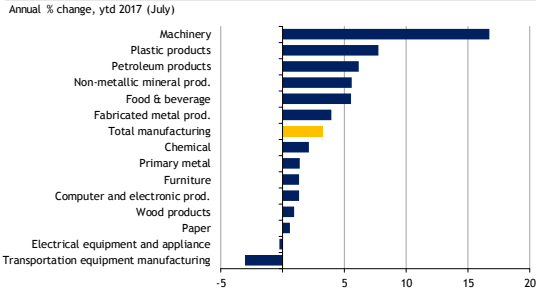
MWT real GDP: Canada



\* Transportation consists of air, rail, water, trucking and support activities.  
Source: Statistics Canada, RBC Economics Research

Real GDP for the manufacturing, wholesale trade and transportation & warehousing industries grew by 4.5% in the first seven months of 2017. Wholesale trade shot up by 6.7% after lacklustre gains over the past two years. Transportation & warehousing increased by 5.8% while manufacturing grew by a more modest 2.9%.

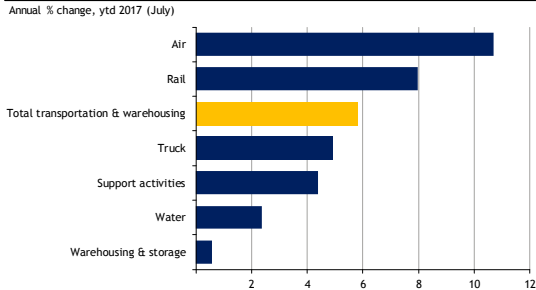
Manufacturing industry real GDP: Canada



Source: Statistics Canada, RBC Economics Research

The manufacturing sector expanded in 12 of 14 sub-industries. Machinery manufacturing grew at a blistering pace of 16.7%, while transportation equipment, and electrical equipment & appliance manufacturing fell by 3.0% and 0.3%, respectively.

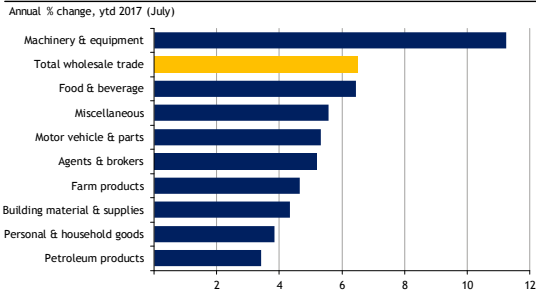
Transportation and warehousing industry real GDP: Canada



Source: Statistics Canada, RBC Economics Research

Transportation & warehousing expanded in all 6 sub-industries. Rail transportation experienced the biggest change in fortunes growing by 8.0% after declining by 2.6% in 2016.

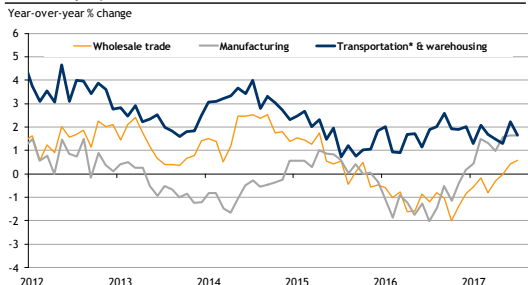
Wholesale trade industry real GDP: Canada



Source: Statistics Canada, RBC Economics Research

Wholesale trade's robust growth rate was buoyed by rapid growth in the machinery & equipment sub-industry that grew by 11.3%. All sub-industries were in solid expansion mode to start the year with none of them growing at a rate weaker than 3.0%.

MWT employment: Canada



\* Transportation consists of air, rail, water, trucking and support activities.  
Source: Statistics Canada, RBC Economics Research

Overall employment in MWT industries rose by 1.3% in the first seven months of 2017. Growth in transportation & warehousing industry payrolls has remained in positive territory dating back to 2010. Wholesale trade and manufacturing industry payrolls exhibited upward trends this year after declining by more than 1.0% in 2016.

Industry trends

Railway carloadings: Canada

Traffic carried, million tonnes, SA

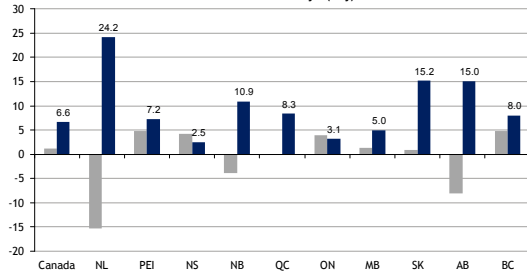


Source: Statistics Canada, RBC Economics Research

The volume of goods carried by railway grew by 8.4% in the first seven months of 2017 after experiencing a decline of 2.6% in 2016. Carloadings of grain, primary metals, and petroleum products all grew by more than 8.0%, while lumber and wood products were the only category to decline, falling by 0.4%.

Manufacturing sales by province

Annual % change

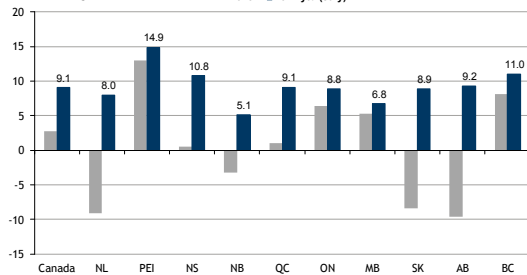


Source: Statistics Canada, RBC Economics Research

Manufacturing sales (unadjusted for price changes) grew by 6.6% in Canada throughout the first seven months of 2017. The expansion was the result of positive growth across all provinces with Newfoundland & Labrador, New Brunswick and Alberta experiencing welcome turnarounds from declining activity in 2016.

Wholesale sales by province

Annual % change

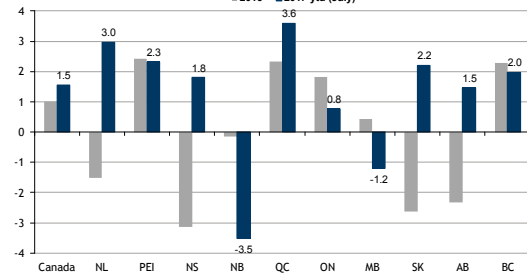


Source: Statistics Canada, RBC Economics Research

Wholesale sales (unadjusted for price changes) surged by 9.1% in the first seven months of 2017, building upon a trend dating back to 2009. Rebounds in Newfoundland & Labrador, New Brunswick, Saskatchewan and Alberta contributed to what may become one of the strongest years on record if the pace is sustained.

Transportation and warehousing employment by province

Annual % change

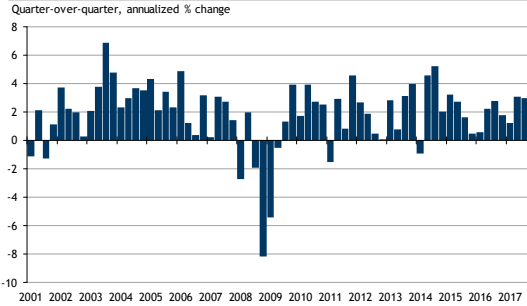


Source: Statistics Canada, RBC Economics Research

Payrolls in Canada's transportation & warehousing industry expanded by 1.5% in the first seven months of 2017. Strong turnarounds in Newfoundland & Labrador, Nova Scotia, Saskatchewan and Alberta were tempered by declines in New Brunswick and Manitoba. Payroll strength in Quebec, PEI, Ontario and BC carried forward from 2016.

Macroeconomic context

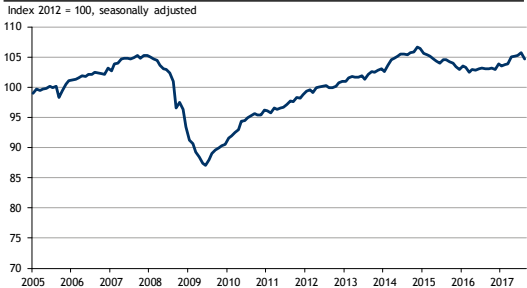
U.S. real GDP



Source: Bureau of Economic Analysis, RBC Economics Research

U.S. GDP growth surprised to the upside in Q3 with a 3.0% annualized increase. That was little changed from a 3.1% gain in Q2 despite activity having been weighed down by hurricane-related disruptions in late-August and early-September. We expect GDP growth will remain above-trend in Q4, abetted by a modest post-hurricane boost as economic activity returns to normal levels and rebuilding begins in affected areas.

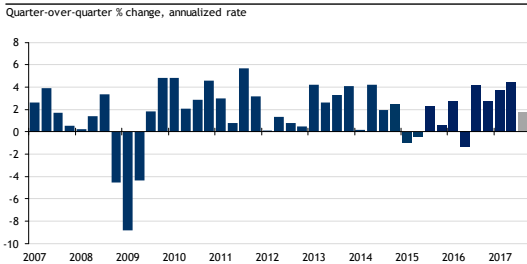
Industrial production: U.S.



Source: Federal Reserve Board, RBC Economics Research

U.S. industrial production grew by 1.5% in the first eight months of 2017, bouncing back from a 1.2% decrease in 2016. The headline number to date this year was buoyed by strong growth in mining at 5.1%. A small decline of 0.7% in electric & gas utilities was a tempering factor.

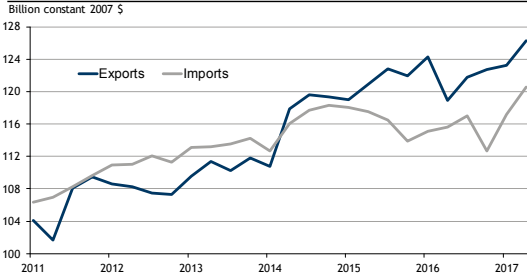
Canada's real GDP



Source: Statistics Canada, RBC Economics Research Forecasts

Canadian GDP surprised on the downside in August, slipping 0.1% following a flat reading in July. Growth has clearly come off the boil following an average annualized pace of more than 4% over the first half of the year. Current data points to a near-trend increase of 1.7% in Q3.

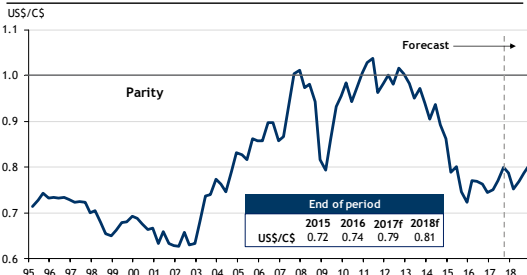
Real merchandise trade: Canada



Source: Statistics Canada, RBC Economics Research

Canada's trade performance has been volatile with net exports exerting significant downward pressure on the economy's growth rate in the first quarter as the gain in export growth faced off with a sharp rise in import activity. The balance swung back in Canada's favour in the second quarter with exports accelerating and imports rising at a slower pace. All said, net exports will be a small drag for the economy in 2017 although it is expected to provide a modest boost in 2018 assuming that the NAFTA negotiations don't yield a significantly negative outcome.

Canadian dollar forecast

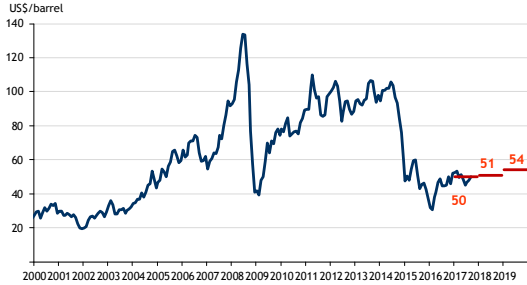


Source: Bank of Canada, RBC Economics Research Forecasts

The Bank of Canada's decisions to hike its policy rate both in mid-July – for the first time in almost 7 years – and September boosted the Canadian dollar's value, which was previously facing downward pressure from a soft patch in oil prices. More recent indications that the Bank may proceed more gradually in further hiking rates than previously anticipated prompted RBC to lower its Canadian dollar forecast, with the currency now expected to dip to 75 US cents early next year before recovering as the BoC resumes raising rates.

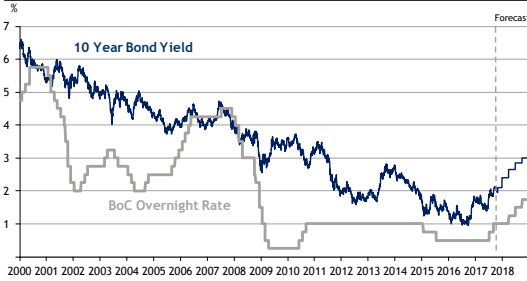
Macroeconomic context

Crude oil prices WTI



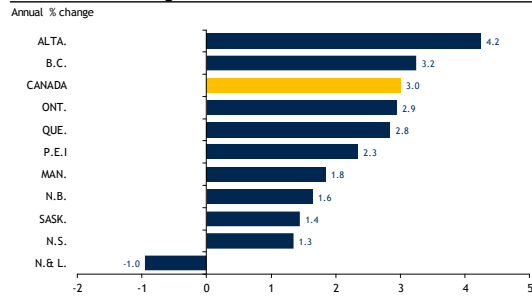
Source: Wall Street Journal, Haver Analytics, RBC Economics Research

Interest rates: Canada



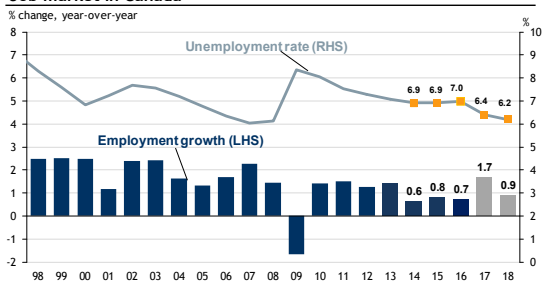
Source: Bank of Canada, RBC Economics

Provincial real GDP growth in 2017



Sources: Statistics Canada, RBC Economics Research

Job market in Canada



Source: Statistics Canada, RBC Economics Research

RBC revised its oil price forecast slightly lower to reflect recent price action and the persistence of elevated OPEC inventories despite production cuts. RBC now expects prices to average less than \$50 a barrel in the second half of 2017. Despite increased US production, the OPEC cuts are expected to push global inventory levels lower in the second half of 2017 which combined with an anticipated extension of the OPEC production cuts beyond March 2018, will keep oil prices trending up in 2018.

RBC assumes the BoC will remain on the sidelines for the next couple of meetings before resuming a tightening cycle in the second quarter of 2018. RBC's current forecast is for the overnight rate to be raised to 1.75% by the end of next year.

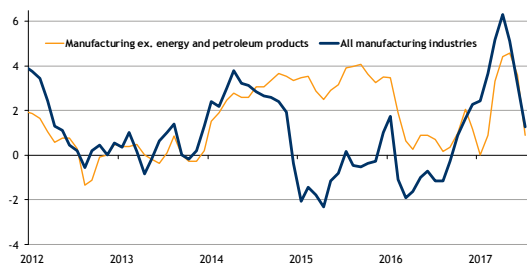
After two years of lackluster growth caused by a severe downturn in global energy sector, Canada's economy came roaring back in the first half of 2017. We now project that growth will be 3.0% for the year in Canada, an upward revision of 0.6 percentage points from the forecast in our May MWT Sector report. The good news is that most provincial economies have stepped up their pace relative to last year. This includes welcome turnarounds in Alberta and, to a lesser extent, Saskatchewan.

Canada posted an eleventh consecutive job gain in October, extending the best streak in nearly a decade. But the bigger story is that wages are finally starting to pick up after a period of puzzlingly slow growth. It appears tight labour market conditions, including a near-decade-low unemployment rate and limited 'hidden' slack, are finally having an effect. Faster wage growth, which should eventually feed through to higher prices, supports the Bank of Canada's expectation that inflation will return to its 2% target over the next year.

Industry prices and costs

Manufacturing prices: Canada

Year-over-year % change, Industrial Product Price Index

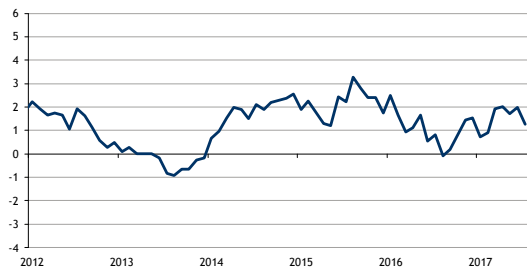


Source: Statistics Canada, RBC Economics Research

Year-over-year prices in manufacturing grew by 3.9% in the first seven months of 2017 and were up 2.5% after excluding energy and petroleum prices.

Wholesale trade prices: Canada

Year-over-year % change, Wholesale Trade Price Index

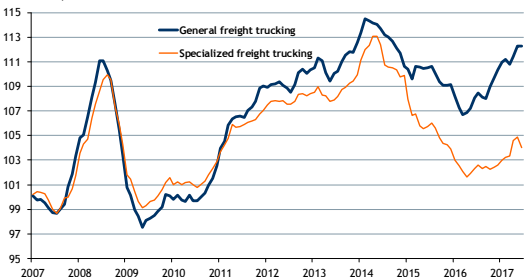


Source: Statistics Canada, RBC Economics Research

Year-over-year prices received by Canadian wholesalers rose by 1.5% in the first seven months of 2017, improving upon 2016's subdued pace of 0.7%.

For-hire motor carrier freight service price index: Canada

2007 = 100, SA

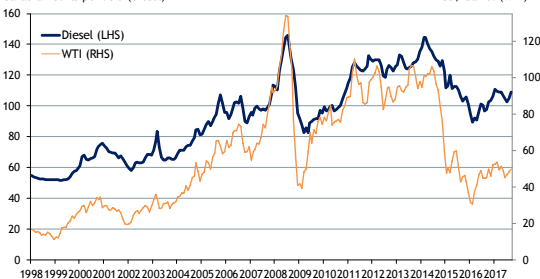


Source: Statistics Canada, RBC Economics Research

Prices charged by Canadian for-hire motor carrier freight services rose for the first time since 2014 this year. Prices for general freight trucking grew by 3.8% in the first half of 2017, while prices for specialized freight trucking grew by a more modest 1.6%. A rise in fuel costs was largely responsible for the growth in both price indices.

Diesel price: Canada

Canadian cents per litre (diesel)

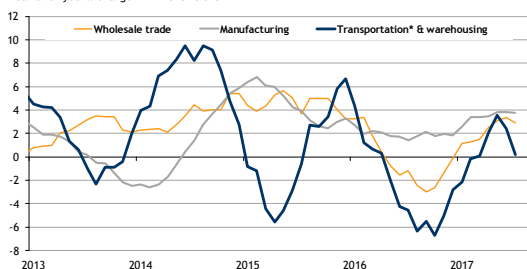


Source: Wall Street Journal, Haver Analytics, MJ Ervin & Associates Inc., RBC Economics Research

Diesel prices rose sharply by 9.3% in the 12 months ending September 2017 adding pressure to motor carriers for their biggest cost item. WTI prices rose by 19.2% during the same period continuing a growth trend that began in 2016.

MWT hourly earnings: Canada

Year-over-year % change in 7-month trend



\* Transportation consists of air, rail, trucking and support activities.  
Source: Statistics Canada, RBC Economics Research

Wages in wholesale trade and transportation & warehousing returned to positive growth in the first half of 2017, rising by 2.5% and 1.9% respectively, after experiencing downward pressure throughout 2016. Manufacturing wages improved upon the steady gains of recent years outpacing all sectors at 3.5% growth.

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