

IHS Markit Canada Manufacturing PMI®

Rising COVID-19 cases and material shortages weigh on output growth in January

Key findings

Dip in PMI reflects weaker output growth at start of 2022

New orders rise at sharper pace

Inflationary pressures continue to ease

Data were collected 12 - 25 January 2022.

Growth in Canada's manufacturing sector continued into the new year with operating conditions improving sharply in January. Output, new orders, purchases and employment all expanded while sentiment improved. However, delivery delays, port congestions and a rise in Omicron cases swept the nation. Vendor performance deteriorated sharply, resulting in poor input availability and weaker output growth.

Disrupted supply chains paired with materials shortages continued to cause sharp price pressures. That said, both input and output price inflation moderated in January.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) registered at 56.2 in January, down slightly from 56.5 in December. This signalled a sharp overall expansion, albeit the joint-weakest for 11 months. Growth has been seen in each month since July 2020.

Central to the moderation was a slowdown in output growth. Output rose at the softest pace for over a year-and-a-half amid weak input availability and increased disruption from COVID-19.

While output growth softened, domestic demand for Canadian manufactured goods accelerated during the start of the year. Panel comments suggested that despite the presence of virus-related restrictions, demand remained strong. Similarly, sales to international markets rose - albeit at a slower pace in January.

Faced with increasing orders, firms in Canada raised their headcounts. The rate of growth was solid, and the joint-strongest since July 2021. Despite this, backlogs rose markedly, and at one of the quickest rates in the survey's 11-year history.

The sharp rise in backlogs was a result of weak input availability and poor vendor performance. Lead times were especially lengthy

continued...

Canada Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Shreeya Patel, Economist at IHS Markit, said:

"Another robust improvement in operating conditions was recorded in Canada's manufacturing sector with the PMI at 56.2 at the start of the year. The headline figure reflected favourable demand conditions, rising employment levels and growth in inventories.

"Additionally, price pressures showed further signs of easing, with rates of output and input price inflation moderating to ten- and 11-months lows, respectively.

"That said, COVID-19 yet again hit performance with output growth slowing notably. Tighter restrictions, among other issues, led to weak input availability and poor transportation conditions.

"Nevertheless, there is a further indication that restrictions will start to ease across the provinces in the months ahead. Fortunately, Canada boasts a high vaccination rate, which has allowed for growth to continue in the manufacturing sector despite a resurgence in cases."

in January with tighter pandemic restrictions, port congestions, adverse weather conditions and truck shortages adding to delays. Moreover, vendor performance deteriorated at the fifth most marked rate in the series history.

Sustained periods of supply chain issues continued to encourage advance ordering strategies with stocks of inventories rising solidly. The rate of growth did, however, slow amid elevated costs and efforts to better control inventories. Meanwhile, stocks of finished goods depleted further with difficulties surrounding production often mentioned by panellists.

As for prices, rising raw material costs (lumber and metal) and higher transportation fares led to another sharp rate of input price inflation. The rate of increase slowed, however, and was the softest for 11 months. Higher cost burdens were passed on to clients in January, though here also the rate of inflation moderated from that seen in December.

Finally, the 12-month outlook for output improved amid hopes of a return to normality, greater material availability and strong client demand. That said, the degree of optimism was lower than the average seen for 2021, suggesting the Omicron variant weighed slightly on confidence.

Canada Manufacturing Output PMI Index

sa, >50 = growth since previous month

Manufacturing production

3m/3m % change



Sources: IHS Markit, StatCan.

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Survey methodology

The IHS Markit Canada Manufacturing PMI® is compiled by IHS Markit 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.

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.

Survey dates and history

Data were collected 12 - 25 January 2022.

Data were first collected October 2010.

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