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

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

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."

October data were collected 12-26 October 2020.
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).