News Release

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IHS MARKIT CANADA MANUFACTURING PMI®

Production growth eases to 22-month low in October

KEY FINDINGS

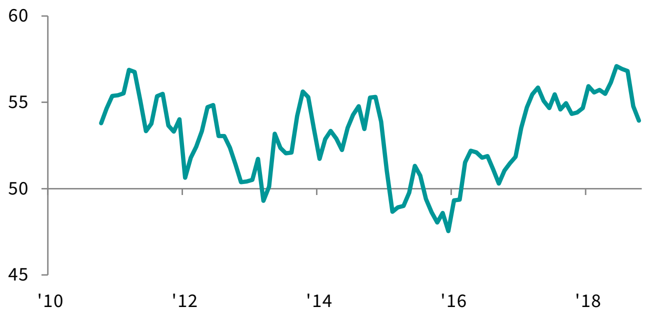
Weakest rises in output and new work for almost two years

Robust job creation continues

Sharp rise in input costs

Manufacturing PMI

sa, >50 = improvement since previous month



Canadian manufacturers reported a sustained upturn in overall business conditions in October, but the rate of improvement slowed for the fourth month running. This was highlighted by a fall in the seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) to 53.9, from 54.8 in September. The latest reading signalled the weakest improvement in manufacturing conditions since January 2017. Softer rates of output and new business growth were the main factors weighing on the headline index in October.

Production volumes expanded at the slowest pace since December 2016. Survey respondents cited subdued demand from both domestic and export markets. The latest overall upturn in new work was the slowest for just under two years.

In contrast to the weaker trend reported for new business growth, latest data revealed another robust increase in manufacturing payroll numbers. Higher staffing levels were attributed to long-term business expansion plans and associated efforts to boost operating capacity.

Intense supply chain pressures continued in October, as signalled by another sharp lengthening of lead times for the delivery of materials from vendors. Anecdotal evidence pointed to transport shortages across North America and shipping delays at ports following typhoons in Asia.

Low stocks and longer delivery times among suppliers encouraged raw materials inventory building across the manufacturing sector during October. Pre-production stocks have increased in each of the past 12 months, although the latest rise was only marginal. Stocks of finished goods were depleted again, which some firms linked to a more cautious outlook for client demand.

October data pointed to another sharp increase in average cost burdens at manufacturing companies. Survey respondents commented that steel tariffs and rising transportation costs had resulted in higher input prices.

Meanwhile, factory gate charges also increased at a strong pace in October, with the rate of inflation accelerating slightly since the previous month.

Looking ahead, manufacturers are optimistic overall that their production volumes will rise in the next 12 months. However, the degree of positive sentiment continued to moderate from the recent peak seen in April. The latest data signalled the weakest level of positive sentiment since November 2016. Some firms noted that heightened economic uncertainty, particularly in relation to global trade, had weighed on confidence in October.

Meanwhile, regional data indicated that Alberta & British Columbia was by far the strongest area for manufacturing growth during October. Robust rises in production volumes and a sharp pace of job creation underpinned the outperformance of Alberta & British Columbia.

Quebec continued to experience a decline in manufacturing output, partly reflecting lower export sales. In Ontario, manufacturing improved again during October, but at the slowest pace since November 2017.

Produced in association with the Supply Chain Management Association.

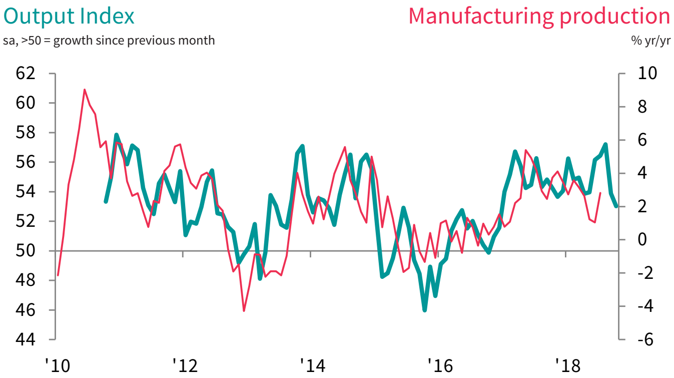
COMMENT

Christian Buhagiar, President and CEO at SCMA said:

“October data suggest that manufacturing production growth continued to ease from the elevated rates seen over the summer. More subdued demand in both domestic and export markets contributed to the weakest rise in new order volumes since November 2016. At the same time, input cost inflation remained sharp and delivery times for materials lengthened amid stretched international supply chains.

"Regional data indicated that rising spending across the energy sector has helped to moderate the slowdown in manufacturing growth, with firms in Alberta & British Columbia reporting the steepest rises in output and employment.

"Quebec appears to have felt the soft patch for global trade most keenly, with manufacturers reporting that new export work fell for the second month running in October."



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.

October 2018 data were collected 12-25 October 2018.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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About SCMA
The Supply Chain Management Association (SCMA) is Canada’s largest association for supply chain management professionals. We represent 7,500 members as well as the wider profession working in roles that cover sourcing, procurement, logistics, inventory, and contract management. SCMA sets the standards for excellence and ethics, and is the principal source of professional development and accreditation in supply chain management in Canada. www.scma.com.