News Release

Embargoed until 0930 EDT (1330 UTC) 03 April 2025

S&P Global Canada Services PMI®

Severe drops in activity and new business recorded in March

Key findings

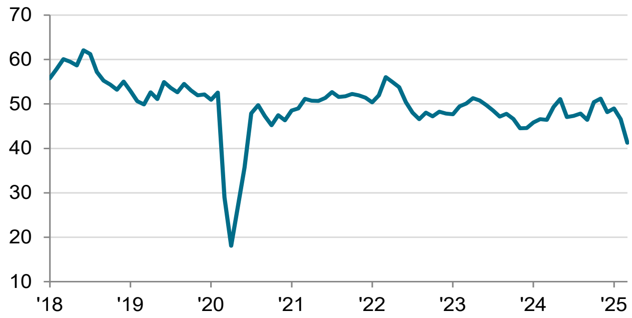
Tariffs and an uncertain outlook weigh heavily on demand

Confidence down to lowest level since May 2020

Cost inflation accelerates, but output charges up only slightly

S&P Global Canada Services PMI Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global PMI.

Data were collected 12-26 March 2025.

Canada's service sector economy endured in March its steepest cuts to activity and new business since the height of the COVID-19 pandemic. Tariff concerns, which led to a retrenchment of client spending, weighed on market demand and subsequently sector performance. With the outlook also extremely uncertain, confidence about the next 12 months fell to a near five-year low. Modest job losses were also registered.

Cost inflation meanwhile accelerated noticeably, but a challenging market environment meant service providers chose to broadly not pass on higher operating expenses to clients.

The headline figure derived from the survey is the S&P Global Canada Services Business Activity Index, which is designed to provide timely indications of changes in business activity in Canada's service sector. Readings above 50.0 signal an improvement in business activity on the previous month while readings below 50.0 show deterioration.

In March, the seasonally adjusted Business Activity Index slumped to its lowest level since June 2020, posting 41.2, down from 46.6 in February. It was the fourth month in a row that the index has registered below the critical 50.0 no-change mark to thereby signal another decline in service sector activity. Moreover, the size of March's contraction was, outside of the falls seen at the height of the COVID-19 pandemic seen during March to June 2020, unprecedented in the survey history.

Tariffs were the principal driver of the steep fall in activity due to the negative impact these had on new business volumes. Latest data showed that new work received by service providers also fell at a broadly unprecedented pace, again only surpassed by the COVID-19 pandemic related falls of 2020. Panellists commented on a retrenchment of business and consumer spending, which was linked to considerable anxiety about tariffs. Firms noted that clients were not willing to commit to new work given the uncertain outlook, instead preferring to hold onto funds. Export trade suffered especially acutely, dropping sharply on the month and at a rate not seen since mid-2020.

Tariff anxieties, and the unpredictable nature of US federal government policy, meant that confidence amongst service providers slumped in March to its lowest level since May 2020. Panellists also noted that the snap general election scheduled for late April had added to the uncertain outlook.

With new business and confidence down noticeably, a third successive monthly decline in staffing levels was recorded in March, although the latest contraction was modest in nature and the slowest in the current downturn. Nonetheless firms had more than sufficient capacity to deal with overall workloads. Backlogs of work outstanding declined sharply in March and to the greatest degree since June 2020.

Operating expenses rose noticeably again in March, with input price inflation accelerating to its highest level since October 2023. Tariffs and vendors increasing their charges were the principal drivers of higher costs. Panellists also reported that employee related expenses remained a source of cost inflation.

Efforts to pass on higher costs to clients were however stymied by a broad-based reduction in demand and ongoing competitive pressures. Although output charges rose overall, they did so at the joint-slowest rate in four years of continuous inflation, matching that the marginal pace seen last June.

Comment

Paul Smith, Economics Director at S&P Global Market Intelligence, said:

"Against the backdrop of an unpredictable economic and political environment, Canada's services economy experienced broadly unprecedented drops in activity and new business during March – with declines only surpassed by those seen at the height of the COVID-19 pandemic in 2020. Uncertainty stemmed principally from tariffs, and the unpredictable nature of their application and scope, leading to huge nervousness and a retrenchment of spending amongst businesses and consumers alike.

"The news of a snap general election in late April has added even more uncertainty to the outlook, and this served to further weigh on business confidence during March, which slumped to its lowest level since May 2020. Job losses were therefore somewhat not surprising. But at least these were only modest in nature especially in the context of the strongest increase in operating expenses since October 2023."

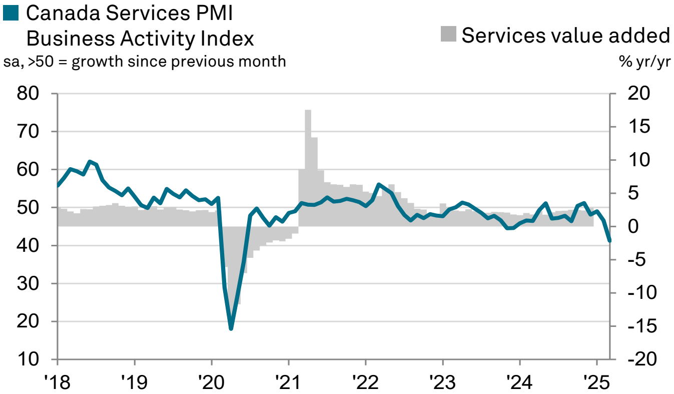
S&P Global Canada Composite PMI®

Private sector output falls to greatest degree since June 2020

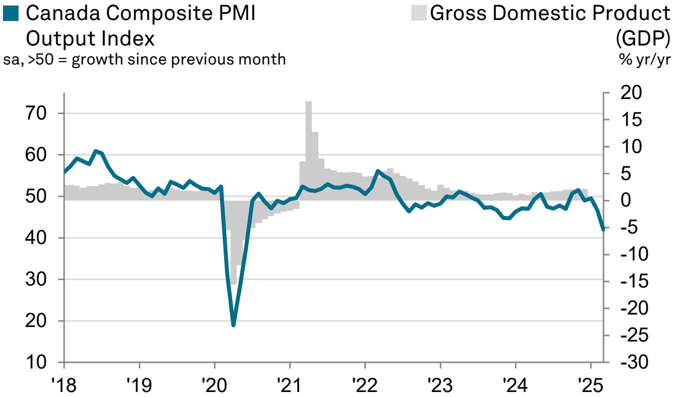
The S&P Global Canada Composite PMI Output Index* plunged further below the critical 50.0 no-change mark during March. Dropping to 42.0, from 46.8 in the previous month, the index indicated the steepest reduction in private sector activity since the COVID-19 pandemic related fall of June 2020. Services recorded an especially acute decline in activity, although output in manufacturing also fell at a steeper pace compared to February.

A lack of incoming new work – widely linked to tariffs – weighed heavily on business activity during March. The rate of contraction in new business was the steepest since June 2020. This meant firms were subsequently able to clear outstanding work to the greatest degree in nearly five years.

Job losses meanwhile were recorded for a third month running as the outlook for activity softened noticeably. Sentiment about the future was at its lowest since May 2020. Cost pressures also mounted, with input price inflation hitting a near two-and-a-half year high.



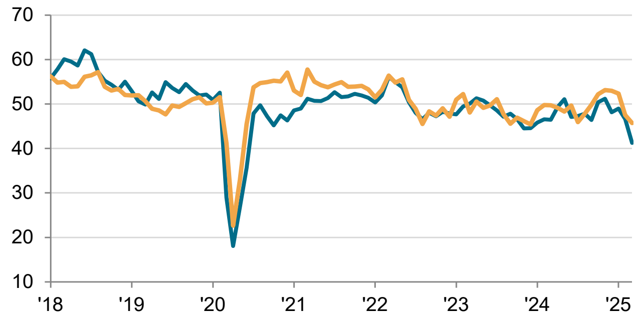
Sources: S&P Global PMI, Statistics Canada.



Sources: S&P Global PMI, Statistics Canada.

*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

Canada Services PMI Business Activity Index
Canada Manufacturing PMI Output Index
sa, >50 = growth since previous month



Source: S&P Global PMI.

Canada Services PMI Input Prices Index
sa, >50 = inflation since previous month

Source: S&P Global PMI.

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Survey methodology

The S&P Global Canada Services PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in December 2017.

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 Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

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@spglobal.com.

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