

IHS Markit Canada Manufacturing PMI®

Faster increases in output, new orders and jobs in July

Key findings

Dip in PMI reflects slight improvement in supply situation

Near-record increase in backlogs amid staff shortages

Output price inflation quickens to second-sharpest in the series

Data were collected 12-26 July 2021.

Operating conditions across Canada's manufacturing sector remained firmly in expansion territory in July. Quicker increases in output and new orders, underpinned by another relaxation of COVID-19 restrictions, supported a robust rate of growth in July. Meanwhile, backlogs rose at the second-quickest rate in the series history. Anecdotal evidence pointed to staff shortages and delivery delays as the pandemic continued to cause supply chain pressures, although the incidence of delays was the smallest in five months.

Material shortages were again blamed for higher costs with firms often reporting rising metal prices. The strong demand environment allowed a partial pass-through of higher expenses, with output price inflation reaching a near-series high.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) registered 56.2 in July, down fractionally from 56.5 in June, to signal a thirteenth consecutive expansion in operating conditions. The PMI eased for the fourth month in a row, but was still amongst the highest in the series which began in October 2010.

Demand improved during the month, and with a rate of new order growth that was fractionally quicker than that in June. Virus-related restrictions eased further across the regions allowing the continued re-opening of businesses. Similarly, improvements in global economic conditions led to higher sales to international markets, mainly the US and China.

To cater for rising workloads, production rose at a sharp and accelerated pace. Higher staffing and demand levels supported the uptick, according to respondents. Job creation has now been seen in each month since July 2020, with the rate of growth quickening during the month. That said, the latest uptick was not enough to curb a rise in backlogs. In fact, incomplete work rose at the second-

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Canada Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"Another robust improvement in operating conditions was seen across Canada's manufacturing sector in July. Latest PMI data revealed a thirteenth monthly expansion as the sector continues to record growth rates which are among the quickest in the near 11-year history of the survey. A further easing of virus-related restrictions and greater consumer confidence encouraged domestic demand. Meanwhile, firms remain well aware of the potential impacts of rising cases in international economies, by raising their stock levels to cushion against any future supply shocks."

"Though, there are still areas which look to threaten short and long-term productivity. A sharp rise in backlogs suggested severe capacity pressures, with comments often linking labour shortages. Delivery delays and material scarcity also made it difficult for firms to keep up with demand. Meanwhile, intense price pressures continued into the second half of the year, though firms have been passing on the higher expenses."

"Nevertheless, manufacturers in Canada expect growth to continue. With the vaccine rollout gaining momentum, and case numbers declining, a busy second half of the year is sure to follow."

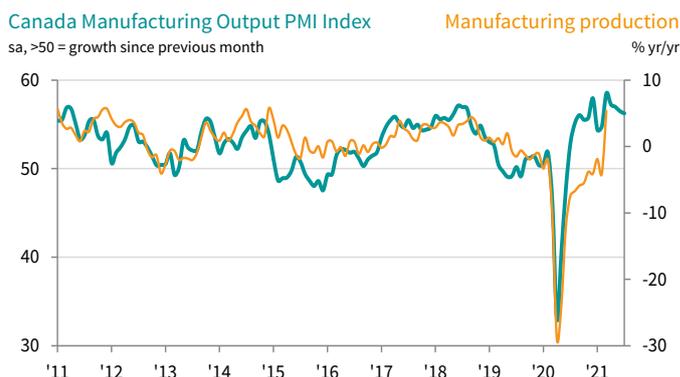
quickest rate in the series to date. Difficulties sourcing skilled labour and raw materials were among the reasons mentioned by panellists. As a result, post-production holdings fell sharply.

A sustained period of output and new order growth combined with efforts to limit the risk of future shortages led firms to raise their buying activity in July. Purchases and pre-production inventories rose solidly, although the rates of growth eased in both cases.

Vendor performance deteriorated markedly at the start of the third quarter. Port congestions, virus-related restrictions, and shortages in the supply of materials (particularly metals) were key reasons cited by panellists. That said, the incidence of delays was the smallest since February.

Input prices rose sharply in July amid higher freight, steel, and aluminium costs. The rate of inflation eased marginally from June, but was still amongst the quickest in the series history. Consequently, firms raised their selling charges, and at the second-quickest rate in the survey history.

Firms remained upbeat about their prospects for output growth over the coming year. The complete easing of restrictions and plans to upgrade machinery underpinned optimism. That said, the degree of positivity moderated notably from that in June.



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 July 2021.

Data were first collected October 2010.

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