

Embargoed until 0930 EST (1430 UTC) 1st February 2019

IHS MARKIT CANADA MANUFACTURING PMI®

Slowest expansion of manufacturing production since December 2016

KEY FINDINGS

Canadian manufacturers signal softer output growth in January

Slowest rise in new work for over two years

Input prices inflation continues to moderate at start of 2019

Manufacturers in Canada reported another loss of momentum at the start of 2019, with output and new business growth easing further from the peaks seen last summer. Export sales remained particularly subdued in January, with this index pointing to a marginal fall in new work from abroad.

On a more positive note, manufacturing companies signalled a robust pace of job creation and slower input cost inflation during the latest survey period.

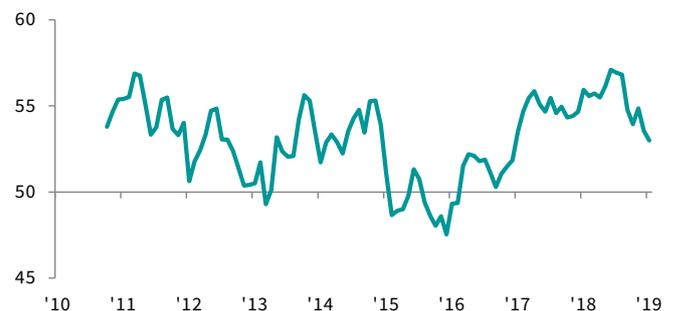
The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) eased from 53.6 in December to 53.0 in January. Although still above the crucial 50.0 no-change threshold, the latest reading pointed to the weakest improvement in overall business conditions since December 2016.

Mirroring the trend signalled by the headline PMI, the latest survey pointed to the slowest rise in production volumes for 25 months during January. Anecdotal evidence suggested that a general slowdown in client demand had held back output growth at the start of 2019.

January data pointed to only a moderate rise in new work received by manufacturing companies. The rate of new business growth eased for the second month running and was the weakest since October 2016. Moreover, new export orders fell in January, albeit only slightly. Survey respondents noted that ongoing global trade frictions had dampened business confidence and contributed to more cautious spending patterns among clients.

Backlogs of work increased for the fourth month running

Manufacturing PMI
sa, >50 = improvement since previous month



in January. Manufacturers attributed rising volumes of unfinished work to capacity pressures and, in some cases, longer lead-times from suppliers.

A strong rate of employment growth was maintained across the manufacturing sector in January. Companies reporting a rise in their staffing levels generally cited long-term business expansion plans and hopes of a rebound in demand over the course of 2019.

Latest data signalled an improvement in business confidence regarding the year ahead outlook for production. The degree of positive sentiment was the highest recorded since August 2018. Some manufacturers commented on hopes that global trade conditions would start to improve. Survey respondents also generally commented on positive expectations in relation to demand from US markets.

Meanwhile, input cost inflation moderated to a 17-month low in January. However, factory gate charges increased at a slightly faster pace than in December. Manufacturers widely commented on the need to pass on higher imported raw material costs. Higher steel prices and exchange rate depreciation against the US dollar were frequently reported as a reason for rising cost burdens in January.

Regional data indicated a particularly marked slowdown in output growth across Alberta & British Columbia, driven by an overall decline in new work first the first time since August 2016. Quebec was the strongest performing region overall in January, followed closely by a solid upturn in manufacturing conditions in Ontario.

COMMENT

Christian Buhagiar, President and CEO at SCMA said:

“January data highlights that the manufacturing sector got off to a slow start in 2019, with the loss of momentum centred on the weakest increase in new business volumes for more than two years. Survey respondents noted that global trade frictions and subdued business confidence among clients had once again acted as a break on client demand.

“There were some signs that manufacturers expect the slowdown in manufacturing conditions to prove temporary, as signalled by the robust rate of job creation reported in January. Optimism regarding the business outlook also improved at the start of 2019, with output growth projections now the strongest since last August. Manufacturers attributed their positive expectations to planned expansions of production capacity and hopes of strengthening demand in US markets.”

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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.

January 2019 data were collected 12-25 January 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

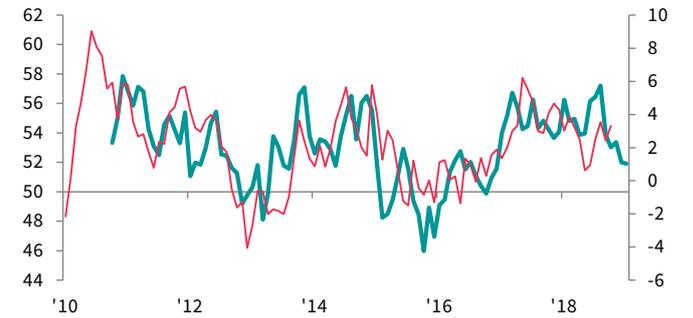
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Output Index

sa, >50 = growth since previous month



Sources: IHS Markit, StatCan.