

News Release

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S&P Global Canada Services PMI®

Service sector expands marginally in October

Key findings

First rises in activity and new work for five months

Employment up slightly

Cost inflation hits one-year high

Canada's services economy enjoyed a return to growth during October, with both activity and new business volumes improving marginally. There were reports of better market demand and firms were suitably encouraged to hire additional staff for the first time in three months. Confidence in the outlook also improved as firms looked to further cuts in interest rates to stimulate economic growth. However, rising salary costs led to an acceleration of input price inflation to its steepest since October 2023. Output prices continued to rise modestly in response.

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 October, the seasonally adjusted Business Activity Index moved back above the crucial 50.0 no-change mark to signal a return to growth of service sector output. The index posted 50.4, compared to 46.4 in September, thereby signalling a marginal expansion, but nonetheless the first rise in activity since May. Latest sub-sector data revealed that growth was especially strong in the Finance & Insurance and Business Services sectors.

New business volumes also improved slightly during October for the first time in five months. Panellists commented that market demand was firmer, with sales also supported by the opening of new services and commercial actions. New export business remained weak however with sales to foreign clients down markedly again in the latest survey period, albeit to a lesser extent than in September.

S&P Global Canada Services PMI Business Activity Index
sa, >50 = growth since previous month



Source: S&P Global PMI.

Data were collected 10-28 October 2024.

The net increase in overall new work led firms to hire additional staff in October. Although marginal, it was the first time that staffing levels have improved in three months and growth was the best since June. Additional capacity helped firms to keep on top of their workloads, with levels of work outstanding declining for a twenty-eighth successive month. The rate of contraction was solid, though eased since September.

Service providers pointed towards higher salary costs as a source of accelerated input cost inflation in October. Overall, operating expenses rose to the greatest degree for a year with respondents noting that vendors were increasingly willing to increase prices. Several service providers sought to protect margins by raising their own charges, although competitive pressures served to limit pricing power. Output charge inflation subsequently remained modest in the latest survey period and unchanged since September.

Finally, confidence in the outlook remained positive during October, with sentiment edging up to its highest level since March. Expected cuts in interest rates, plus greater political stability both at home and abroad, were cited as reasons that could support higher business activity in the year ahead.

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Comment

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

“Canada’s services economy enjoyed a positive start to the final quarter of the year, with both activity and new business volumes rising since September. Suitably encouraged, firms also added to their staffing levels for the first time in three months whilst confidence in the outlook strengthened to its highest level since March.

“Although clearly positive, one month does not of course make a trend, and on an underlying basis, the operating environment remains fragile overall. Input price inflation is also uncomfortably high, although the pass-through of higher costs to clients is broadly contained. That should provide sufficient confidence to policymakers to continue delivering rate cuts to provide the additional support that many in the sector expect in the months ahead.”

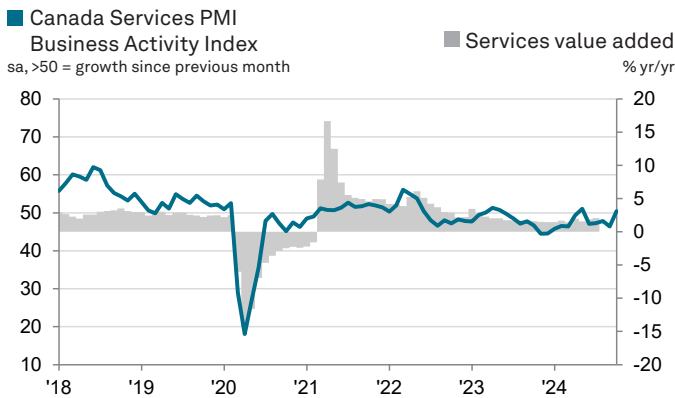
S&P Global Canada Composite PMI®

Private sector expands marginally for first time in five months

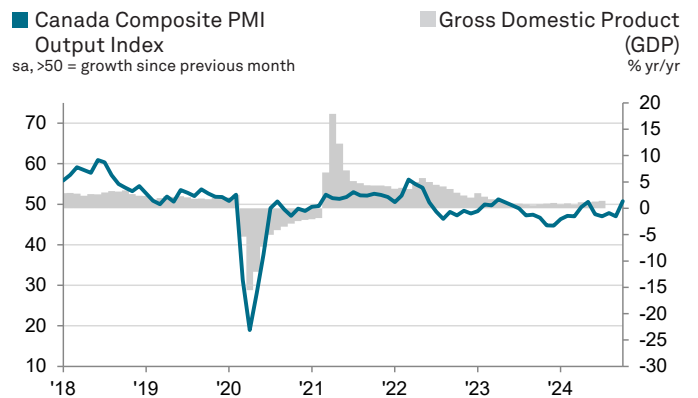
There was a return to marginal growth of Canada’s private sector economy in October following four months of contraction. This was highlighted by the S&P Global Canada Composite PMI Output Index* improving to 50.7, from 47.0 in September. Both goods producers and service providers recorded growth in output.

Higher activity reflected similar-sized increases in new business volumes, and this was sufficiently encouraging for firms to hire additional staff. Overall, the size of the private sector workforce expanded in October for the first time in three months. Rising staff costs meant input price inflation accelerated to a one-year high, although competitive pressures meant output charges rose only modestly.

Confidence in the outlook improved slightly meanwhile, reaching its highest level since March. Firms looked towards lower interest rates to underpin growth in the year ahead.



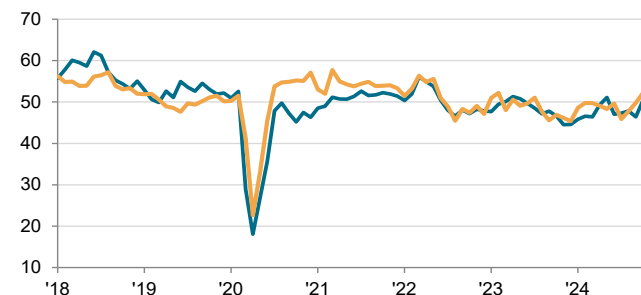
Sources: S&P Global PMI, Statistics Canada.



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*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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