News Release

IHS MARKIT
CANADA MANUFACTURING PMI®

Manufacturing PMI hits four-month low in December

KEY FINDINGS

Slower output growth amid fall in new orders

Subdued rate of job creation continues

Business optimism drops to its weakest since February 2016

Manufacturing PMI
sa, >50 = improvement since previous month

December data revealed a setback for the recent recovery in manufacturing growth from the low point seen in the middle of 2019. This was highlighted by the near-stagnation of production volumes and a renewed downturn in order books during the latest survey period.
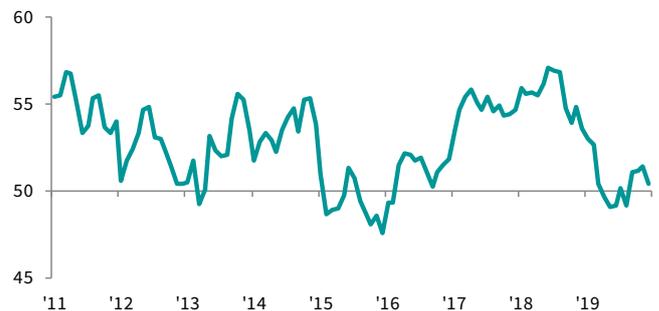
Manufacturers also indicated more cautious staff hiring strategies and efforts to tighten inventory management, which partly reflected concerns about the near-term business outlook. The latest survey meanwhile signalled the lowest degree of confidence about year-ahead prospects for production growth since February 2016.

At 50.4 in December, down from 51.4 in the previous month, the headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) signalled the weakest overall manufacturing performance since August. The latest reading was only fractionally above the crucial 50.0 no-change mark.

Sub-sector data indicated that robust growth in the consumer goods category offset a sustained downturn among investment goods producers. Meanwhile, the intermediate goods category continued to register a steady but relatively subdued growth trajectory.

Measured overall, production volumes across the manufacturing sector increased fractionally in December, with the rate of expansion the slowest for three months. The near-stalling of output levels reflected a drop in new work at the end of 2019. Although only marginal, the decline in new business contrasted with modest growth in the previous three months.

Survey respondents noted that subdued demand across the automotive and energy sectors was a factor weighing on manufacturing order books in December. Some firms also commented on the need to initiate discounting strategies to stimulate customer demand.

Export sales also dropped at the end of the year, with manufacturers often citing difficulties winning new work in US markets. On a more positive note, there were a number of reports that demand from China had improved.

Employment levels increased at the weakest pace for four months in December. Softer rises in payroll numbers were partly linked to cost cutting and concerns about the demand outlook. Backlogs of work dropped again at the end of 2019, while manufacturers reported their weakest growth projections for almost four years.

Supply chain pressures persisted during the latest survey period, with lead times from vendors lengthening to the greatest degree since February. A number of manufacturers cited delays with shipments due to rail strikes and a lack of alternative transport capacity, which also contributed to depleted inventories of materials at their plants.

COMMENT

Commenting on the PMI data, Tim Moore, Economics Associate Director at IHS Markit said:

"December data revealed a disappointing end to 2019 for the Canadian manufacturing sector as the steady recovery in production volumes stalled, while new orders fell back into decline.

"Weakness in the investment goods category linked to softer capital spending at home and abroad remained a key factor behind the subdued manufacturing trend. Consumer goods producers once again fared better than elsewhere in the industrial sector, but even this outperforming area reported a growth slowdown at the end of 2019.

"It appears that manufacturers are braced for a lack of new work to replace completed projects in the New Year, with business optimism now at its lowest for almost four years and job creation moving closer to stagnation in the latest survey period."

Output Index   **Manufacturing production**

sa, >50 = growth since previous month   % yr/yr
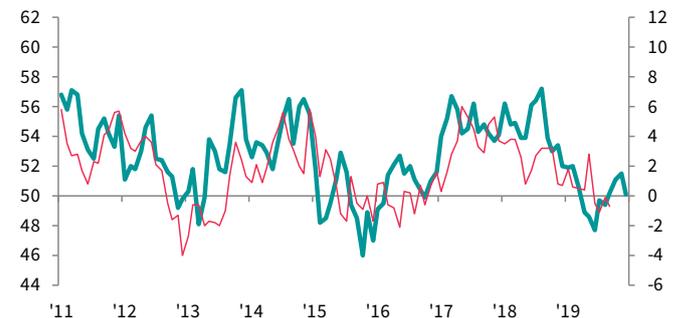
Sources: IHS Markit, StatCan.

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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.

December 2019 data were collected 05-17 December 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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