PMI hits seven-month high, but severe delivery delays and supply shortages persist

Key findings

Output and new work continue to expand in October...

...but material scarcity and severe delivery delays threaten growth

Firms raise input stocks at record pace, despite sharp rates of cost inflation

October PMI® data revealed another robust improvement in the health of Canada’s manufacturing sector. Expansions were seen across output, new orders, employment and purchasing activity. However, supply-chain pressures continued to mount with firms registering a record lengthening in lead times. This, paired with greater client demand and concerns of future supply shocks, led companies to raise their pre-production inventories at a record pace. Nevertheless, firms remained optimistic that global economic conditions will improve over the coming 12 months and support expansions in output.

Meanwhile, material scarcity for a wide range of inputs, as well as higher transportation and energy costs led to a near-record rate of input cost inflation. Selling prices also rose, and at the second-most marked rate in the series history.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers’ Index® (PMI®) registered at 57.7 in October, up from 57.0 in September. The latest reading extended the period of growth to 16 successive months, with the latest expansion the third-strongest in over 11 years of data collection.

Central to growth was a sharp upsurge in new orders amid improvements in domestic demand and new product launches. Exports also rose at quicker pace with the rate of growth the steepest since May 2018.

Output expanded solidly during the month with the rate of growth little-changed from that seen in September. Larger workforces and rising orders were key drivers of production growth, though some firms did mention that delivery delays and material shortages did soften the overall uptick.

Goods producers continued to register substantial deteriorations in vendor performance with lead times lengthening at the most

Firms raised input stocks at record pace, despite sharp rates of cost inflation

Comment

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

“Latest PMI data revealed that Canada’s manufacturing sector performed strongly, continuing 2021’s run of robust growth. New orders rose at a quicker pace in October, and firms continued hiring activity to meet their existing orders. Whilst domestic demand conditions were favourable, firms across the regions also recorded a healthy upturn in international demand as restrictions continue to ease across the globe.

“However, concerns surrounding supply were reinforced with severe delivery delays and near-record increases in costs again evident in October. Firms responded by raising their stock levels at the quickest rate on record, which should sustain solid output levels over the next few months.

“Nevertheless, Canada’s manufacturing sector has performed well over the course of the year, which was reflected in sentiment. Anecdotal evidence suggests firms are gearing up for another busy 12 months of trading.”

Data were collected 12-25 October 2021.

Source: IHS Markit.
marked rate in the survey to date. Raw material and container shortages alongside transportation bottlenecks led to extensive delays.

As a result, cost burdens soared once again. Material shortages, especially for metals, packaging, and electronic components, drove the uptick. There were also reports of higher shipping, fuel, and energy costs. The rate of cost inflation was the second-steepest on record, close to September’s peak. Fortunately, the relatively strong demand environment allowed firms to raise their selling charges, which they did so at the second-fastest rate on record.

With supply-chain disruption persisting, and lead times especially lengthy, firms increased their input buying. Consequently, stocks of purchases rose, and at the steepest rate on record as firms sought to protect against future supply shocks and delivery delays. Post-production inventories meanwhile fell only marginally, with firms reportedly making active efforts to boost output and prepare for greater demand in the coming months.

Finally, business confidence improved to the strongest since April 2018. Strengthening demand and hopes for improved global economic conditions underpinned optimism.

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