Survey-record downturn in Canadian manufacturing output during March

KEY FINDINGS

- Slump in production amid emergency health measures to halt spread of COVID-19
- New orders fall at fastest pace since the survey began in 2010
- Strong US dollar pushes up input costs in March

Manufacturing production fell at the fastest pace for at least nine-and-a-half years in March, according to the latest data compiled by IHS Markit. Survey-record declines in output, new orders and employment reflected shrinking customer demand amid the global public health emergency. Latest data were collected 12-25 March 2020.

Measures to halt the spread of coronavirus disease 2019 (COVID-19) also resulted in shortages of manufacturing inputs and the steepest lengthening of suppliers' delivery times since the survey began in October 2010.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) dropped from 51.8 in February to 46.1 in March, to register below the 50.0 no-change threshold for the first time since August 2019. Moreover, the latest reading signalled the sharpest downturn in overall manufacturing conditions in nine-and-a-half years of data collection.

Production volumes fell rapidly in March (index at 41.2), which survey respondents overwhelmingly attributed to reduced operating capacity and shrinking demand amid emergency public health measures to slow the spread of COVID-19.

Mirroring the trend for output levels, latest data also indicated the fastest reduction in new business volumes since the survey began in October 2010. Where growth was reported, this was mainly among food producers and those in the pharmaceuticals sector. Meanwhile, some manufacturers noted that the slump in oil prices had been a key factor behind lower customer demand in March.

Lower export sales were almost exclusively attributed to business shutdowns and closed borders in response to the global public health emergency. The rate of decline in new orders from abroad was the fastest since the survey began.

At the same time, production stoppages and supply chain bottlenecks across Asia and Europe were often cited as contributing to longer shipping times in March. The index measuring suppliers' delivery times dropped to a record-low of 34.6, down from 45.3 in February. Any figure below the 50.0 no-change mark indicates longer lead-times for the receipt of manufacturing inputs.

Manufacturing companies responded to shrinking demand and reduced production schedules by streamlining their inventories and cutting employment numbers in March. The latest decline in staffing levels was the fastest since the survey began, slightly exceeding the previous record seen in December 2015. Business expectations for the year ahead also worsened to a considerable degree and hit a survey-record low.

Average cost burdens increased only marginally in March, with higher raw material prices mostly linked to exchange rate depreciation against the US dollar. Meanwhile, factory gate charges rose at the slowest pace since October 2019.
Commenting on the PMI data, Tim Moore, Economics Director at IHS Markit said:

"Canadian manufacturers reported the steepest downturns in production, new orders and employment for at least nine-and-a-half years in March. Shrinking customer demand was almost exclusively attributed to production stoppages at home and abroad amid emergency public health measures to halt the COVID-19 pandemic. Some manufacturing companies cited an additional fall in new business related to a sharp drop in spending by clients in the energy sector.

"The latest survey also highlighted by far the steepest lengthening of suppliers' delivery times since the survey began in October 2010, with manufacturers most commonly citing shortages of materials and severe supply chain disruptions across Asia and Europe."