

News Release

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S&P Global Canada Services PMI®

Downturn in Canada's service sector continues during January

Key findings

Activity and new business down markedly again, but at slower rates

Price indices shift higher

Confidence slumps to 18-month low

Canada's services economy remained in a downturn during January, with both activity and new business recording further monthly contractions. Companies reported that high interest rates and a general caution amongst clients to commit to new business continued to weigh on the sector. Cost pressures also intensified, with rising wage expenses pushing up operating expenses at an accelerated pace. Confidence in the future remained historically subdued, dropping to its lowest since July 2022. Nonetheless, firms added to their workforce numbers for the first time in three months.

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. At the start of 2024, the headline index remained below the crucial 50.0 no-change mark for an eighth successive month, posting a level of 45.8. Although up on December's 44.6 to thereby signal a slower rate of contraction, the index nonetheless pointed to a marked decline in service sector activity.

Panellists continued to report that soft demand and lower sales remained the key depressors of business activity. Firms noted that market activity was characterised by client caution, with high prices and elevated interest rates discouraging commitments to new business. Overall, new work was down for a sixth successive month in January, although the rate of contraction was the slowest since last October. Foreign demand was also reported to be lower, as signalled by another, albeit noticeably weaker, 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 11-26 January 2024.

Despite ongoing weak performances in new business and activity, service providers took on additional staff for the first time in three months. Although growth was modest, January data marked the first time since October that a rise in employment had been recorded. Firms commented that extra staff were recruited to help keep on top of workloads. This helped to explain another drop in work outstanding in January, the nineteenth in successive months.

Service providers also noted that typical wage costs had risen at the start of 2024, and this was a key factor behind the latest acceleration in overall input cost inflation. According to the latest data, input prices rose to the greatest degree for three months and remained historically elevated. Firms were also willing to pass on these costs to clients in the form of increased output charges. January's survey signalled that average tariffs rose to the greatest degree since last July.

Finally, concerns over the impact of high interest rates and the continuation of weak purchasing trends by clients meant confidence in the future fell in January. Overall, sentiment was at its lowest level since July 2022 and remained well below average at the start of the new year.

PMI®

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Comment

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

“January’s survey data highlight an economy continuing to splutter at the start of the new year. Weak market demand, weighed down by high interest rates and a reticence amongst clients to commit to new work, was again widely reported by panellists and resulted in another noticeable contraction in business activity. It’s perhaps therefore surprising to see price indices shift higher over the month, with firms again citing rising salary costs as a key driver of elevated operating expenses.

“Upward price pressures are a timely reminder that the disinflationary road ahead is unlikely to be smooth, and points towards the Bank of Canada maintaining its restrictive monetary policy stance in the near-term. However, with confidence in the outlook dwindling, and with a subdued growth backdrop characterised by downward pressure on pricing power, it feels more likely than not that price pressures will resume their downward trend in the coming months and thus provide room for a more accommodative monetary policy later in 2024.”

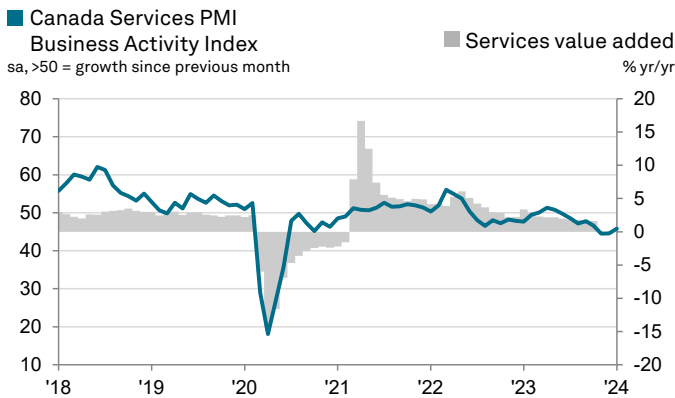
S&P Global Canada Composite PMI®

Slower contraction of private sector signalled in January

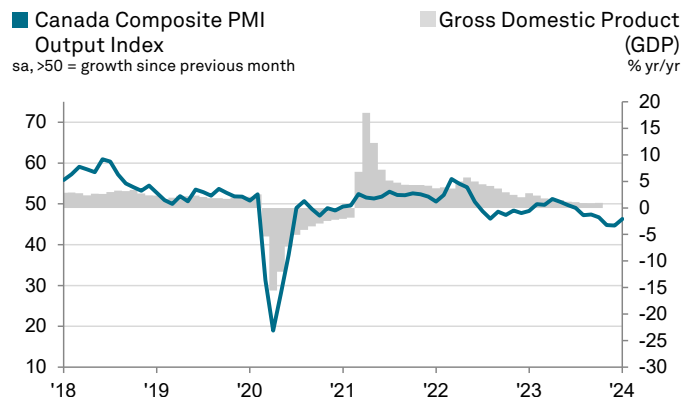
January’s survey data signalled a further contraction of Canada’s private sector, extending the current period of decline to eight months. Both manufacturing output and services activity contracted since December, although in both instances at slower rates. This was reflected in the S&P Global Canada Composite PMI Output Index* which posted 46.3 in January, compared to 44.7 in the previous month.

Volumes of new orders displayed a similar trend to activity, falling again but at a slower rate. This allowed companies to keep on top of work outstanding, which fell for a nineteenth month in a row. Growth of private sector staffing numbers also helped. It was the first time in three months that a rise in employment has been recorded.

Price indices showed accelerated rates of inflation in January as firms sought to pass on higher costs to clients. Confidence in the future softened since December to its lowest level since July 2022.



Sources: S&P Global PMI, Statistics Canada.

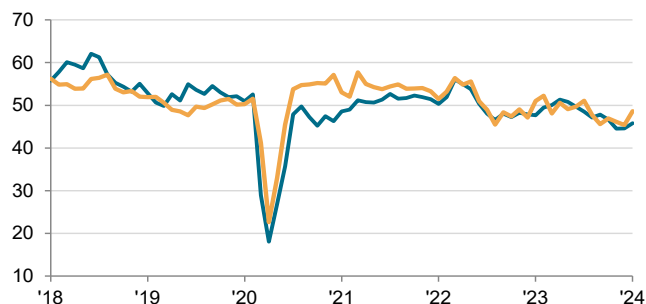


Sources: S&P Global PMI, Statistics Canada.

*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