

News Release

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S&P Global Canada Manufacturing PMI[®]

Manufacturing conditions deteriorate for first time in over two years

Key findings

Stronger declines in output and new orders

First drop in employment levels for over two years

Input price inflation eases to 19-month low

August data revealed the first downturn in operating conditions across the Canadian manufacturing sector since the COVID-19 pandemic began in the first half of 2020. The deterioration in performance reflected sharp and accelerated contractions in output and new orders and the first fall in employment in over two years. At the same time, renewed declines were recorded in buying activity, backlogs and pre-production inventories. Subsequently, optimism towards output in the year ahead moderated with concerns over the macroeconomy weighing slightly on sentiment.

There were, however, positive signs on the price front where output and input price inflation eased to 18- and 19-month lows, respectively. Nevertheless, rates of inflation in both cases were above trend.

The seasonally adjusted S&P Global Canada Manufacturing Purchasing Managers' Index[®] (PMI[®]) registered at 48.7 in August, down from 52.5 in July, thus indicating a deterioration in manufacturing performance. The latest fall was only modest but ended a 25-month sequence of growth.

A key reason for the latest decline was a marked and accelerated fall in new orders. Firms indicated that client hesitancy, growing uncertainty and a general lull in domestic demand conditions were behind the latest reduction in new orders.

Similarly, international demand for Canadian manufactured goods weakened in August. In fact, exports fell sharply and at the quickest rate since June 2020.

Meanwhile, manufacturing production declined for the second month in succession. The rate of decline was sharp and the quickest since June 2020 amid weak inflows of new work. Firms also indicated that supply-chain difficulties persisted to impact production.

Weak order books contributed to reduced pressure on operating capacity in July. This was highlighted by a renewed

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



Source: S&P Global.
Data were collected 12 - 24 August 2022.

Comment

Commenting on the latest survey results, Shreeya Patel, Economist at S&P Global Market Intelligence said:

"Latest PMI data highlighted further concern for Canada's manufacturing sector midway through Q3 as high inflation and concerns over the long-term outlook hit demand hard. Both output and new orders fell at quicker rates while employment levels declined for the first time since the start of the pandemic over two years' ago.

"Firms and consumers alike have adopted a cautious approach to their purchasing habits over the last few months. Growing uncertainty, interest rate hikes, high inflation and persistent supply-chain pressures are no doubt the drivers of the latest drop.

"While on the whole data looks bleak, positives could also be drawn, particularly on the price front where rates of inflation eased significantly in August. Firms will hope this trend continues.

"One thing for certain is testing times are sure to follow. Canadians will only hope that pressures ease sooner rather than later."

PMI[®]

by S&P Global

decline in backlogs of work. The rate of decline was modest, but the first for two years.

Subsequently, manufacturers indicated greater caution on the employment front where staffing levels reduced for the first time since June 2020. Firms indicated lower output requirements paired with voluntary resignations led to the fall. The overall rate of decline was only modest, however.

Tighter inventory management policies were signalled in August, with pre-production inventories falling moderately. Order cancellations led to a rise in the stocks of finished goods, however.

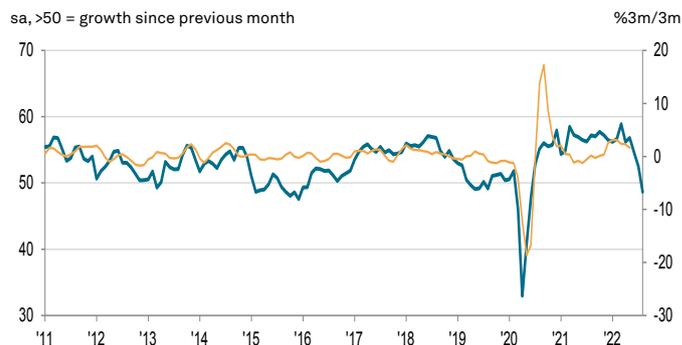
Turning to prices, average cost burdens rose once again in Canada's private sector, with 35% of panellists reported higher costs in August compared to July while only 7% saw them fall. Higher transportation and material costs were overwhelmingly mentioned by panellists.

Output charges also continued to rise midway through the quarter. The rate of increase was marked compared to the historical average with panellists blaming sustained increases in cost burdens.

That said, input cost and output charge inflation eased to 19- and 18- month lows, respectively.

Looking ahead, firms were widely upbeat about their prospects for output growth over the coming months, but the degree of confidence eased from that seen in July. Panel comments pointed to concerns over the health of the macroeconomy as recessionary fears mount.

■ PMI Output Index ■ Manufacturing production



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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.