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IHS Markit Canada Manufacturing PMI®

Manufacturing growth softens to four-month low, but remains solid

Key findings

Output and new order growth moderate in June

Pre-production inventories rise at quickest rate in survey to date

Inflationary pressures remain sharp

Data were collected 11-24 June 2021.

Canadian manufacturers ended the second quarter of 2021 with a robust expansion, led by upticks in output and new orders and a fresh record growth in post-production inventories. To meet rising demand, firms raised their employment levels for the twelfth consecutive month, although difficulties sourcing skilled workers led to another rise in backlogs. Meanwhile, vendor performance deteriorated again, and at the fourth most marked rate in the series history. Nevertheless, firms were widely upbeat about their prospects for growth over the next 12 months.

On the price front, input prices continued to rise sharply which panellists attributed to higher raw material costs. In a bid to protect profit margins, firms raised their selling prices, and at the second-quickest rate in the series history.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) registered 56.5 in June, down from 57.0 in May, to signal the twelfth consecutive expansion in operating conditions. The latest uptick was the softest since February, but was sharp in the context of the historical average.

Production volumes increased solidly at the end of the second quarter, although the rate of expansion eased slightly from that seen in the previous survey period. Firms reporting output growth mentioned greater client demand supported the rise.

Similarly, new work received at Canadian good producers rose sharply. Panel members often mentioned greater client demand in both domestic and international markets (mainly the US).

Sustained output growth encouraged firms to add to their headcounts again during the month. The uptick extended the period of job creation to 12 months although the latest rise was the softest since February.

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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:

"Although latest data revealed a moderation in output and new order growth at the Canadian manufacturing sector, it continued to highlight a robust expansion. Moreover, a record uptick in pre-production inventory holdings suggests firms are gearing up for another busy quarter while a rise in backlogs could see job creation continue."

"Yet, material shortages were again evident leading to delivery delays and sharp price pressures. COVID-19 restrictions and freight delays were also blamed for supply-chain disruption."

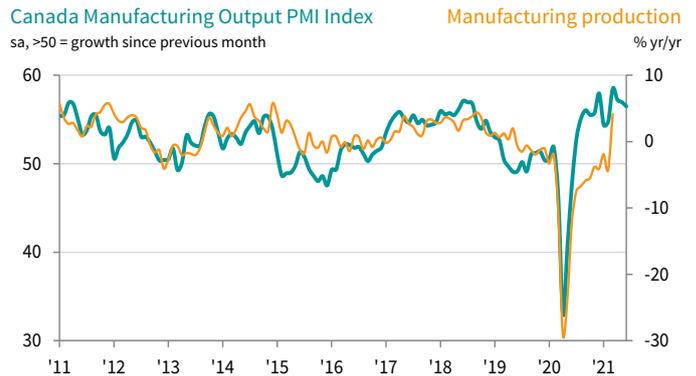
"Price pressures continued to mount in June, with rates of output and input price inflation robust overall. Firms will hope that material availability improves over the course of the year to relieve some pressures on prices, but for now Canadian manufactures seem well prepared if shortages are to persist."

Amid reports of material shortages, average lead times lengthened in June. COVID-19 restrictions and freight delays were also linked to deteriorating vendor performance. In efforts to reduce future delays, firms added to their pre-production inventory holdings, and at a rate that was the quickest in the ten-and-a-half year history of the survey.

Despite additions to headcounts, backlogs rose solidly, with the expansion extending the sequence of accumulation to 11 consecutive months. Firms often linked deteriorating vendor performance and a shortage of raw materials to the increase. Rising backlogs also made it difficult for firms to add to their post-production inventories, with stocks of finished goods depleted for the third month running.

Raw material scarcity (particularly for metals and wood) continued to exert upward pressure on firms cost burdens, with input prices rising at the joint-quickest rate since August 2018. Higher expenses were passed on to clients, although the rate of output price inflation softened from May's series high.

Finally, hopes of greater client demand and plans to expand business operations fuelled sentiment in June. The degree of optimism improved noticeably from that in the previous survey period, and reached a three-month high.



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 11-24 June 2021.

Data were first collected October 2010.

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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