News Release

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IHS Markit Canada Manufacturing PMI®

Strong manufacturing growth maintained in October

Key findings

Output levels increase at fastest rate in over two years

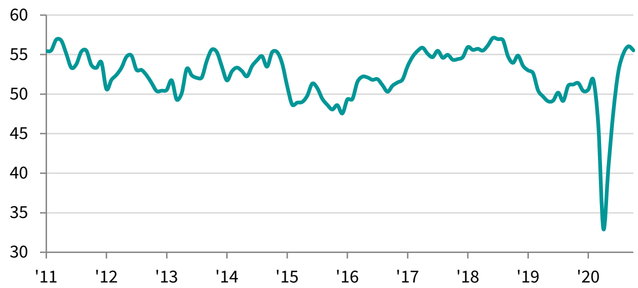
Sharpest rise in cost burdens since November 2018

Backlogs of work increase at solid pace

October data were collected 12-26 October 2020.

Canada Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Canadian manufacturers recorded further solid rises in output, new orders and purchases during October, thereby signalling another marked improvement in overall business conditions. An ongoing recovery in client demand led to a further increase in employment. However, the latest survey also revealed intense supply chain pressures as lead times from vendors lengthened further, which contributed to the greatest accumulation of incomplete work since June 2018.

Meanwhile, rising demand for inputs and higher prices for raw materials led to the fastest increase in average cost burdens for nearly two years.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) registered 55.5 in October, down slightly from 56.0 in September, indicative of another strong improvement in overall business conditions. The headline index was supported by the fastest rise in production volumes since August 2018, which partially offset softer rates of new business growth and job creation compared to the previous month.

Strong output growth was linked to higher new work inflows and ongoing efforts to boost operating capacity across the manufacturing sector. Higher levels of production have been recorded in each month since July.

October data pointed to another sharp increase in new work received by Canadian manufacturing firms, with the rate of expansion only slightly softer that September's 27-month high. Panel members noted new business wins in both domestic and international markets.

Despite an increase in workforce numbers (albeit slight), there were signs that manufacturing companies in Canada struggled to keep up with rising workloads. Volumes of incomplete work increased

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Comment

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

"October data suggests another improvement in the health of the Canadian manufacturing sector as the PMI registered at 55.5. New orders and output have increased sharply with firms remaining optimistic that production will improve over the course of the year.

"Companies appear to be struggling somewhat with the surge in new orders as backlogs rose further while employment increased only marginally during October, highlighting clear capacity pressures at Canadian manufacturers. Higher backlogs will help sustain the recovery in output through the winter should new orders drop off, but there are also clear supply-side risks with the latest data revealing much longer input delivery times linked to shortages. Firms are attempting to restock inputs and there was an overall rise for the first time in nearly a year in October, albeit only a fractional increase.

"Input price inflation rose to a 23-month high while charge inflation eased slightly, indicating upward pressure on margins."

PMI® By IHS Markit

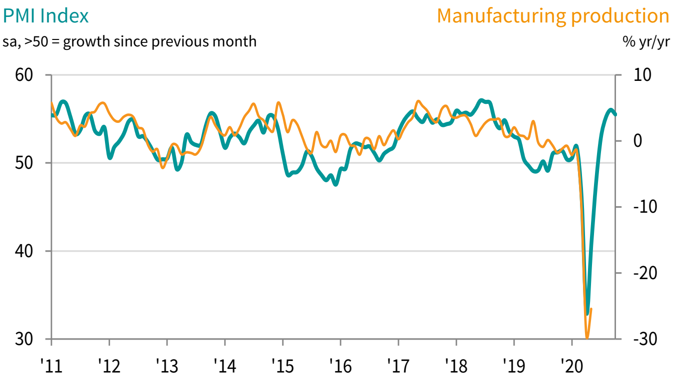
sharply, which was partly linked to high levels of capacity utilisation.

Higher backlogs also reflected another marked lengthening in average lead times during October. Firms suggested that transportation delays and stock shortages led to worsening vendor performance.

Four consecutive months of increasing new orders led firms to boost purchasing activity in October, with the latest increase sharp overall. That said, stocks of purchases increased only fractionally, which firms attributed to supplier shortages and higher prices. Meanwhile, stocks of finished goods were diminished in October, which was commonly linked to the fulfilment of new orders.

On the price front, strong demand for raw materials and shortages at suppliers led to the fastest rate of input cost inflation since November 2018. Survey panellists commented on higher prices for aluminium. Factory gate price inflation remained strong, easing only slightly since September.

Finally, manufacturers remained upbeat about production volumes in the year ahead, but the degree of optimism eased to a three-month low. Nevertheless, firms hope for improved demand conditions, and the passing of the coronavirus disease 2019 (COVID-19).



Sources: IHS Markit, StatCan.

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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 economics@ihsmarkit.com.

Survey dates and history

Data were collected 12-26 October 2020.

Data were first collected October 2010.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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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.