

News Release

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S&P Global Canada Services PMI®

Subdued performance of Canadian service sector continues in January

Key findings

Activity and new business both fall again

First reduction in employment for four months

Confidence below trend amid worries over US tariffs

Canada's service sector experienced a second successive monthly decline in business activity during January amid a further reduction in incoming new business volumes. Market demand was reported to be subdued and, with evidence of spare capacity, service companies chose to reduce staffing levels for the first time in four months.

Meanwhile, operating expenses continued to rise sharply, amid reports of higher prices for a wide array of inputs. Output charge inflation was relatively modest in comparison as firms struggled to pass on increased costs 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 January, the headline Business Activity Index recorded 49.0. That was slightly up on December's 48.2 but nonetheless represented a marginal contraction of service sector output for a second month in a row. Panellists primarily linked ongoing weakness in activity volumes to a reduction in new business, which also fell for a second successive month in January. Panellists linked the marginal contraction in new work, which was much slower than in December, to subdued market conditions. Clients were reported to be uncertain and hesitant in their decision-making. New export business also fell for similar reasons, and again to a much greater degree than for overall new work.

Service providers were able to comfortably keep on top of their workloads, with latest data showing backlogs of work declining markedly again in January. A lack of new work was

S&P Global Canada Services PMI Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global PMI.

Data were collected 09-28 January 2025.

noted as a reason by firms to clear existing contracts. And with companies struggling to replace completed business there was a net drop in employment levels for the first time in four months.

Nonetheless, according to panellists, typical employment costs drove up overall operating expenses during January. Vendors were reported to be raising their charges, whilst fuel was noted to have increased in price. Although the slowest in four months, input price inflation subsequently remained high at the start of 2025, with the latest rate of inflation only slightly below the 2024 average.

On average, service providers raised their prices charged to offset higher operating expenses in January. Inflation was however modest and the softest in three months as firms sought to balance margin protection with the need to support sales.

Finally, looking ahead to the coming year, panellists are hopeful that lower interest rates will help to stimulate demand and broader economic growth. Despite improving, confidence nonetheless remained below its historical trend. Several service providers are concerned over the possibility of tariffs on Canadian exports being applied by the United States.

Please note the latest survey data were collected prior to the announcement by the United States on February 1st to impose tariffs on all Canadian exports to the United States from February 4th onwards, and then the subsequent delay of the implementation of these tariffs announced on February 3rd.

PMI®

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Comment

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

“Canada’s services economy experienced concurrent falls in both business activity and new work during January to signal another month of subdued sector performance. Panellists continued to note soft underlying market demand, with uncertainty weighing on business decisions. This may reflect ongoing unease over the impact of possible tariffs being applied on Canadian goods and services exported to the United States, and indeed this was cited as a real concern by service providers themselves. Whilst firms are looking to lower interest rates to help stimulate growth, tariff worries ensured that confidence amongst panellists remained well below trend.

“This uncertainty, plus general challenges in replacing expired contracts, helped to explain why service providers reported a marginal reduction in employment during January. Nonetheless, staffing expenses remained a source of broader input cost inflation for firms, which remained high in January.”

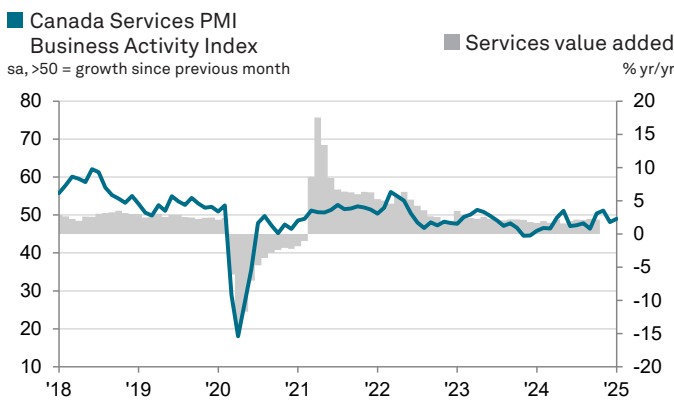
S&P Global Canada Composite PMI®

Services leads overall decline in private sector output

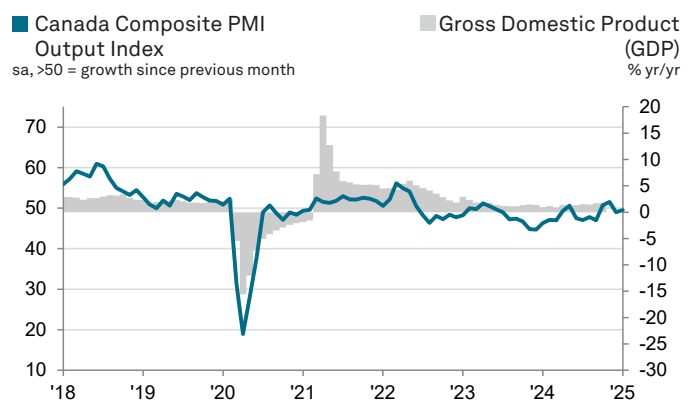
Canada’s private sector economy contracted in January for a second successive month. The deterioration was however centred on the service sector, as manufacturing output growth was registered for a fourth successive month. After accounting for seasonal factors, the S&P Global Canada Composite PMI® Output Index* recorded 49.5 in January, up marginally on December’s 49.0.

Similar trends were recorded for new orders where a rise in manufacturing new business failed to offset another (albeit marginal) contraction in service sector new work. Job losses were also reported in services, with overall private sector employment declining for the first time since last September. Spare capacity was evident across both manufacturing and services as backlogs of work continued to decline in each case.

On the price front, input cost inflation was unchanged at a high level in January. Output charges continued to rise but at a much slower pace than seen for operating expenses.



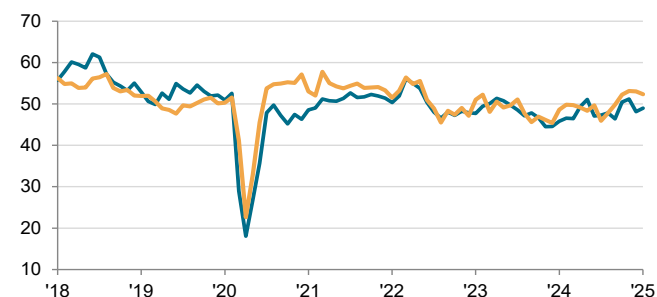
Sources: S&P Global PMI, Statistics Canada.



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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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