

News Release

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S&P Global Canada Services PMI®

Service sector activity falls again in March

Key findings

Downturns in output and new orders continue

Employment numbers unchanged

Input costs rise at steeper pace

Canada's services economy recorded another month of falling activity and new business during March amid reports of subdued market demand. Firms were subsequently able to comfortably keep on top of overall workloads and saw little need to recruit additional staff, the net result being a stagnation of employment. Operating expenses, however, continued to rise sharply, underpinned by increased wage costs. Competitive pressures restricted the degree to which costs were passed on to clients.

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 March, the headline index signalled a contraction of activity for a tenth month in succession. Posting 46.4, down from 46.6 in February, the index pointed to a slightly faster contraction in activity.

Closely linked to the decline in activity was a drop in levels of incoming new work. Anecdotal evidence pointed to client hesitancy in committing to new work given the uncertain economic environment. Lower consumer confidence and high prices were also noted. Overall, levels of new work have now fallen for eight months in a row, though the latest contraction was the weakest since last September. Volumes of new export business also fell in March, in line with a trend that has been apparent for nearly five years.

Poor trends in activity and new business discouraged recruitment activity in March. Following two months of modest growth, employment numbers stalled. In some

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 March 2024.

cases, the non-replacement of leavers was recorded, and firms noted sufficient capacity to keep on top of workloads. Indeed, backlogs of work were down again during March, extending the current period of contraction to 21 months. The rate of decline was also the steepest of the year so far.

Where employment growth was registered, this was linked in part to positive activity projections. Confidence in the future was little-changed during March, edging down only slightly on February's ten-month high amid hopes of a pick-up in broader economic activity. Lower interest rates and organic growth should also help to bolster business activity in the year ahead, according to panellists.

Staffing costs were a major driver of higher operating expenses during March. According to the latest data, input prices rose steeply and at a faster pace than in February. Sharp inflation was partially linked to high fuel prices and suppliers increasing their charges.

Similarly, service providers sought to raise their own average sales prices in March. A net increase in average output charges extended the current period of inflation to three years. However, the degree to which prices rose was the lowest in 2024 so far. Some panellists noted that competitive pressures restricted pricing power.

PMI®

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Comment

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

"Canada's services economy remained mired in a downturn during March, with both activity and new business volumes declining again. The restrictive impact on market activity of high prices and elevated interest rates remains plain to see. Firms continue to look towards the central bank to loosen what to many feels like a current restrictive monetary stance in the coming months. Indeed, many panellists now view this as being crucial in helping to restimulate economic growth over the next year.

"On the price front, input price inflation nonetheless remains frustratingly elevated, underpinned by rising salary expenses. Such trends are likely to keep the Bank of Canada wary of elevated inflation expectations, although policymakers will be heartened by a further softening of output charge inflation to its lowest of the year so far."

S&P Global Canada Composite PMI®

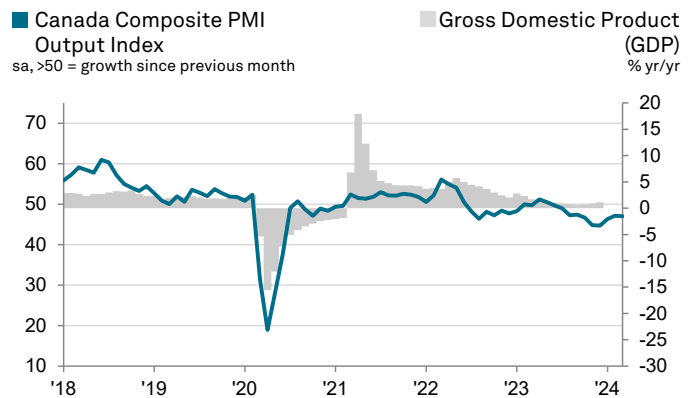
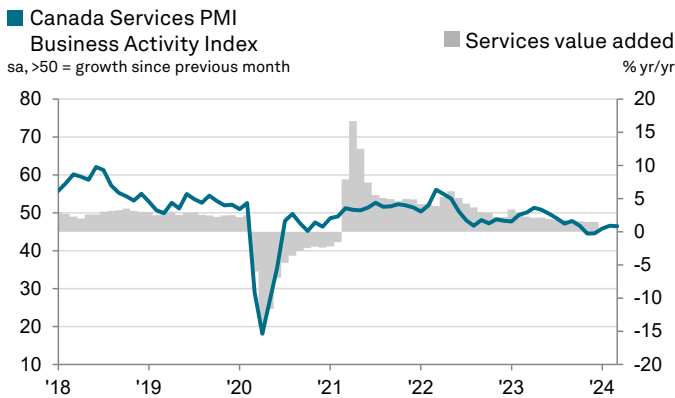
Activity declines again as market demand remains soft

Private sector economic output continued to contract during March, as reflected in the S&P Global Canada Composite PMI Output Index* which posted 47.0. That was little-changed on February's 47.1, and thereby signalled another solid decline in output that extended the current downturn to 10 months.

The services economy was the principal source of output weakness, registering a slightly steeper fall in activity compared to February. Manufacturing production also declined, but only marginally. Demand weakness led to the latest contractions in output, with both sectors recording lower levels of new work in March.

Meanwhile, employment was little-changed at the composite level, reflective of sufficient capacity across the private sector economy. This was signalled by a decline in work outstanding for a twenty-first successive month.

On the price front, input cost inflation picked up, but there was a slower increase in output charges. Confidence in the future was unmoved at a 10-month high.

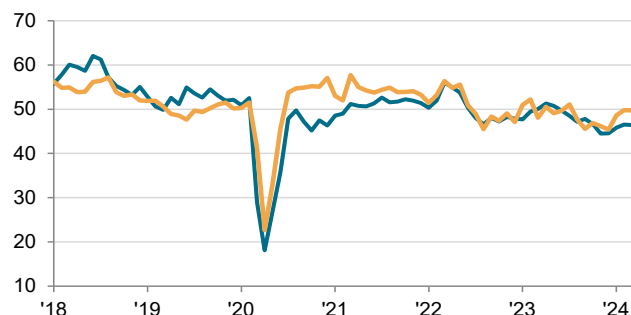


Sources: S&P Global PMI, Statistics Canada.

*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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