News Release

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S&P Global Canada Services PMI®

Return to modest growth signalled in May

Key findings

First rise in activity for a year

Employment increases for second month running

Salary expenses key driver of higher operating expenses

S&P Global Canada Services PMI Business Activity Index

sa, >50 = growth since previous month

Source: S&P Global PMI.
Data were collected 10-28 May 2024.

Underpinned by a rise in new business, Canada's services economy experienced an increase in activity during May for the first time in a year. Modest growth encouraged staff recruitment in some cases, enabling firms to keep on top of workloads. Cost pressures remained significant, however, amid reports of higher salaries being awarded. Firms passed on these increased operating expenses wherever possible. Looking ahead to the coming 12 months, service providers remain confident on average that growth will be sustained.

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 May, the headline index posted 51.1. That was up from 49.3 during April and marked the first expansion of service sector activity for a year.

The modest expansion of business activity was linked primarily by panellists to a similar sized increase in new work. The first increase in new work since July 2023 was closely linked by panellists to success in securing new clients amid a more positive demand environment. The opening of new stores also helped firms in some instances to secure new work. Although new export business continued to fall, it did so only marginally and to the softest degree since October 2019. Whilst European demand was noted to be lower, there was some evidence of higher sales to the US market.

Buoyed by the positive trends in new business and activity, Canadian service providers took on additional workers for a second successive month in May and for the fourth time in 2024 so far. Although modest, May's increase in employment was the best since last October. This helped firms to keep on top of overall workloads, as signalled by a twenty-third successive monthly fall in backlogs of work.

Higher employment and an increased demand for staff were factors that led to an increase in typical salary costs. Efforts to retain talented workers and the higher cost of living were also noted by panellists. With energy prices and supplier charges also reported to have risen, overall operating expenses continued to rise at a strong pace overall in May. Prices charged for services also increased as firms sought to protect margins wherever possible. Although the rate of inflation eased since April it remained marked and above the survey average.

Finally, confidence in the future remained positive in May amid hopes of a more stable economic environment over the coming 12 months. Inflation is forecast to fall, and interest rates are expected to be cut. However, there remain lingering recession concerns amongst the panel. Subsequently, confidence softened during May to its lowest level since the start of the year.

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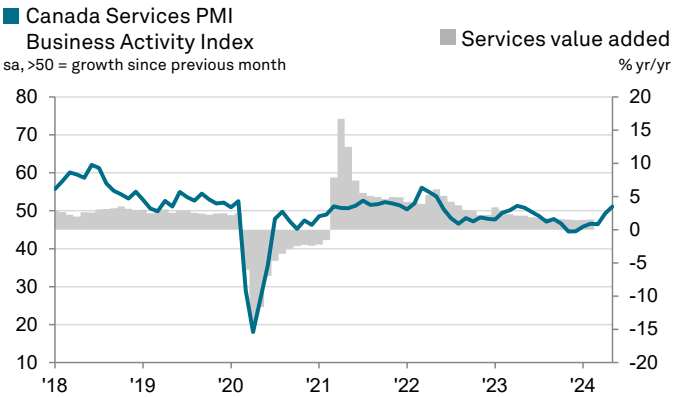
Comment

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

"There was a welcome return to growth in May amid evidence of a more stable demand environment benefiting Canadian service providers. New business increased and firms were suitably encouraged to take on additional staff for a third time this year. Companies took on additional workers not only in response to current workloads but in anticipation of further growth in the coming 12 months.

"However, higher employment led to an increase in typical labour costs, and this was a key factor behind another steep rise in overall operating expenses. Although firms are broadly expecting interest rates to be cut and inflation to keep falling, signs of some tightness in the labour market leads to some concern that sticky price pressures may persist in the medium-term."



Sources: S&P Global PMI, Statistics Canada.

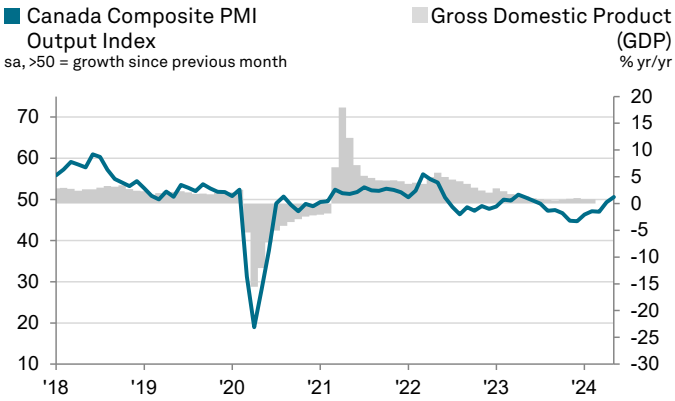
S&P Global Canada Composite PMI®

Private sector economy returns to growth in May

For the first time in a year, there was an increase in private sector output. Growth was however marginal as reflected in the S&P Global Canada Composite PMI Output Index* which posted 50.6, up from 49.3 in April. Whilst service sector activity increased, manufacturing output declined for a tenth month in a row.

Similar trends were seen for new orders, with a net increase in overall new business registered for the first time since June 2023. Although there was a lack of pressure on capacity, staffing levels increased for the fifth month in a row. Growth was modest but nonetheless the best since May 2023.

Rising salary costs in services helped to drive another steep increase in overall private sector operating expenses. Output charges rose in response, though again primarily driven by service providers. Confidence in the future remained positive but eased to a four-month low and remained below trend.



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.

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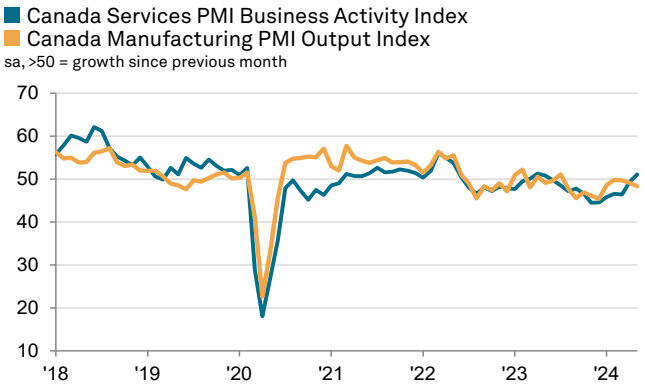
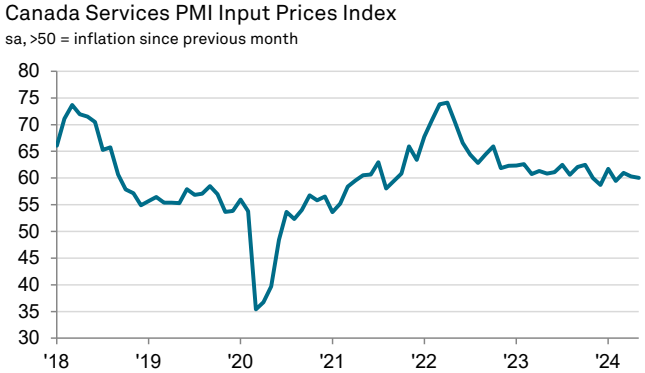


Source: S&P Global PMI.



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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