News Release

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S&P Global Canada Services PMI®

Marked contraction of service sector as sales fall again

Key findings

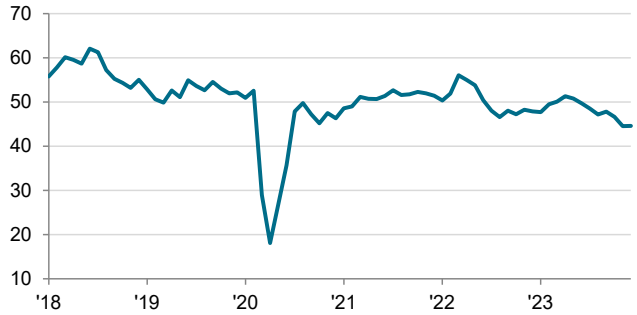
High interest rates weigh on market demand

Marginal job losses recorded

Inflation rates continue to fall

S&P Global Canada Services PMI Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global PMI.
Data were collected 06-19 December 2023.

Canada's services economy endured a challenging end to 2023 with concurrent and marked reductions in both activity and new business signalled in December. There were reports that demand had softened on the back of higher interest rates and that clients were reluctant to commit to new projects. Job numbers subsequently fell marginally, although confidence in the future improved to an eight-month high. Latest data also showed that input and output prices continued to increase, albeit at slower rates.

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. The index was little-changed since November's 44.5, posting 44.6 in December. Posting below the 50.0 no-change mark for a seventh successive month, the index again signalled a noticeable drop in activity.

Weighing on sector performance was an accelerated and marked drop in incoming new business. December's survey showed that sales fell for a fifth successive month, and to the greatest degree in three years. There were many reports that market demand was subdued, characterised by hesitancy amongst clients in committing to new sales. Several companies blamed high interest rates as a factor weighing on demand. However, weakness was not confined to the domestic market; new export business declined in December at the steepest rate since April 2021.

Subdued trends in activity and new business inevitably weighed on hiring decisions in December, with employment down marginally for a second month in a row. This was linked in the main to a lack of workloads at units although some firms signalled ongoing difficulties in recruiting suitably qualified workers. Highlighting the presence of excess capacity in the sector, levels of work outstanding declined during December for an eighteenth successive month.

Wages were cited again by panellists as a source of inflation in December. With bought-in goods and services also reported to be rising in price, overall operating expenses continued to increase at year-end, extending the current period of inflation to three-and-a-half years. However, the degree to which costs rose was the slowest since August 2021. This reduced pressure on firms to raise their own charges. Although still up on the month, the degree to which output charges rose in December was also the weakest for 28 months.

Looking ahead to the likely direction of service sector activity in 2024, on average companies are confident of growth. December's PMI data showed that sentiment was at its highest level since April, with firms confident that interest rates will be cut and result in pick-ups of activity and demand. However, there remain some worries that the economy will enter recession in the coming months. Confidence overall therefore remained slightly below-trend in December.

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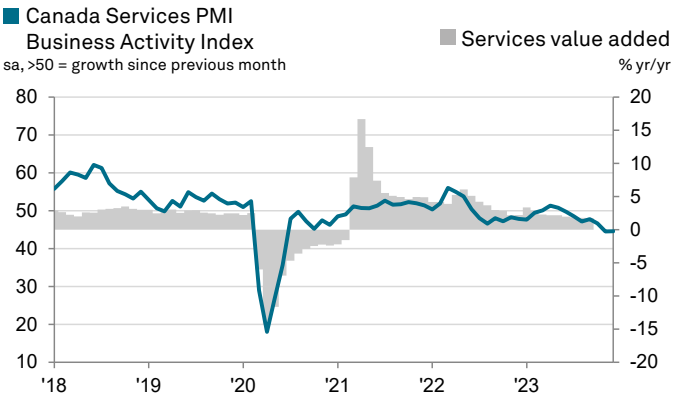
Comment

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

"The impact of tight monetary policy on Canada's service sector economy was plain to see in December. Panellists widely reported that ongoing weakness in demand and activity was in part being driven by high interest rates, with weakness notably seen in real estate markets.

"However, there were positive signs on the price front, with rates of cost and output price inflation falling further on the month and to levels below their respective survey averages. Whilst there remains a little way to go before the Bank of Canada can declare victory in its quest to return the economy to price stability, especially given wages remain a key source of inflationary pressure, the latest survey data clearly show that tight financial conditions are having a noticeable impact on the economy.

"Firms are eying cuts to interest rates during 2024. Although the Bank of Canada will likely remain cautious in its approach, firms see rate reductions as key to their hopes of a return to activity and sales growth in the coming months."



Sources: S&P Global PMI, Statistics Canada.

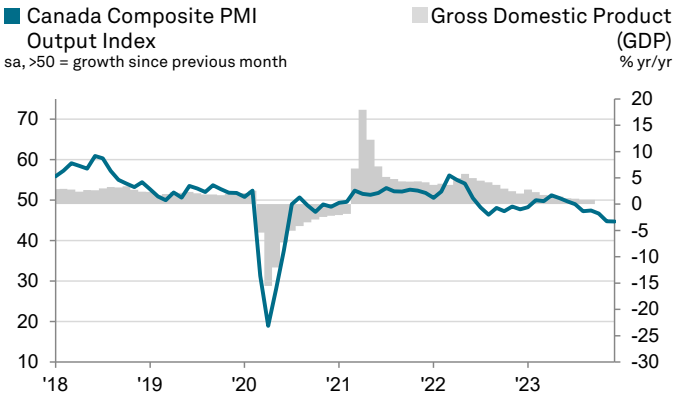
S&P Global Canada Composite PMI®

Private sector downturn intensifies in December

December's PMI data indicated a seventh successive monthly decline in the combined output of the manufacturing and services economies. Moreover, the rate of contraction was a little steeper, accelerating to the fastest since June 2020 and highlighted by the S&P Global Canada Composite PMI Output Index* recording 44.7 (November: 44.8). Similarly marked rates of contraction were recorded in the manufacturing and services sectors.

A lack of new business placed with Canadian firms was highlighted by the latest data on new orders, which showed the biggest drop since mid-2020. Both sectors recorded accelerated contractions in sales, and this helped them keep on top of overall workloads as evidenced by a drop in backlogs of work for the eighteenth month in a row. Staffing levels were also cut across the private sector.

On the price front, rates of inflation continued to fall, both for input costs and output charges. For input prices, inflation was the slowest for nearly three years, whilst for output charges December marked the weakest increase since March 2021.



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.

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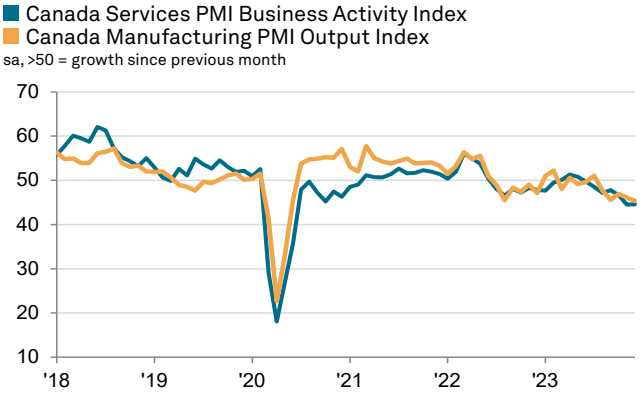
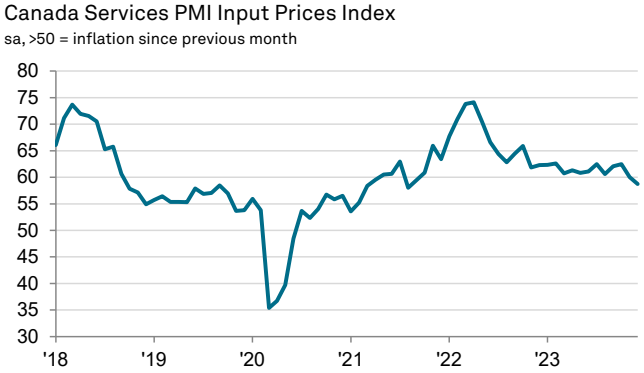


Source: S&P Global PMI.



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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