

News Release

Embargoed until 0930 EDT (1330 UTC) 1 June 2023

S&P Global Canada Manufacturing PMI[®]

PMI indicates fresh deterioration in operating conditions during May

Key findings

Both output and new orders decline

Prices paid for inputs decline

Fall in jobs for first time in seven months

Canada's manufacturing sector slipped into negative territory during May on the back of concurrent falls in output, new orders and employment. Anecdotal evidence pointed to the negative impact of high inflation on spending budgets, whilst destocking remained a common theme amongst manufacturers and their clients. Supply-side stability was reported, as pressure on vendors weakened and lead times improved for the first time in nearly four years. With demand down and supply challenges dissipating, prices paid for inputs fell slightly.

The seasonally adjusted S&P Global Canada Manufacturing Purchasing Managers' Index[®] (PMI[®]) slipped below the crucial 50.0 no-change mark in May for the second time in the past three months. Posting 49.0, down from 50.2, the PMI was commensurate with a modest deterioration in operating conditions.

Undermining the PMI in May were reductions in both output and new orders. Rates of decline were relatively marginal in both instances, with firms commenting that client budgets had been squeezed by high inflation. Spending from industry and municipal clients was said to be down. Some customers were reported to be cutting spending as they sought to lower inventories. This was common across both domestic and international markets: foreign sales fell for a twelfth successive month and at a solid, accelerated, pace.

Manufacturers responded to the subdued demand environment by reducing their own purchasing activity. Buying of inputs was reported to be lower for a tenth successive month, albeit to the lowest degree since February. Firms continued to imply a preference for utilising existing stocks, rather than purchase new inputs. This was highlighted by a drop in production input inventory for a tenth month in a row. However, unexpectedly low sales volumes left some firms with an excess of finished goods stocks. This helped explain the small aggregate rise in warehouse inventories at Canadian manufacturers during May.

Canada Manufacturing PMI
sa, >50 = growth since previous month



Source: S&P Global.
Data were collected 12-24 May 2023

Comment

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

"A weak underlying demand profile weighed on the Canadian manufacturing sector during May, with production dropping since April and purchasing activity cut. The latter has had some further positive impact on supply chains, and with the challenges related to the pandemic now principally unwound, lead times improved for the first time in nearly four years."

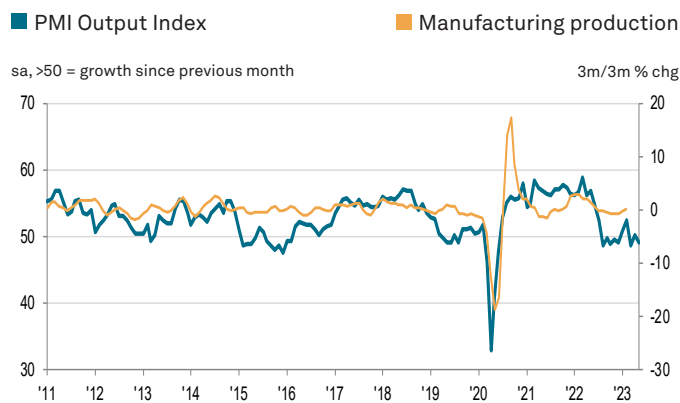
"Better component availability helped to push down on input costs, which were down slightly in May and marking a noticeable turnaround from the elevated increases we've seen over the past three years. Whilst there remain some residual output price increases still being recorded in the sector it feels that inflation challenges in manufacturing are now coming to an end."

PMI[®]

by S&P Global

As firms reduced their spending, pressure on vendors continued to dissipate. And amid reports that pandemic related challenges were also subsiding, such as congestion at ports, average lead times for the delivery of inputs subsequently improved slightly for the first time since August 2019. This better supply situation helped to push down on input prices, which overall fell slightly in May, and ending a near 11-year period of inflation. Lower transportation and fuel costs were reported, whilst raw material prices were said to be down in general. Average output charges in contrast continued to increase, although market competition and the drop in input costs ensured the overall rate of inflation was marginal and the lowest in nearly three years.

More positive supply-side conditions meant that firms widely expect the continued recovery of the sector from the challenges of the pandemic. Better component availability and hopes of higher sales should help to support growth of output in the next 12 months. However, worries over tighter monetary policy and the possibility of sustained inflation continued to weigh on confidence. These concerns helped explain some caution in hiring trends, with firms generally choosing not to backfill positions created by recent leavers. The net impact was a drop in employment for the first time since last October.



Sources: S&P Global, StatCan.

Contact

Paul Smith
Economics Director
S&P Global Market Intelligence
T: +44-1491-461-1038
paul.smith2@spglobal.com

Katherine Smith
Corporate Communications
S&P Global Market Intelligence
T: +1 (781) 301-9311
katherine.smith@spglobal.com

If you prefer not to receive news releases from S&P Global, please email katherine.smith@spglobal.com. To read our privacy policy, click [here](#).

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.

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to S&P Global and/or its affiliates. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without S&P Global's prior consent. S&P Global shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall S&P Global be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited and/or its affiliates.

This Content was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global. Reproduction of any information, data or material, including ratings ("Content") in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content.