

IHS Markit Canada Manufacturing PMI®

Output growth sustained but inflationary pressures intensify in May

Key findings

Solid growth in output and new orders maintained

Vendor performance worsens amid material shortages

Output prices rise at quickest rate in survey history

Data were collected 12-24 May 2021.

May data revealed another positive month for the Canadian manufacturing sector, helped by further expansions in output and new orders. Employment growth quickened to the sharpest in five months although there were further signs that sales volumes had outstripped production capacity, which resulted in another increase in backlogs. Supply chain disruption also weighed slightly on output growth, with the latest deterioration in vendor performance the third most marked in the series so far, which began in October 2010. Nevertheless, efforts to reduce future delays led to stockpiling in May.

Turning to prices, transportation and raw material surcharges led to a record increase in output prices.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) registered 57.0 in May, down fractionally from 57.2 in April, to signal the fifth-strongest growth in operating conditions in the survey to date.

Manufacturers reported solid growth in production volumes, although the rate of expansion moderated for the second consecutive month. Virus-related restrictions persisted in key regions, although some sectors were able to resume their operations, according to panel members.

Meanwhile, new work placed at Canadian manufacturers rose during the month. Survey respondents widely commented on greater demand from both domestic and export markets (mainly the US).

Stretched operating capacity reflected insufficient workforce numbers and further supplier delivery delays. In a bid to reduce backlogs, firms added to their headcounts at the strongest rate since December 2020, which led to a softer rise in outstanding business. The overall rate of backlog accumulation was still solid,

continued...

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:

"May PMI data reveals another robust expansion across Canada's manufacturing sector with solid upticks in output and new orders registered. Policymakers will particularly welcome the stronger uplift in workforce numbers after the country saw the unemployment rate climb post-pandemic. Moreover, a sustained increase in backlogs suggests staffing in the manufacturing sector will continue to grow over the coming months."

"Meanwhile, vendor performance continued to deteriorate in May. Lead times lengthened at the third-most marked rate in the near 11-year history of the survey, which has had knock on effects on prices and input availability. Raw material and transportation expenses soared, with firms rushing to adding to their stockpiles in a bid to offset future delays. A record increase in output prices suggests a large proportion of the burden was passed on to clients, but manufacturers will find the building inflationary pressures unsustainable."

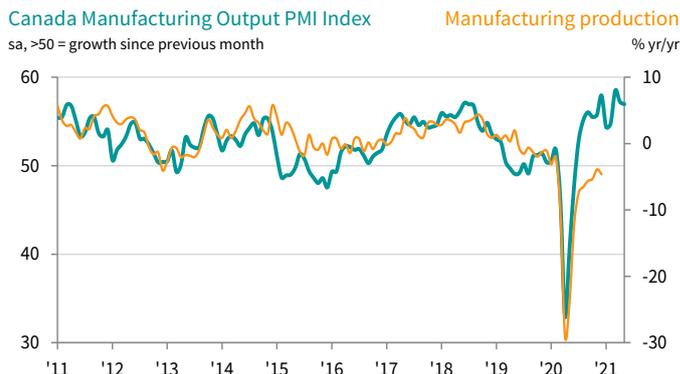
however.

Supply chains continued to be impacted by COVID-19 restrictions midway through the quarter. Vendor performance deteriorated at the third most marked rate in the ten-and-a-half-year history of the survey. As a result, firms sought to mitigate the effects of future delays by raising purchasing activity and adding to pre-production stockpiles.

Meanwhile, increasing capacity pressures and limited material availability made it difficult for firms to increase their post-production holdings. Stocks of finished goods were depleted for a second month in a row, with the latest fall solid.

On the price front, input prices rose at a sharp and accelerated pace, with the latest uptick the fifth-strongest in the series history. Firms overwhelmingly linked the pandemic to higher freight and raw material costs. Manufacturers chose to pass on the burden with output price inflation reaching a fresh record high.

Slower output and new order growth influenced sentiment in May, with output expectations softening to a four-month low. Nevertheless, the degree of optimism remained relatively strong overall, reflecting hopes that the lifting of pandemic restrictions will result in a strong rebound.



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 12-24 May 2021.

Data were first collected October 2010.

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