

News Release

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S&P Global Canada Manufacturing PMI[®]

Canadian manufacturing PMI sinks deeper into contraction territory

Key findings

Quicker declines in both output and new orders in October

Exchange rate weakness contributes to sharp hike in prices

Delivery delays least pronounced since February 2020

The start of the fourth quarter of 2022 indicated a third consecutive monthly deterioration in manufacturing business conditions in Canada. The rates of decline in both output and new orders quickened while firms continued to indicate a further shortage of skilled staff. Panel comments alluded to weak demand, while sentiment moderated to the weakest since May 2020 amid growing concerns of a recession and macroeconomic troubles in the months ahead.

Prices data meanwhile revealed a fourth successive slowdown in input cost inflation. However, recent currency weakness led Canadian firms to protect profits by hiking their selling prices.

The seasonally adjusted S&P Global Canada Manufacturing Purchasing Managers' Index[®] (PMI[®]) registered at 48.8 in October, down from 49.8 in September. The latest result pointed to a quicker deterioration in operating conditions, and one that was the second-strongest since the tail-end of the first wave of the COVID-19 pandemic in June 2020.

Weak demand conditions were apparent in October's survey data with firms often mentioning that high prices deterred demand. New orders fell solidly and at one of the quickest rates in the survey's history. Export conditions were also subdued with international demand for Canadian goods contracting for the fifth month in succession.

Mirroring the trend for new orders, production levels declined at an accelerated pace. The rate of decrease was solid with almost 16% of firms recording a drop in output in October. A number of factors were blamed for the fall including weak demand, labour shortages and supply troubles.

That said, delivery delays were the least pronounced since before the COVID-19 pandemic in February 2020, indicating some signs of easing supply-chain pressures.

Nevertheless, sustained periods of contractions in output and new orders resulted in a third successive monthly fall

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



Source: S&P Global.
Data were collected 12 - 25 October 2022.

Comment

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

"October PMI data for Canada alluded to a weaker manufacturing performance as output and new orders fell concurrently and for the fourth month in a row. The rates of decline also quickened from those seen in September and were among the strongest in the survey's 12-year history.

"Concerns also came on the employment front with headcounts falling for the third month in succession, and panellists continuing to mention a lack of availability of skilled staff.

"Manufacturing businesses in Canada are continuing to consider their plans for the future, especially as the economic environment becomes increasingly difficult to navigate. Panel comments indicated higher interest rates and growing concerns of a recession weighed on output projections for the year ahead which slumped to a 29-month low.

"Positives can however be drawn from prices data which signalled another moderation in input cost inflation. Firms have also reacted quickly to the recent weakness in the Canadian dollar - which they hope is a temporary blip - by hiking their selling charges to protect profits."

PMI[®]

by S&P Global

in buying activity. Pre-production inventories meanwhile stabilised.

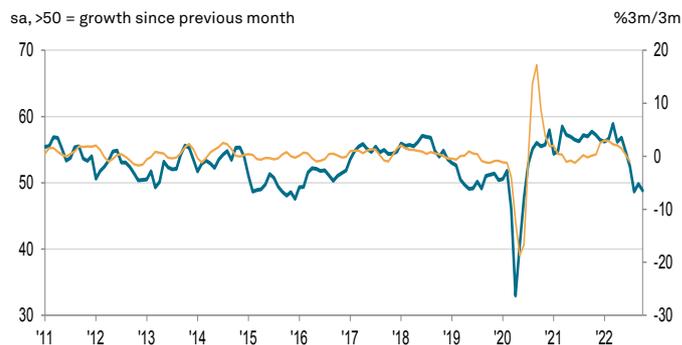
Firms sought to scale back their holdings of finished items in October with stocks declining fractionally. The latest result brought an end to three months of accumulation, which was the longest sequence of growth for over eight years.

On the jobs front, voluntary resignations, staff retirements and shortages of skilled labour resulted in a modest fall in headcounts. A further decline in backlogs suggested firms were still able to keep-up with inflows of new work, however.

Input prices incurred by manufacturers in Canada increased, but the rate at which costs rose was the weakest for 23 months and only marginally above the long-run trend level. Despite this, firms hiked their selling charges sharply and at a quicker pace amid unfavourable exchange rate movements against the US dollar.

Looking ahead, while firms remained optimistic about their output levels in the year ahead, the degree of positivity was the weakest for 29 months. Firms hoped for greater demand and a recovery in labour force numbers, but there were growing concerns over a recession and the implications of higher interest rates.

■ 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.