

News Release

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S&P Global Canada Manufacturing PMI[®]

PMI at 25-month low in July

Key findings

Renewed decline in activity amid weak client demand

Both input and output price inflation moderate to five-month lows

Sentiment improves from June's 17-month low

Canadian manufacturers signalled another slowdown in July, with overall business conditions improving at the weakest rate for just over two years. The latest survey revealed renewed declines in output and new orders while employment growth softened. Export sales were a particular drag on the sector in July, with new work from abroad falling to the greatest extent for 25 months.

On the price front, sharp cost pressures continued to mount with higher material, foodstuff and transportation costs often mentioned as the main drivers of inflation. Panellists reportedly passed on rising cost burdens as part of efforts to protect profit margins. That said, the rates of input cost and output price inflation eased to five-month lows in both cases.

The seasonally adjusted S&P Global Canada Manufacturing Purchasing Managers' Index[®] (PMI[®]) registered at 52.5 in July, down from 54.6 in June. The latest reading signalled 25 continuous months of growth, though the improvement was the weakest in this sequence.

The two largest components of the PMI by weight – output and new orders – were behind the latest moderation. Both fell in July and for the first time in just over two years.

Weak client demand amid sharply rising prices led to a decline in output in July. This signalled the first contraction since the outbreak of the pandemic in March-June 2020. The rate of decline was marginal, however, with around 17% of firms recording a contraction while 14% registered an increase in production levels.

New orders fell moderately, which ended two years of new order growth. Sales to foreign markets meanwhile fell for the second month in a row, and at a quicker pace in July. Anecdotal evidence pointed to weaker demand from the American market.

Subdued demand conditions paired with weak input

Canada Manufacturing PMI
sa, >50 = growth since previous month



Source: S&P Global.
Data were collected 12 - 25 July 2022.

Comment

Commenting on the latest survey results, Shreeya Patel, Economist at S&P Global Market Intelligence said:

"Latest PMI data revealed another slowdown in operating conditions in Canada's manufacturing sector with the PMI at its lowest point for just over two years. Behind the latest moderation were contractions in both output and new orders which fell for the first time since the pandemic began in the first half of 2020.

"Firms continue to face sharply rising costs, which have been exacerbated by the war in Ukraine and lockdowns in China. Policymakers have reaffirmed their stance on tackling inflation by raising interest rates by a full percentage point last month.

"Companies in Canada will hope price pressures continue to ease and demand from both international and domestic markets improves. In the meantime, firms remain cautiously optimistic about their 12-month outlook for output."

PMI[®]

by S&P Global

availability led to a slower increase in buying activity. In fact, purchases rose at the slowest pace for just over two years. Pre-production inventories rose at a quicker pace, however, with firms reporting lower output requirements resulted in a build-up of inventories.

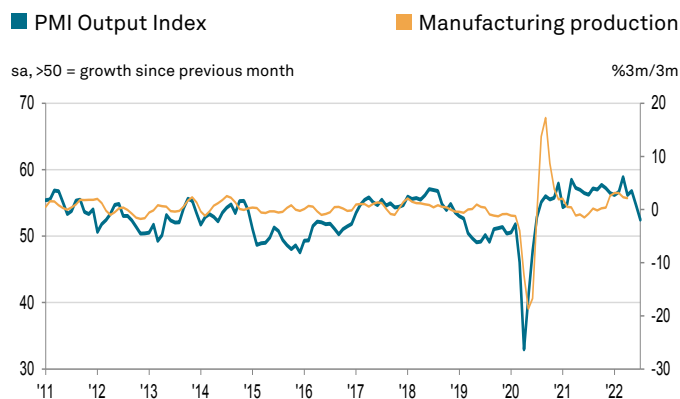
Softer increases in workloads led to a slower round of job creation at the start of the third quarter. Employment levels rose at the weakest rate for a-year-and-a-half. According to panel comments, restructuring efforts led some firms to cut headcounts.

With demand conditions subdued, firms concentrated their efforts on building post-production inventories which increased for the first time in 16 months. Backlogs meanwhile rose slightly, and at the joint-weakest pace for two years.

Turning to prices, input price inflation eased to a five-month low in July but remained robust and much quicker than the long-run series average. Higher prices were attributed to the war in Ukraine and lockdowns in China. Rising fuel, transportation, labour and food costs were often mentioned by panellists.

Selling prices charged for Canadian manufactured goods also rose sharply in July, but at a softer pace to that seen in June. The rate of inflation was the weakest since February, and below the average seen for 2022 so far.

Finally, manufacturers in Canada remained optimistic about their output levels in the year ahead. Firms mentioned hopes of greater demand and successful new product launches. That said, sentiment was below the long-run average with recession concerns weighing slightly on hopes.



Sources: S&P Global, StatCan.

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Survey methodology

The S&P Global Canada Manufacturing PMI® is compiled by S&P Global 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. Data collection began in October 2010.

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.

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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. ihsmarkit.com/products/pmi.html.