RESEARCH BRIEF
CANADA INDUSTRIAL

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Manufacturing Sector Ends 2024 on a Soft Note With Growing Uncertainty Ahead

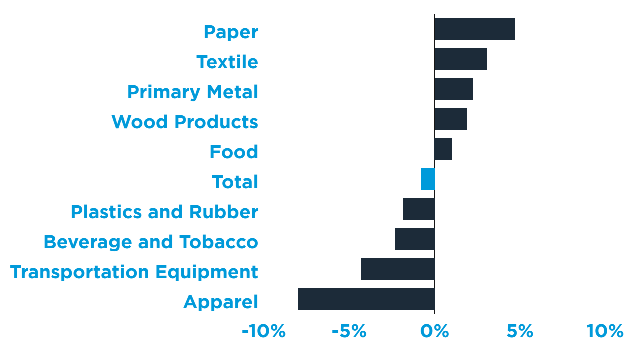
Manufacturing activity disappointed in December. Sales of manufactured goods missed expectations in the final month of 2024, increasing by just 0.3 per cent compared with a projected 0.7 per cent gain. Regionally, sales rose by 1.9 per cent in Quebec, Alberta and British Columbia combined, partially offset by a 1.3 per cent drop in Ontario. Adjusted for inflation, total sales fell 0.8 per cent, while new orders edged up just 0.1 per cent. Shipments of transportation equipment declined by 4.3 per cent, weighed down by weak global demand and economic uncertainty. Given that transportation equipment accounts for 17 per cent of total shipments, its downturn was the largest contributor to the overall decline in December. This weakness contrasts with expectations that manufacturing sales would rise ahead of the originally planned U.S. tariffs.

Trade tensions could warrant additional policy easing. The decline in real manufacturing sales suggests that the economy likely grew at a slower pace in the final month of last year than Statistics Canada's advance estimate of 0.2 per cent. For 2024, real GDP is estimated to have grown by 1.3 per cent – the slowest pace since the global health crisis. While easing financial conditions are expected to support manufacturing output, recent tariff threats will likely continue to weigh on activity through at least the first quarter of 2025. This sluggish near-term outlook will keep the Bank of Canada in a dovish stance, paving the way for further policy easing amid heightened uncertainties. The BoC could cut interest rates further than initially anticipated if U.S. tariffs materialize.

Industrial sector poised for future opportunities. The slump in manufacturing shipments reflects the ongoing rebalancing in the industrial sector – a process that could be further complicated by potential U.S. tariffs. Trade tensions, however, have prompted Canadian firms and governments at various levels to rethink their strategies in order to mitigate future risks, which will ultimately benefit the industrial sector. In response to potential U.S. tariffs, the British Columbia government has fast-tracked 18 critical mineral and energy projects worth approximately $20 billion to diversify the economy. Meanwhile, uncertainties surrounding global trade have reignited discussions on removing interprovincial trade barriers and possibly pursuing a second Trans Mountain Pipeline expansion. These initiatives will help broaden demand sources in the industrial sector over the long term, reducing exposure to external risks.

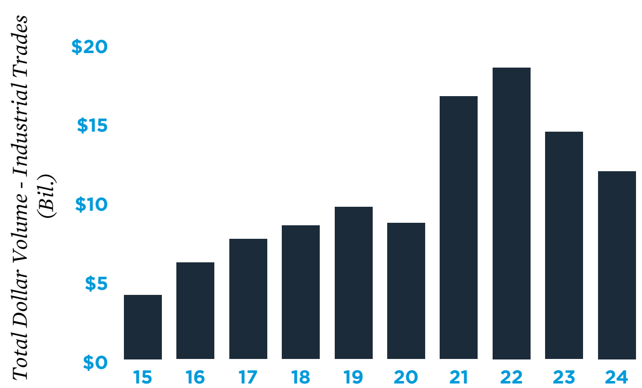
Uncertainty may continue to weigh on property sales. Industrial transaction dollar volumes declined by 17 per cent in 2024, reaching a post-pandemic low as elevated borrowing costs, rising vacancy and slowing rent growth weakened investor confidence. While falling interest rates are expected to support financing activity moving forward, investment sales may remain subdued until the economic and political outlook becomes more clear. The flight-to-quality trend could take centre stage this year as buyers target properties with tenants that have robust domestic supply chains and limited exposure to trade. Even so, easier financial conditions could present favourable entry points for investors focused on long-term gains.

Manufacturing Sales by Sector



December 2024 Month-Over-Month Change

Industrial Investment Hit Post-Pandemic Low



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Sources: IPA Research Services; Altus Data Solutions; Statistics Canada