

# IHS Markit Canada Manufacturing PMI®

## Manufacturing PMI signals fastest growth since August 2018

### Key findings

Fastest rates of output and new orders growth in two years

Job creation strengthens from July

Input price inflation accelerates to 19-month high

August data were collected 12-24 August 2020.

August data pointed to another positive month overall for the Canadian manufacturing industry as it extended its recovery. New orders and output both increased solidly, with firms linking growth to greater client demand. Employment also saw another upturn which manufacturers attributed to demand for staff amid signs of emerging capacity pressures. Meanwhile, input price inflation accelerated at the fastest pace since January 2019.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) registered 55.1 in August, up from 52.9 in July, to signal the sharpest improvement in business conditions since August 2018.

Manufacturing production rose strongly in the survey period, with growth the fastest in two years. Firms generally linked improved output with recovering market conditions following the coronavirus disease 2019 (COVID-19).

Mirroring the trend seen in output, the latest survey data pointed to a second successive expansion in new orders in the Canadian manufacturing sector. Foreign demand also improved, ending a five-month sequence of falling new export orders. Anecdotal evidence pointed to growing client demand as the main driver of new order growth.

In line with higher production, staffing levels continued to rise in the Canadian manufacturing industry. Moreover, the latest expansion in payroll numbers was the fastest since January 2019. Respondents noted efforts to alleviate capacity constraints after a rebound in new orders.

Backlogs of work increased for the first time since February 2019. Panellists linked the rise in unfinished work to growing demand and insufficient capacity for completing outstanding business.

*continued...*

Canada Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

### Comment

Commenting on the latest survey results, Shreeya Patel, Economist at IHS Markit, said:

*"Latest data highlighted a strong upturn in the Canadian manufacturing industry, continuing the recovery from the severe second quarter downturn. Production and order book volumes both expanded at the fastest pace in two years, driven by the reopening of client businesses and improvements in customer demand.*

*"Rising workloads, and signs of capacity pressures emerging were good news for jobs. Employment increased at the fastest rate since the start of 2019.*

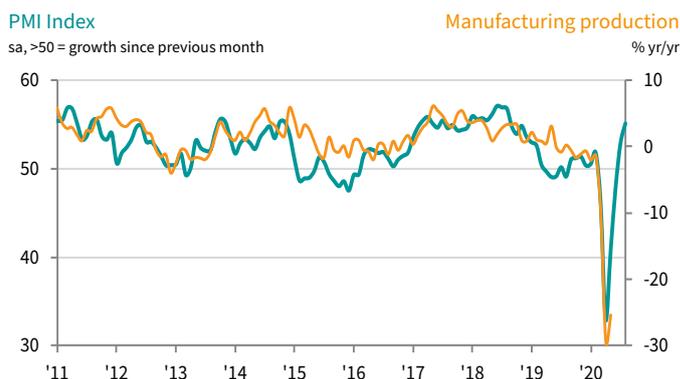
*"That said, it was not all positive in August, delivery times lengthened at another marked rate amid ongoing COVID-19 disruption, while there were signs of building inflationary pressures."*

Meanwhile, intense supply chain pressures continued in August, as signalled by a further lengthening of delivery times for purchased items. Panellists noted transportation issues as a result of COVID-19 restrictions.

Despite two consecutive months of rising new orders, market uncertainty continued to weigh on stocks of purchases. That said, the rate of contraction was only modest. Stocks of finished goods were also depleted, and to a marked degree. Capacity pressures reportedly forced firms to fulfil orders through the use of inventories.

Input cost inflation accelerated to its fastest for 19 months. Higher purchasing prices were attributed to increased raw material costs. Canadian manufacturers passed on greater cost burdens to clients through higher factory gate charges. The solid rise in selling prices was the third in the past four months, and the fastest since April 2019.

Looking ahead, business sentiment remained positive among Canadian manufacturers, as firms continue to foresee a rise in output over the coming year. That said, the possible continuation of the COVID-19 pandemic weighed slightly on confidence as the degree of positive sentiment was below the series average in August.



Sources: IHS Markit, StatCan.

## Contact

Shreeya Patel  
Economist  
IHS Markit  
T: +44 134 432 8196  
[shreeya.patel1@ihsmarkit.com](mailto:shreeya.patel1@ihsmarkit.com)

Katherine Smith  
Public Relations  
IHS Markit  
T: +1 781 301 9311  
[katherine.smith@ihsmarkit.com](mailto:katherine.smith@ihsmarkit.com)

### Survey 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.

For further information on the PMI survey methodology, please contact

### Survey dates and history

Data were collected 12-24 August 2020.

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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](https://ihsmarkit.com/products/pmi.html)