News Release

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S&P Global Canada Services PMI®

Tariff concerns lead to accelerated contraction of service sector in February

Key findings

Activity and new work decline markedly

Steepest cut in employment since mid-2020

Confidence down to lowest level for over two-and-a-half years

S&P Global Canada Services PMI Business Activity Index

sa, >50 = growth since previous month

Source: S&P Global PMI.
Data were collected 10-25 February 2025.

Canada's service sector suffered its steepest fall in activity for nearly a year during February amid reports of a drop in market demand due to tariff concerns. New business received declined markedly, whilst confidence in the outlook slumped to its lowest level in over two-and-a-half years. Job losses were the steepest recorded by the survey since June 2020 as firms responded to weak current demand and an increasingly uncertain outlook.

On the price front, input costs showed the largest monthly increase in operating expenses since last October whilst output charges were also raised to a stronger degree.

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 Business Activity Index signalled a third successive monthly contraction in service sector output. Moreover, a drop in the index to 46.6, from 49.0 in January, signalled an accelerated rate of contraction that was the steepest since last September. Especially noticeable falls in activity were recorded in the Business Services and Consumer Services categories.

A lack of new business volumes was reported as the primary factor weighing on overall business activity. Panellists noted that new work received had dropped markedly since January, which was broadly attributed to large scale uncertainty amongst clients due to tariff concerns. This impacted both sales at home and abroad. Indeed, latest data showed the steepest monthly fall in new export business since the end of 2020. Panellists again noted that tariff possibilities were causing acute uncertainty amongst foreign clients, especially those based in the United States.

Potential tariffs being applied to a wide range of goods and services crossing the Canada-United States border inevitably weighed heavily on the sentiment of service providers in February. Although still in positive territory – meaning more firms expect a rise in activity than a decline over the coming year – confidence in the outlook sank to a two-and-a-half year low. Domestic political uncertainty also added to the worries of service sector companies in February.

Given the weak trends in new work and activity during February and with concerns over the outlook noted, service providers made further cuts to their staffing levels. It was the second month in a row that employment had fallen, with the latest decline the steepest since June 2020. Capacity nonetheless remained under little pressure, with backlogs of work declining again in February and to the greatest extent for over four years.

Service providers continued to record a steep increase in overall input prices during February. The rate of inflation also picked up to a four-month high amid evidence of greater labour expenses and a rise in supplier charges. Some firms noted that a stronger US dollar had raised the cost of imported goods and services.

In response, firms chose to pass on a portion of their higher operating expenses to clients wherever possible. Output charges rose in February to the greatest extent since last May, although inflation remained below its historical trend.

Comment

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

"February saw the Canadian service sector hit hard by the spectre of tariffs being applied to all goods and services crossing the border with the US. Panellists widely reported that market activity had been paralysed by tariff uncertainty, with clients unwilling to commit to new business as they waited to see the size and scope of any changes to respective Canadian and US trade policies.

"Confidence amongst service providers themselves was inevitably impacted, with sentiment regarding the outlook sinking to its lowest level in over two-and-a-half years. This meant firms adopted an increasingly cautious attitude, cutting employment noticeably and to the greatest degree since June 2020.

"Adding to company woes was an uptick in cost inflation to a four-month high, whilst output charges – especially amongst consumer service and finance providers – were raised to a stronger degree as firms sought to pass on increased expenses wherever possible, albeit with the recognition that they were somewhat limited by the subdued market environment."

S&P Global Canada Composite PMI®

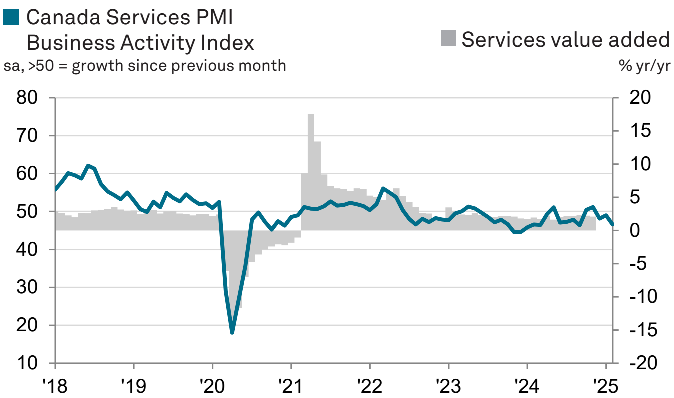
Steepest contraction of private sector economy since start of 2024

The Canadian private sector economy continued to contract during February, with output declining for a third successive month. Moreover, a decline in the seasonally adjusted S&P Global Canada Composite PMI® Output Index* to 46.8, from 49.5 in the previous month, pointed to the steepest contraction in output since January 2024.

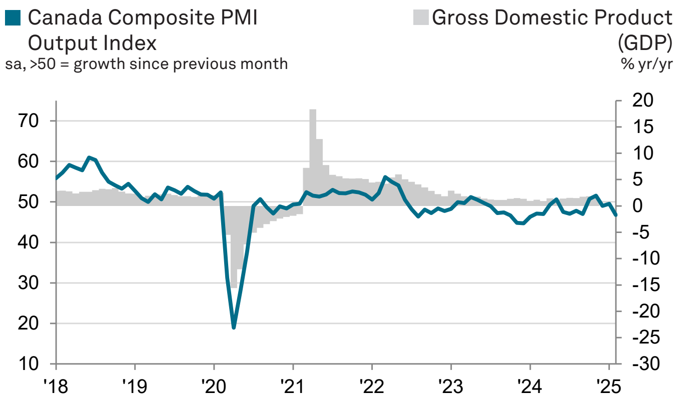
Both manufacturing and service sectors signalled lower output, with production in the goods-producing category declining for the first time since last September. Similar sized falls in new orders were recorded across the manufacturing and services industries.

Staffing numbers were also cut as spare capacity persisted. The decline in private sector employment was the steepest since June 2020.

Input price inflation ticked up to its highest level for four months. Firms responded by increasing their output charges to the greatest degree since May 2024.

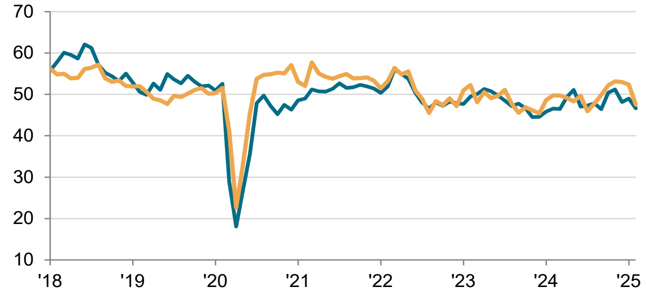


Sources: S&P Global PMI, Statistics Canada.



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.



Source: S&P Global PMI.

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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
press.mi@spglobal.com

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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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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

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