News Release

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S&P Global Canada Manufacturing PMI®

Rise in production fails to prevent further deterioration of operating conditions in July

Key findings

Output up, but weak demand persists

Job losses and lower buying activity recorded

Production forecasts strengthen

Canada Manufacturing PMI

sa, >50 = growth since previous month

Source: S&P Global PMI

Data were collected 12-25 July 2023

Canada's manufacturing sector remained in contraction territory during July, but only just as a marginal rise in output and a weaker fall in new orders were registered. Job cuts were, however, more prominent, whilst there were accelerations in both input and output price inflation. Firms retained some confidence for the future, with sentiment picking up to a four-month high.

The seasonally adjusted S&P Global Canada Manufacturing Purchasing Managers' Index® (PMI®) posted below the 50.0 no-change mark for a third month running in July. However, rising to 49.6, from 48.8 in June, the headline index pointed to the slowest deterioration in operating conditions in the current contractionary sequence.

The sub-50 PMI reading masked a welcome return to production growth in July. Latest data showed that output rose for the first time since April. However, modest growth reflected a build-up in warehouse inventories, which increased slightly for a third month running, and a twelfth successive reduction of work outstanding. These developments in stocks and backlogs were the result of an excess of production over sales as July's survey revealed a fifth straight monthly fall in new orders. Panellists commented that market uncertainty persisted, with clients reticent to commit to new business. These factors were primarily centred on home markets, however, as export sales rose in July for the first time since May 2022. Companies noted better demand from the neighbouring United States.

An uncertain business climate meant firms continued to adopt cautious purchasing and employment strategies. Buying of inputs fell again, extending the current sequence of contraction to 12 months, with firms signalling a preference wherever possible to utilise existing inventories in production. Similarly, employment levels were cut for a third month in a row, with firms tending not to replace leavers at a time of insufficient new orders. There were also reports of difficulties in finding suitable staff to fill existing

Comment

Commenting on the latest survey results, Paul Smith, Economics Director at S&P Global Market Intelligence said:

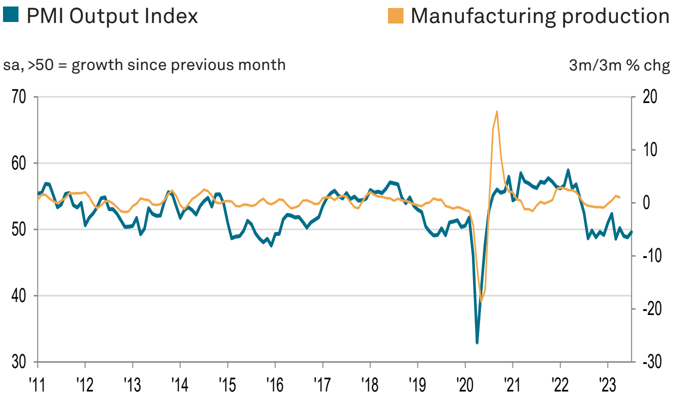
"July's PMI results offered a rather mixed bag on the performance of the Canadian manufacturing sector. On the one hand, there was a welcome return to output growth, following two successive months of contraction. However, concurrently there was another, admittedly small, drop in new orders as firms continued to signal a high degree of market uncertainty and reluctance amongst clients to commit to new work.

"Moreover, there was an intensification of price pressures as firms reported a myriad of inflationary factors in July. However, amid reports of growing market competition and with vendors seemingly having sufficient capacity to easily cope with demand, inflation rates remain broadly under control and well down on levels seen around the turn of the year."

vacancies.

On the prices front, rising transport costs, increased interest rates and generally higher input prices were reported to have pushed up operating expenses for a second successive month. Although modest, and still well below the levels recorded at the start of the year, inflation picked up during July to a three-month high. Firms sought to protect their margins by raising output charges to the greatest degree since April. However, there was evidence that competitive pressures placed a limit on pricing power.

Looking ahead to the coming 12 months, firms retained a positive outlook overall, with sentiment picking up to its highest level since March. Companies expect that market demand, aided by the release of new products, will improve in the year ahead.



Sources: S&P Global PMI, StatCan via S&P Global Market Intelligence.

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Survey methodology
The S&P Global Canada Manufacturing PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in October 2010.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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About PMI
Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html.

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