News Release

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S&P Global Canada Manufacturing PMI®

PMI dips to 17-month low in June

Key findings

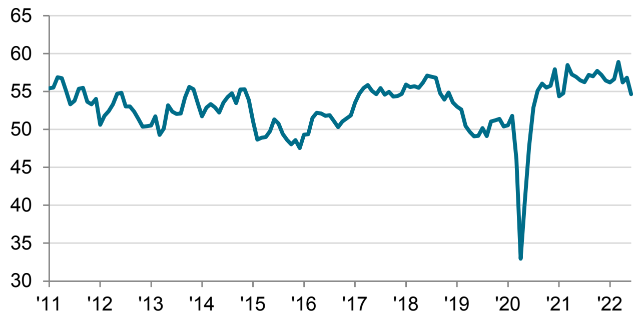
Output growth slows considerably

Weakest sentiment for almost a-year-and-a-half

Input price inflation ticks higher

Canada Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 13 - 24 June 2022.

Canadian manufacturers concluded the second quarter of the year with a softer improvement in operating conditions, according to latest survey data. Notably, output expanded at the softest pace for two years, while new orders rose only moderately. At the same time, weaker uplifts were recorded for employment and purchasing activity, while exports fell for the first time in four months. Panel comments indicated that persistent price hikes and material shortages weighed on demand and output growth, as input price inflation ticked higher.

Weaker growth of new orders fed through to a dip in sentiment to a 17-month low. Firms indicated concerns over the global economy and the lingering implications of COVID-19.

The seasonally adjusted S&P Global Canada Manufacturing Purchasing Managers' Index® (PMI®) registered 54.6 in June, down from 56.8 in May. The latest reading signalled 24 continuous months of growth, although the improvement was the third-weakest in this sequence.

The two largest components of the PMI by weight – output and new orders – were behind the latest moderation. Both sub-indices dipped notably from May and fell to 24- and 23-month lows, respectively.

Production volumes rose in June, with expansions now seen in each month for the last two years. That said, growth eased considerably from May and was only marginal overall. Softer inflows of new work, material delays and higher costs were reportedly behind the slowdown.

Similarly, new orders rose at the end of the second quarter, although the rate of expansion softened to the weakest since July 2020. Firms cited that while demand continued to expand, price hikes deterred some clients from placing orders.

The softening in overall sales growth was partly driven by a renewed fall in exports, which dropped for the first time in

Comment

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

"There were signs of difficulty in Canada's manufacturing sector in June. The PMI dipped to the lowest for 17 months amid softer uplifts in output, new orders, purchases and employment. Global supply issues and steep price pressures were at the heart of the issue, and are expected to continue to disrupt the manufacturing economy this year.

"Canadian manufacturers particularly struggled with sourcing key materials. A notable slowdown in purchasing activity could hinder production significantly over the coming months. Sales was also hit hard, but more so from international markets at the end of the quarter.

"A dip in confidence indicates firms are aware of the real difficulties that could hit the global economy in the next 12 months. Firms have recovered well from the pandemic and will now have to gear up for further hardship."

PMI® by S&P Global

four months. Although modest, the rate of decline was the joint-steepest since July 2020. Respondents blamed the war in Ukraine and weak demand from Europe and Asia.

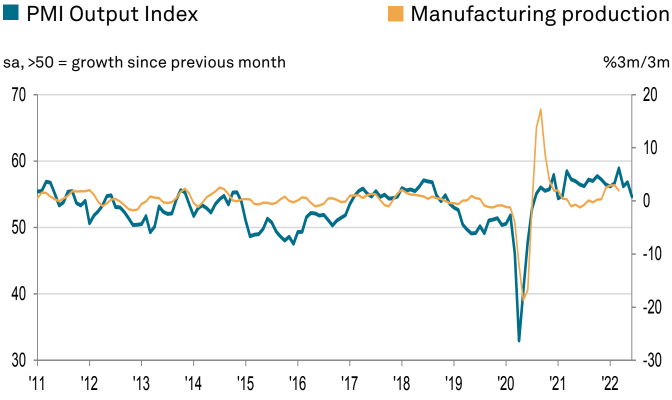
Faced with increasing orders, firms in Canada raised their headcounts. The rate of growth was solid, but softer than that seen in May, and the joint-weakest for nine-months.

The war in Ukraine and lockdowns in China added to transportation difficulties in June, alongside mentions of port congestion and container shortages. Vendor performance worsened in June, with the latest deterioration among the sharpest in the series. With firms facing delays receiving some key inputs, there was a further accumulation of backlogs.

Turning to prices, input price inflation rose substantially, and at an accelerated pace in June. Higher prices were reported for a range of goods and services including metal, fuel, energy, resin and transportation. Overall, the rate of increase was marked, and among the quickest in the series history. A general uptick in expenses contributed to another sharp increase in selling prices at the end of the quarter.

Rising prices paired with weaker output growth led to a softer increase in buying activity in June. Stocks of purchases meanwhile rose only marginally, and at the softest pace for 16 months.

Finally, firms were still optimistic for output growth over the next 12 months. That said, the degree of optimism moderated to a 17-month low and posted below the long-run series average, as uncertainty surrounding the global economy weighed 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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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. ihsmarkit.com/products/pmi.html.

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