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IHS Markit Canada Manufacturing PMI®

Recovery gains momentum amid stronger new order growth

Key findings

New work expansion accelerates to fastest since June 2018

Sharper rise in employment

Vendor performance continues to deteriorate at a marked rate

September data were collected 11-24 September 2020.

September data signalled a sharp and accelerated improvement in overall operating conditions across the Canadian manufacturing sector. A robust rise in new work helped to boost output levels further and stimulate job creation. As a result, panel members reported a faster increase in the quantity of purchases to support production volumes. Respondents noted improved demand conditions as coronavirus disease 2019 (COVID-19) restrictions eased, while some clients resumed operations. However, intense supply chain pressures continued, which contributed to the accumulation of incomplete work as firms faced longer delays in the delivery of raw materials. Rising demand for inputs and higher oil prices also led to the fastest increase in average costs for almost two years.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) registered 56.0 in September, up from 55.1 in August, to signal the sharpest improvement in operating conditions since August 2018.

Manufacturers reported the quickest rise in production levels in over two years during September, which was reportedly linked to increased capacity and rising workloads. New work increased for a third month running and expanded at the strongest pace since June 2018. Survey respondents commented on greater demand from both domestic and export markets, especially the US.

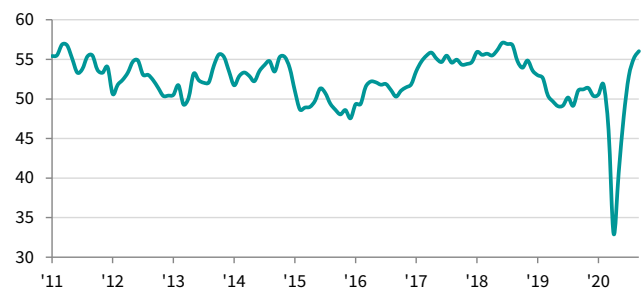
Workforce numbers rose at a solid pace in September which panellists attributed to increases in output and new work volumes. Despite the rise in staffing, there were signs that manufacturing companies struggled to keep up with increasing workloads with incomplete work accumulating for a second month.

Vendor performance deteriorated as a result of transportation restrictions and difficulty sourcing input materials. Overall, the

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:

"Overall, the health of the Canadian manufacturing sector continued to strengthen in September, as has been the case throughout the third quarter. Conditions improved at the fastest pace in over two years, helped by a solid upturn in manufacturing sales at both domestic and foreign clients.

"A strong increase in workforce numbers also suggested a commitment towards expanding production schedules in the months to come.

"For the moment, Canadian manufacturers continue to report positive sentiment, which was the highest in over a year.

"However, not all is well, with supply chain disruption hampering stock building, as vendor performance deteriorated at rates only seen in the last six months. Inflationary pressures were the highest in nearly two years, while stocks of purchases and finished goods were depleted further amid insufficient capacity.

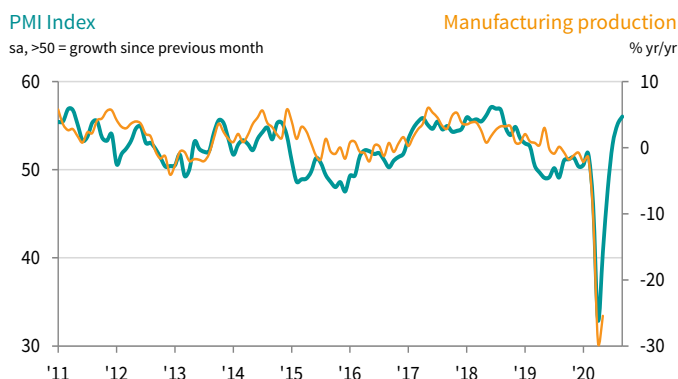
extent to which lead times lengthened was marked.

In line with higher output volumes, manufacturers sought to increase pre-production inventories by raising their input buying, with the latest increase in purchasing activity the fastest in two years. That said, stocks of purchases were depleted for the tenth consecutive month. Firms often linked the fall to the use of stocks in production and the previous use of more precise measures of ordering following rising cost burdens.

Stocks of finished goods also diminished at Canadian manufacturers and was widely attributed to insufficient capacity to boost stocks, despite an influx in workforce numbers. Although the rate of depletion of held inventories eased from the previous survey period, it was faster than the series average.

Meanwhile, supplier surcharges and rising raw material costs, especially for oil and lumber, were often cited as the main driver for the latest increase in average costs during September. Panellists reported the partial pass-through of cost burdens through higher charges as they sought to protect profit margins.

Finally, business sentiment remained positive among Canadian manufacturers and improved, as firms continue to foresee a rise in output over the next year. Companies mentioned hopes of the passing of the COVID-19 pandemic and planned for new product launches.



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 September 2020.

Data were first collected October 2010.

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