

IHS Markit Canada Manufacturing PMI®

Operating conditions continue to improve, but shortages weigh on growth during December

Key findings

Output growth moderates to ten-month low

Pre-production inventories rise at survey-record rate

Firms remain optimistic, but concerns around the Omicron variant emerge

Data were collected 6 - 17 December 2021.

The concluding month of 2021 revealed another robust expansion in operating conditions at Canada's manufacturing sector. Sustained increases in output, new orders and employment were recorded as well as the fastest uptick in pre-production inventories for over 11 years of data collection. There were, however, further signs that material shortages and delivery delays were constraining the sector with output growth softening and backlogs rising markedly. In addition, firms were less upbeat about their outlook for production over the coming year with sentiment falling to a five-month low.

In other areas, cost pressures were sharp, but moderated further in December. Rising expenses were partially passed through in the form of higher selling charges.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) registered at 56.5 in December, down from 57.2 in November. Growth has been seen in each month since July 2020, but the latest expansion was the weakest for five months.

A moderation in output growth was a key factor weighing on the headline PMI in December. Survey comments suggested that whilst demand for Canadian manufactured goods was strong, there were staff shortages and delays in the receipt of inputs. Exports also rose during the month, with sales to international markets expanding in each month since February.

With output requirements rising sharply firms added to their headcounts at a pace that was broadly similar to those seen over the last five months. Panellists mentioned that whilst firms were able to source skilled labour it was not sufficient to tame a rise in backlogs. Outstanding business has now increased in each of the last 17 months, with the latest rise amongst the steepest in the current sequence.

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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:

"Canadian manufacturers closed 2021 with a robust expansion in operating conditions as the sector continues to reap the benefits of strong domestic and international demand. Moreover, anticipation of greater customer orders encouraged firms to stockpile at record rates during December.

"Whilst on the whole latest data are positive, it is difficult to ignore the impacts of the pandemic on the sector. Over the last year or so, material shortages have been prominent, and whilst production has continued to expand, the latest uptick was the softest for ten months. In addition, another marked rise in backlogs suggests persisting skill shortages.

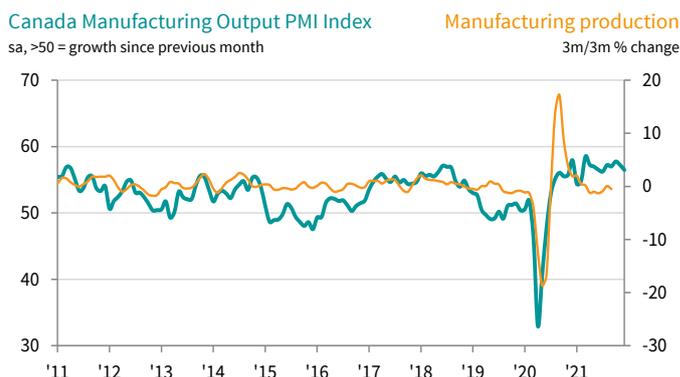
"News of the Omicron variant paired with sustained supply shortages has been a cause for concern among some Canadian manufacturers. The impacts of the new variant are still unknown, but policy-makers remain committed to containing the virus."

Goods producers continued to register substantial deteriorations in vendor performance with lead times lengthening at rates that were among the most marked in the series history. Raw material scarcity, poor weather conditions, COVID-19 and staffing issues were attributed to the latest decline.

As a result, firms added to their inventories, as has been the case over the last 11 months. Higher output requirements, delivery delays, price hikes and material scarcity were among the key reasons mentioned by respondents. The overall rate of expansion was marked, and the quickest in the 11-year history of the survey.

Cost burdens soared once again with limited supplies for inputs exerting upwards pressures on costs. Higher prices were reported for resin, metals, lumber and transportation. The rate of cost inflation was the softest since March, however. Subsequently, firms raised their selling prices at a softer pace, but one that was still sharp by historical standards.

Finally, the Omicron variant and supply-side issues caused some concern over the long-term expectations for output. Firms were nevertheless optimistic that greater consumer demand will support production growth in 2022.



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 6 - 17 December 2021.

Data were first collected October 2010.

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