

# News Release

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## S&P Global Canada Services PMI<sup>®</sup>

### Service sector contracts again in July

#### Key findings

Solid reduction in activity but much slower fall in new sales

Employment broadly unchanged

Wage pressures push up operating expenses

Canada's services economy continued to contract in July, with both activity and new business falling for a second successive month. The rates of decline eased, however, with new work falling to only a marginal degree. Confidence in the outlook was also a little firmer, though remained below trend, whilst employment numbers were little-changed since June. Cost pressures remained elevated, largely due to higher staff wages. Output charge inflation picked up as a result.

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 July, the Business Activity Index recorded 47.3, up from 47.1 in June and therefore signalling a further, though slightly slower, decline in private service sector output. Reduced activity was also common across the services economy, with all sub-categories except for Finance & Insurance registering a fall. Most panellists continued to link reduced activity to weakness in new business trends. Amid reports of slow market activity, a reflection according to panellists of high interest rates and pricing pressures, new business volumes declined for a second month running. That said, the decline was marginal and noticeably slower than in June.

Capacity remained sufficiently high to comfortably keep on top of overall workloads, aided in part by the latest drop in new orders. Overall, backlogs of work were down markedly, dropping for a twenty-fifth successive month. This was achieved despite broadly no change in employment in July, following only marginal job creation in the first half of 2024

S&P Global Canada Services PMI Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global PMI.

Data were collected 11-26 July 2024.

on average. Some firms successfully filled vacancies with suitably qualified personnel, but others deliberately chose not to replace leavers at their units.

Wage costs nonetheless remained a key factor behind another steep increase in overall operating expenses in July. With fuel also reported to have risen in cost, overall input prices rose in July at a steep and accelerated rate, though to a level that remained lower than the average for the first half of the year. Firms sought to protect margins, wherever possible, by increasing their own charges to a greater degree than in June. Inflation however was low especially in the context of trends since the pandemic.

Finally, confidence in the outlook remained positive in July, with sentiment strengthening since June. There are hopes amongst survey panellists of a pickup in sales and demand. This was largely due to expectations of a more stable macroeconomic environment, characterised by reduced inflation and lower borrowing costs. Reflective of some uncertainty, however, confidence overall remained well below trend.

PMI<sup>®</sup>

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### Comment

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

*"The latest PMI report on the Canadian services economy paints a subdued picture of sector performance, with activity and new business falling again. That said, there were some positive developments, with sales volumes moving towards stabilisation and a slight pick-up in confidence for the first time in five months."*

*"Inflation remains stubborn, however, and is largely driven by elevated wage pressures, which were again the principal driver of increased operating expenses. That's the kind of development that will make the Bank of Canada a little wary of enacting further rate cuts following July's further loosening of monetary policy. Still, the Bank's latest reduction in borrowing costs will be welcomed by service providers who see this as crucial in delivering business growth over the coming 12 months."*

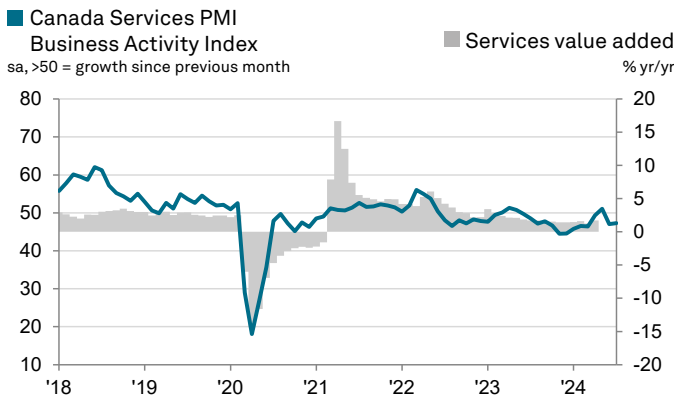
## S&P Global Canada Composite PMI®

### July PMI data signals sharper fall in economic output

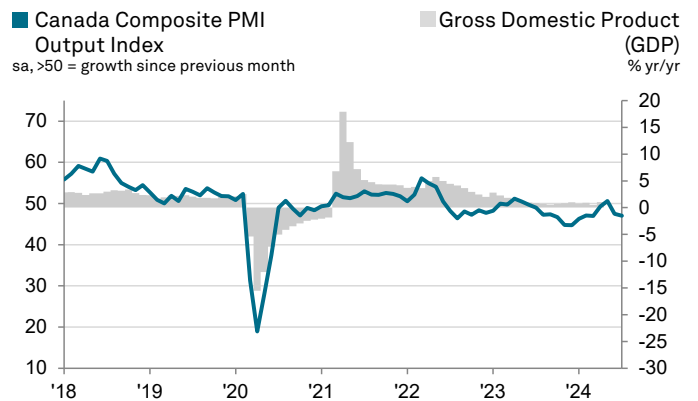
Private sector output in Canada continued to fall in July, and to a greater degree. After accounting for seasonal factors, the S&P Global Canada Composite PMI Output Index\* registered 47.0, down from 47.5 in the previous month and its lowest reading since March. The faster downturn principally reflected a noticeably steeper decline in manufacturing production.

New orders continued to fall, but they did so at a slower pace as service sector new business moved towards stabilisation. Job numbers meanwhile were little-changed, whilst backlogs of work declined again. Confidence in the outlook improved slightly but remained noticeably below trend.

On the price front, input price inflation picked up due to increased wage pressures in services. Prices charged were raised modestly in response.



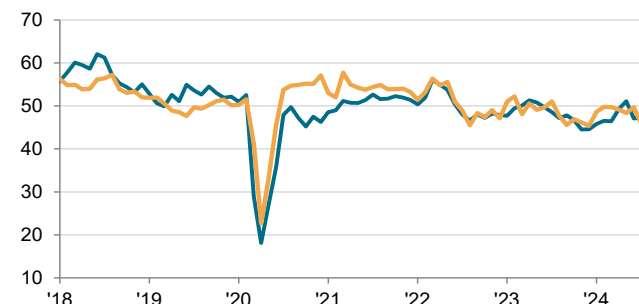
Sources: S&P Global PMI, Statistics Canada.



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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](mailto:economics@spglobal.com).

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