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IHS MARKIT CANADA MANUFACTURING PMI®

Manufacturing conditions deteriorate for the first time since February 2016

KEY FINDINGS

Headline PMI dips below the 50.0 no-change mark in April

Production drops to greatest extent since December 2015

Export sales continue to fall

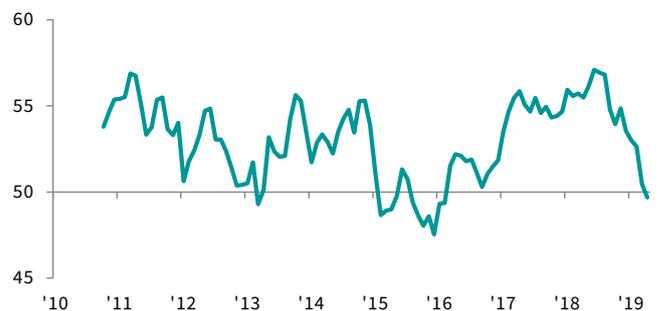
April data revealed a downturn in business conditions across the Canadian manufacturing sector for the first time in more than three years. The weaker performance mainly reflected modest reductions in output, new orders and employment during the latest survey period. Manufacturers responded to softer customer demand by cutting back their input buying and streamlining their inventories in April. On a more positive note, input cost inflation remained much softer than the peaks seen last summer, despite pressure from rising transportation costs.

The headline seasonally adjusted **IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®)** dropped from 50.5 in March to 49.7 in April, to signal a slight deterioration in overall business conditions. Moreover, the latest PMI reading was the lowest since February 2016.

Manufacturing production declined for the first time in two-and-a-half years, although the rate of contraction was only modest. Reports from survey respondents suggested that the fall in output reflected a realignment of production schedules with softer client demand.

New work decreased for the second month running in April, which marked the first back-to-back fall in manufacturing sales since the beginning of 2016. Companies noted that less favourable economic conditions in both domestic and external markets had acted as a brake on new business volumes. Export orders have now decreased in four of the past five months, although the rate of decline eased since March. Manufacturers continued to suggest that a

Manufacturing PMI
sa, >50 = improvement since previous month



general slowdown in global trade and heightened business uncertainty had dampened customer demand.

Weaker order books contributed to reduced pressure on operating capacity in April. This was highlighted by a marked decline in backlogs of work, with the rate of contraction the sharpest since December 2015. Manufacturing firms indicated greater caution in terms of their staff hiring during the latest survey period, with overall payroll numbers falling for the first time since September 2016. However, the rate of decline in employment levels was only fractional.

Tighter inventory management policies were signalled in April, with both stocks of inputs and finished goods inventories both declining across the manufacturing sector. The drop in pre-production stocks was achieved through the fastest reduction in purchasing activity for just over three years.

Softer demand for inputs contributed to relatively subdued cost pressures in April, although the rate of inflation edged up from March's 39-month low. A number of firms cited both exchange rate factors and higher transportation costs. At the same time, competitive pressures held back factory gate price inflation, with the latest rise in output charges still much weaker than the seven-year peak recorded last summer.

Regional data indicated that Quebec was the best performing area for manufacturing business conditions in April, followed by Ontario. The main bright spots for export sales were Alberta & British Columbia, with a rebound in new work from abroad contrasting with the declines seen elsewhere in April.

COMMENT

Christian Buhagiar, President and CEO at SCMA, said:
"April data illustrates another loss of momentum for the manufacturing sector, following the sharp slowdown in growth seen during the first quarter of 2019. The latest survey indicates that overall business conditions deteriorated to the greatest extent in over three years as manufacturers cut back production and staff hiring in response to weaker sales."

"Canadian manufacturers reported subdued demand conditions in both domestic and external markets during April, which was often linked to a slowdown in global trade volumes and more cautious spending among clients."

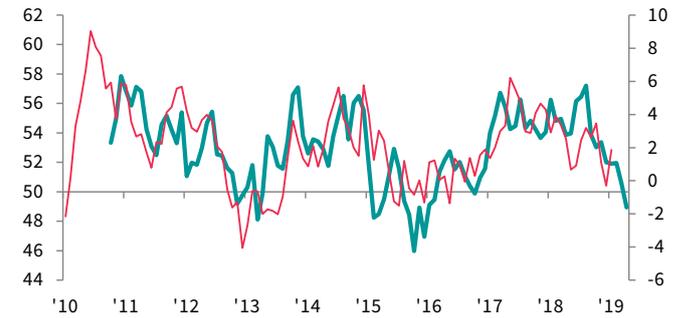
"Worsening export order books were recorded in all regions except Alberta & British Columbia during April, with manufacturers in Ontario experiencing the greatest reduction."

Output Index

sa, >50 = growth since previous month

Manufacturing production

% yr/yr



Sources: IHS Markit, StatCan.

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Methodology

The IHS Markit Canada Manufacturing PMI® is compiled by IHS Markit 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.

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.

April 2019 data were collected 10-24 April 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.

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