

# News Release

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## S&P Global Canada Services PMI®

### Service sector continues to contract in February

#### Key findings

Marked falls in output and new orders

Marginal rise in employment as confidence improves

Higher wages drive up operating expenses

Activity in Canada's services economy contracted again during February, extending the current downturn to nine months. Firms attributed weak activity to slow market demand amid reports of financial constraints and lower disposable income at clients. Nonetheless, firms added to their staffing levels amid positive projections for growth. Indeed, optimism in the future was at its highest level for 10 months amid hopes of lower interest rates and higher economic activity in the year ahead.

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 February, the index improved to 46.6, up from 45.8 in January. That was its highest level since October. However, the index still signalled another marked decline in activity, and has now posted below the 50.0 no-change mark for nine successive months.

Panellists broadly linked the latest reduction in service sector output to a fall in new business volumes. Overall, sales were down for a seventh successive month amid reports of subdued market activity. There were reports that financial constraints and lower disposable income had weighed on demand. This helped to explain why Consumer Services registered the steepest falls in both new work and activity during February. Foreign sales also fell in the latest survey period with high prices reported as a factor reducing new export demand.

With lower activity and sales, firms were also able to

S&P Global Canada Services PMI Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global PMI.

Data were collected 12-27 February 2024.

comfortably keep on top of workloads, as evidenced by a drop in work outstanding for a twentieth successive month. Extra staff also enabled firms to keep on top of workloads, with staffing levels in February rising for a second successive month (albeit only marginally). Panellists commented that employment was raised in anticipation of greater activity and new work in the months ahead. This was reflected in the latest expectations data, which showed firms at their most confident since last April. There were hopes that interest rates will be cut, helping to drive market activity and demand higher in the next year.

On the prices front, input cost inflation weakened in February, dropping to a level below trend. That said, costs continued to rise at a steep pace, underpinned in the main by higher wages. Panellists noted that this reflected payments to help employees cope with the high cost of living. Where possible, companies passed on higher prices to clients in the form of increased charges. Overall, prices charged increased markedly, though at a slightly slower pace than in the previous month.

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### Comment

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

*“February’s survey showed the continuation of a subdued Canadian service sector, characterised by declining output and new orders. Although slower than seen in recent months and providing some hope the worst of the downturn has passed, activity and new work again fell markedly. This was clearly linked by panellists to the financial constraints and high prices that clients continue to face.*

*“There is however hope these factors will dissipate in the coming months, with firms looking towards cuts in interest rates as being key to unlocking growth and raising activity in the next year. Such positive projections encouraged a mild increase in staffing numbers, which in part explained why labour costs were again cited as a principal driver of increased operating expenses.*

*“Although economic activity is clearly subdued, the continuation of elevated wage pressures and rising prices will however mean the Bank of Canada is likely to remain watchful prior to making any cuts to its main policy rate.”*

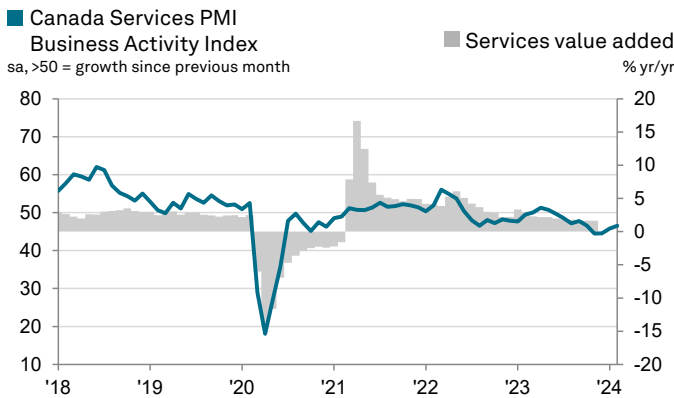
## S&P Global Canada Composite PMI®

### Private sector contracts at slower rate in February

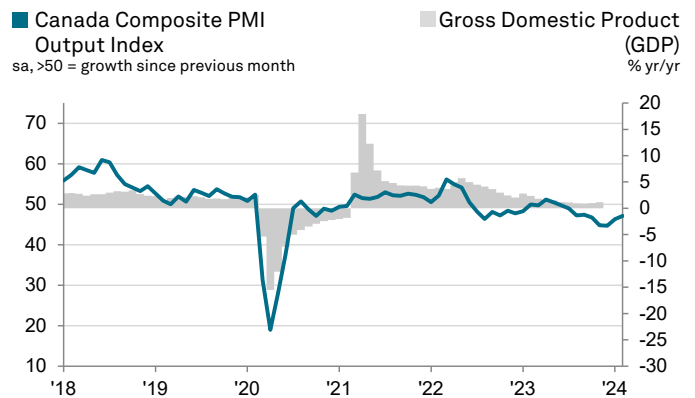
Latest data showed the ongoing contraction of Canada’s private sector. This was reflected in the S&P Global Canada Composite PMI Output Index\* which remained below the crucial 50.0 no-change mark in February. However, the rate of contraction signalled by the index was slower and the weakest since last September, as highlighted by a rise in the index to 47.1, from 46.3 in the previous month. Manufacturing output was little changed in February, whilst service sector activity fell to a slower degree.

New business volumes fell again in February, but to the slowest degree since October 2023. Firms nonetheless took on additional staff enabling them to comfortably keep on top of their workloads. Confidence in the future improved to a ten-month high.

Input cost inflation weakened over the month and was below its long-run average. A similar development was seen for output charges.



Sources: S&P Global PMI, Statistics Canada.

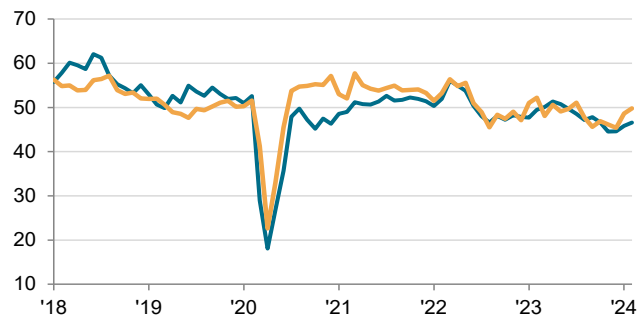


Sources: S&P Global PMI, Statistics Canada.

\*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.

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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](mailto: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](http://www.spglobal.com/marketintelligence/en/mi/products/pmi)