

News Release

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S&P Global Canada Services PMI®

Service sector contraction accelerates in September

Key findings

Sales and activity fall at faster rates

Further cut in employment numbers

Inflationary pressures ease again

The performance of Canada's services economy continued to deteriorate during September, with activity and new business declining at accelerated rates. Weak underlying demand was reported as clients remained reticent to commit to new contracts given geopolitical uncertainty and expectations of lower interest rates. Amid further evidence of spare capacity in the sector, employment declined at an accelerated rate.

However, confidence in the outlook brightened, with sentiment its highest since March, whilst there was a further easing in the rates of both input and output price inflation.

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 September, the headline Business Activity Index recorded 46.4, down from 47.8 in August and below the crucial 50.0 no-change mark for a fourth successive month. Moreover, the rate of contraction signalled by the index was the steepest since March.

Panellists linked the latest decline in activity to a noticeable drop in incoming new business. September marked the fourth month in a row that new sales volumes have fallen, with the latest decline significant in being the steepest since December 2020. There were reports from panellists that clients were uncertain in the outlook, linked in part to geopolitical concerns, whilst expectations of lower interest rates led to delays in committing to new contracts. Similar factors led to the steepest reduction in new export business

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 September 2024.

for nearly three-and-a-half years.

A second successive monthly decline in staffing levels was registered during September as firms enacted redundancies or chose not to replace leavers given the challenging sales environment. Overall, the drop in staffing levels was solid and the steepest recorded by the survey since July 2020. Firms nonetheless retained sufficient levels of capacity to reduce their levels of work outstanding for a twenty-seventh month in a row, and to the greatest degree since June.

Input prices continued to rise markedly in September, largely due to increased wage and labour related expenses. That said, the rate of inflation was the weakest for three months and amongst the slowest registered by the survey in the past three-and-a-half years. Output price charges similarly rose at a weaker pace, with the rate of inflation also the slowest since June.

Finally, confidence in the outlook improved during September, rising to a six-month high. Firms are planning new marketing activities whilst also forecasting a pickup in sales growth in the year ahead. This is, however, partly predicated on expectations of further interest rate cuts over the coming months.

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Comment

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

"Canada's service sector endured a challenging month in September, with activity and new business volumes declining markedly and job losses registered for a second month in a row. Moreover, rates of contraction accelerated as market conditions deteriorated since August. This subdued environment subsequently helped to explain why inflation rates eased to their lowest levels in the past three-and-a-half years.

"The combination of softening labour market conditions, slower inflation and declining output adds support to the Bank of Canada's policy of pursuing looser monetary conditions. Expectations are also clear amongst firms for further rate cuts in the coming months, with these seen as key in helping stimulate growth of sales and activity over the coming year."

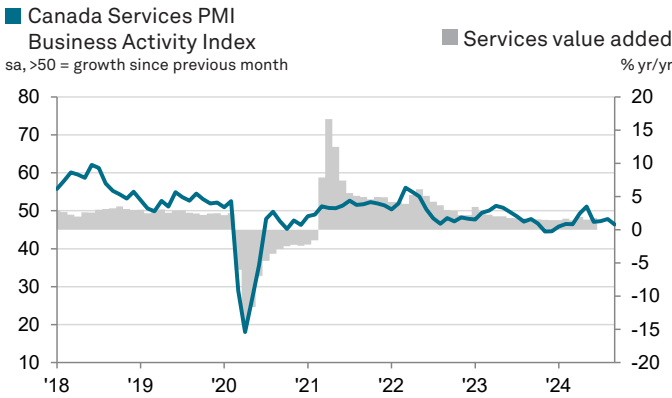
S&P Global Canada Composite PMI®

Services leads contraction of private sector economy

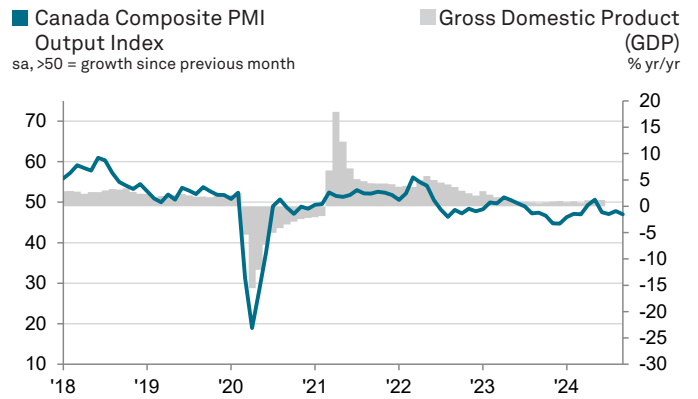
Canada's private sector economy remained stuck in a downturn during September with both manufacturing production and service sector activity falling. Overall private sector output declined for a fourth successive month and to a steeper degree than in August, as highlighted by the S&P Global Canada Composite PMI Output Index* recording 47.0, down from 47.8.

A steep fall in service sector new business more than offset some slight growth in manufacturing new orders meaning that overall sales volumes fell to the steepest degree since December 2023. This helped to explain a modest cut in staffing levels for a second month in a row.

Input price inflation meanwhile eased to its lowest since June, whilst there was also a fall in the pace of output price growth. Confidence in the outlook however picked up to its highest since March as firms looked to further interest rate cuts to stimulate growth in the year ahead.



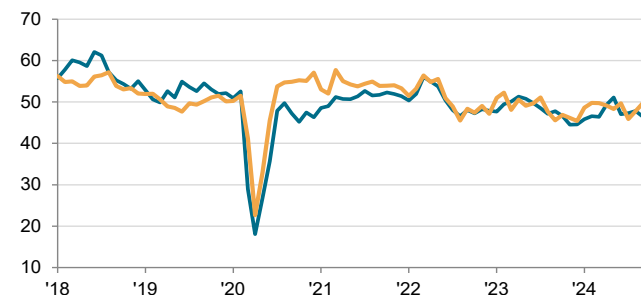
Sources: S&P Global PMI, Statistics Canada.



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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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