

IHS Markit Canada Manufacturing PMI®

Manufacturing PMI hits survey-record high in March

Key findings

Robust rises in output, new orders and purchases

Suppliers' delivery times lengthen to second-greatest degree on record

Input price inflation builds amid material shortages

Data were collected 12-25 March 2021.

Canadian manufacturers ended the first quarter with a survey-record improvement in overall business conditions. A substantial rise in new work boosted production volumes and stimulated job creation in March. The surge in demand contributed to a strong rise in backlogs, the second-fastest on record. However, material shortages and border restrictions linked to the coronavirus disease 2019 (COVID-19) pandemic continued, which contributed to the greatest lengthening in lead times since April 2020.

Rising prices for inputs including lumber and metals led to the fastest increase in average cost burdens since August 2018. The improved demand environment allowed firms to pass on higher expenses, however.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) registered 58.5 in March, up considerably from 54.8 in February, to become the highest reading in over ten years of data collection.

Manufacturers reported the second-fastest rise in output levels since the series began, which was often linked to increased workloads and greater production capacity. Meanwhile, new work expanded at the joint-third fastest pace to date. Survey respondents widely commented on greater demand from both domestic and export markets.

To cater for the surge in demand, manufacturers added to workforce numbers during the month, with the rate of job creation reaching a three-month high. Despite this, there were further signs that manufacturing companies were unable to keep up with rising workloads at the end of the quarter, with volumes of unfinished business increased at a near survey-record pace. Some manufacturers noted that stretched supply chains and a shortage in the supply of material resulted in the build-up of outstanding

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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 ended the first quarter of 2021 on an upbeat note, with the headline PMI figure improving to the strongest in the ten-year history of the survey. The growth was driven by stronger demand as COVID-19 restrictions continue to ease across the provinces. Meanwhile, a near-record rise in backlogs suggests greater employment in the months ahead."

"Turning to areas of concern, global supply chain pressures continued in March. Border restrictions and tighter COVID-19 measures in international markets continued to hinder the supply of inputs. As a result, firms have had to incur rising costs and production delays. That said, the more resilient demand environment has allowed firms to protect profit margins by raising selling prices."

"Overall, the Canadian manufacturing sector has performed well throughout the first quarter, but external pressures have somewhat weighed on the rate of expansion. Nevertheless, the sector is on course for a return to industrial production growth in 2021."

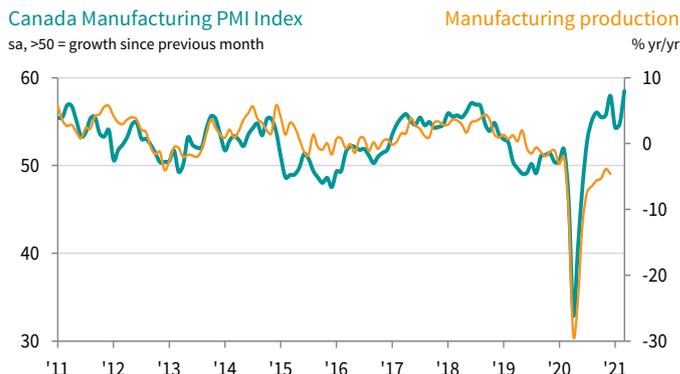
work.

Average lead times from vendors lengthened to the second-greatest extent since the survey began in the late-2010. Anecdotal evidence suggested border restrictions (linked to COVID-19), adverse weather conditions and supplier shortages had led to worsening vendor performance.

In line with higher output, firms raised their input buying at the end of the quarter, with the latest increase the fastest in three months. Manufacturers meanwhile sought to build safety stock with the rise in pre-production inventories the largest in two-and-a-half years.

Robust demand for raw materials contributed to the strongest rate of input cost inflation since August 2018. Survey respondents commented on higher prices for steel and lumber in particular. The stronger demand environment allowed firms to pass on the higher expenses, however.

Manufacturers remain upbeat about their growth prospects over the next 12 months, with the degree of optimism the strongest since May 2019. Some companies based their expectations on a return to normality following vaccination rollouts whilst others hoped for stronger economic conditions.



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 12-25 March 2021.

Data were first collected October 2010.

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Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html