

News Release

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S&P Global Canada Services PMI®

Business activity falls in June as demand falters

Key findings

Return to declining activity and new orders following growth in May

Marginal jobs creation maintained

Significant falls in cost and charge inflation recorded

Canada's service sector economy returned to contraction territory during June following modest growth in May. A lack of incoming new business weighed on sector performance, whilst confidence in the future fell to one of the lowest levels for two years. Employment growth was however sustained, and there was some positive news on the price front as cost inflation sank to its lowest level since February 2021.

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 June, the headline index fell to 47.1, down from 51.1 in May and its lowest level since March. Moreover, it was the twelfth time in just over a year that the index has signalled a contraction of activity. Latest data showed that the downturn was again broad-based, with only the Finance & Insurance category recording growth in June.

Weighing on service sector activity was a first reduction in incoming new business volumes since March. Companies commented on insufficient market demand, which they tended to associate with broader softness in economic conditions. Foreign demand remained notably weak, with sales to foreign clients down again and to the greatest degree since February.

Despite continued weakness in sales and activity, service providers again took on additional workers to mark a third successive monthly rise in overall employment. Growth was however marginal and slightly softer than in May. Moreover, firms had sufficient capacity to keep on top of workloads.

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



Source: S&P Global PMI.
Data were collected 12-25 June 2024.

Overall backlogs of work declined in June, extending the current downturn in outstanding business to two years. Moreover, the rate of contraction was steep, accelerating to the fastest since December 2020.

Labour expenses remained a key source of operating cost pressures during June. There were also reports of increased supplier charges. Nonetheless, input price inflation maintained its recent downward trend, dropping quite noticeably to hit its lowest level since February 2021. This translated into slower output charge inflation, which was the weakest for 39 months. Several panellists commented that competitive market pressures had weighed on pricing power in June.

Finally, confidence in the outlook remained positive. Firms are hopeful that reduced interest rates will lead to strengthened economic growth and subsequently higher sales over the coming year. That said, optimism slipped for a fourth month running to hit its lowest level since the start of 2024. There remain concerns that the high cost of living and stretched household budgets will continue to have a negative impact on demand and activity over the next 12 months.

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Comment

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

“Following a return to growth in May, Canada’s services economy slipped back into the moribund trend that has so characterised its performance in the post pandemic period. Activity and new business both fell at solid rates, amid reports of weak market demand. Although firms took on additional workers, they did so only marginally. And with a distinct lack of capacity pressure suggested by the June survey, it feels unlikely that employment growth will be sustained unless there is a noticeable turnaround in activity and demand.

“Some good news however on the inflation front, with latest data showing distinctly slower rates of both input and output price inflation in June. Following on from the Bank of Canada’s interest rate cut in June, policymakers may therefore feel sufficiently confident that price pressures are contained and are therefore able to carry on with further policy easing in the months ahead.”

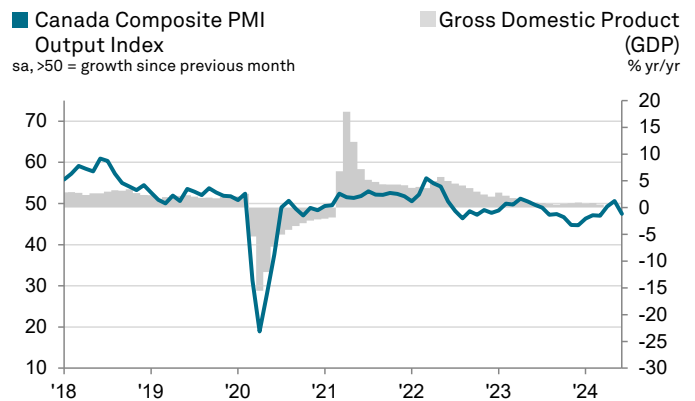
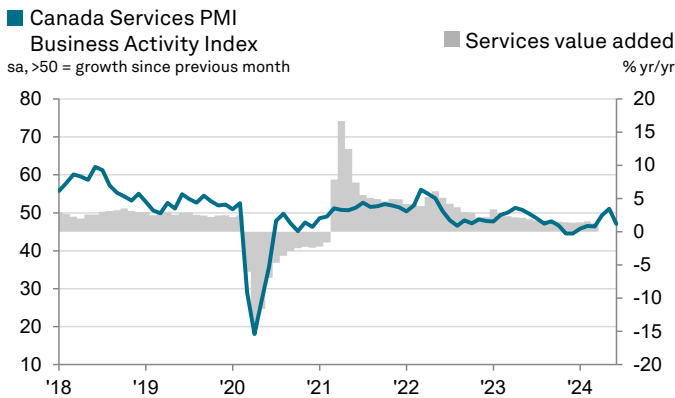
S&P Global Canada Composite PMI®

Private sector output returns to contraction territory in June

The downturn in private sector output seen over much of the past year returned in June as reflected in the S&P Global Canada Composite PMI Output Index* which posted a reading below the 50.0 no-change mark. After accounting for seasonal factors, the index recorded 47.5, down from 50.6 in May. The downturn was led by services, which recorded its fastest reduction in activity for three months. Manufacturing output continued to fall, but only marginally.

Similar trends were seen for new business, with both manufacturers and service providers registering declines in new work. Employment growth was however maintained, albeit led by services as manufacturing headcounts fell for the first time in five months.

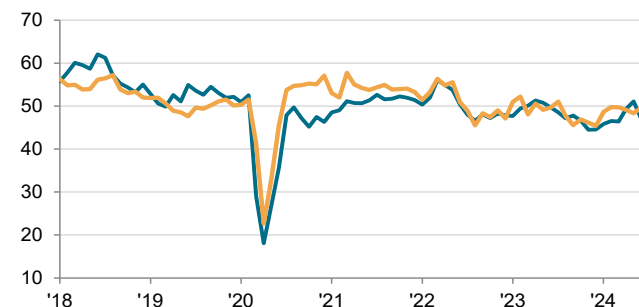
On the price front, there was a noticeable slowdown in cost inflation to its lowest level since the start of 2021. Output prices subsequently rose only slightly, with inflation dropping to a 40-month low. Confidence in the outlook meanwhile was its weakest level since January.



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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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. www.spglobal.com/marketintelligence/en/mi/products/pmi