

News Release

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S&P Global Canada Services PMI®

Service sector continues to contract in October

Key findings

Subdued market demand leads activity and new work lower

Jobs growth sustained

Input price inflation remains elevated

The first public release of the Canada Services PMI® survey, data for which were first collected in December 2017, painted a subdued picture of the service sector in October. Activity levels were reported to be lower, undermined by a drop in new business volumes as the high cost of living and increased interest rates weighed on market demand. However, firms still took on additional staff, partly due to ongoing efforts to recruit hard-to-find qualified and experienced workers.

Cost pressures remained stubbornly high. This partly reflected the need to pay workers higher wages to help with cost-of-living expenses and to ensure their retention. Services providers subsequently raised their own charges, albeit to at a rate that remained below levels seen in the first half of the year.

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 October, the index posted below the crucial 50.0 no-change mark for a fifth successive month. Moreover, posting 46.6, down from 47.8 in September, the index signalled an accelerated rate of contraction that was the steepest since August 2022.

The latest decline in business activity was closely linked by panellists to a reduced level of new work. Companies reported that new work received was down for a third month in a row, and to the greatest extent for over a year. There were reports from panellists of budget cuts at clients, and that the elevated cost of living plus higher interest rates had dampened market activity. Similar factors led to the

S&P Global Canada Services PMI Business Activity Index
sa, >50 = growth since previous month



Source: S&P Global PMI.
Data were collected 12-26 October 2023.

steepest fall in new export business since January.

Despite worsening trends in both activity and new business, service providers chose to take on additional workers. It was the second month in a row that employment growth has been registered, although the net increase was again modest. Companies reported recruiting qualified and experienced staff to roles, sometimes filling long-held vacancies. Additional staff numbers ensured that firms were able to comfortably keep on top of their workloads, as evidenced by a drop in outstanding business for a sixteenth successive month.

Panellists widely commented on raising typical wage levels in October, largely to help staff with living expenses and to retain workers. Employee costs were subsequently a large contributing factor behind the latest rise in overall operating expenses, which increased again at an elevated rate. Firms sought to pass on a proportion of their higher costs to clients via a rise in their output charges. The rate of increase was again marked, though remained well below levels seen earlier in the year.

High prices and elevated interest rates remained concerns amongst firms when considering their own business levels in 12 months' time. However, these worries were more than offset by growing hopes of a pick-up in the economy and ensured, on balance, firms remained confident of higher activity in a year's time. Overall, confidence was at its strongest level since April.

Comment

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

“The first public release of the S&P Global Canada Services PMI showed that the nation’s vast services economy, the key contributor to overall economic output in Canada, remained mired in contraction territory during October. Moreover, operating conditions faced by service providers are worsening at a greater pace, with both activity and new business declining to their greatest degrees since August 2022.”

“Firms were clear on the reasons behind the challenging market environment they currently face, reporting that elevated prices, the high cost of living and high interest rates were leading to budget cuts and reduced discretionary spending amongst clients.”

“This suggests that the Bank of Canada’s sustained period of rising interest rates is having a dampening effect on economic activity. However, data from the PMI survey encapsulates the challenges the central bank currently faces, and why it continues to adopt its hawkish stance. Firstly, the labour market remains tight, with October’s survey suggesting that firms continue to recruit staff, especially skilled workers. Secondly, elevated wage growth is leading to stubbornly high inflation.”

“Whilst the release of new timely PMI data will be welcomed by policymakers, it nonetheless reinforces the current tightrope they have to walk between bringing inflation down on the one hand and avoiding economic recession on the other.”

S&P Global Canada Composite PMI®

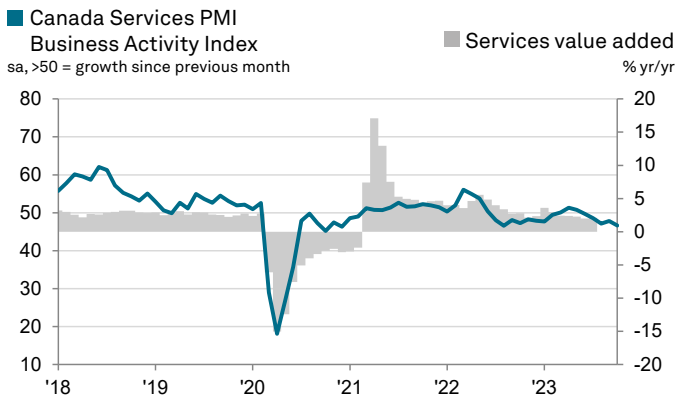
Steepest contraction of private sector for over a year

Concurrent declines in manufacturing and service sector output were signalled during October. Moreover, with the fastest fall in services activity recorded in over a year, the decline in private sector output also accelerated to the steepest since August 2022.

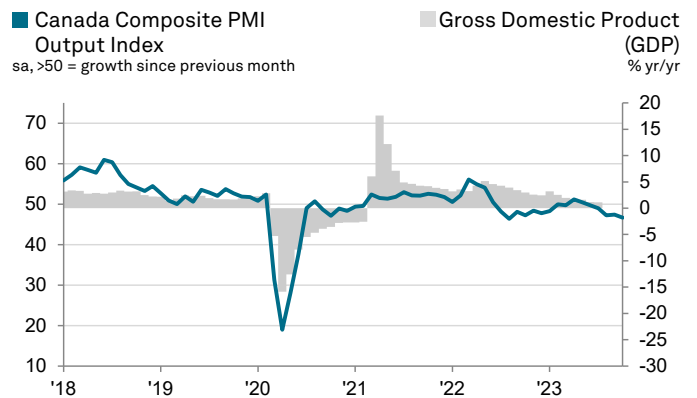
After accounting for seasonal factors, the S&P Global Canada Composite PMI Output Index* recorded 46.7, down from 47.4 in the previous month. Undermining output was a third successive monthly decline in new orders. The rate of contraction was also the steepest seen for a year.

Firms nonetheless took on additional staff, largely to fill previous vacancies or to recruit better qualified staff. Growth was, however, centred on services as manufacturing employment was little-changed.

Price data showed the continuation of elevated inflation, with operating expenses rising to the greatest degree since February. Charges also rose at a steeper pace, though to a much lower degree than seen for input costs.



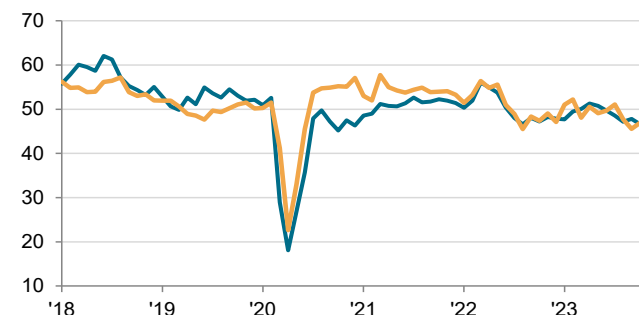
Sources: S&P Global PMI, Statistics Canada.



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.

Contact

Paul Smith
 Economics Director
 S&P Global Market Intelligence
 T: +44 1491 461 038
paul.smith2@spglobal.com

Katherine Smith
 Corporate Communications
 S&P Global Market Intelligence
 T: +1 (781) 301-9311
katherine.smith@spglobal.com

If you prefer not to receive news releases from S&P Global, please email katherine.smith@spglobal.com. To read our privacy policy, click [here](#).

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