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IHS Markit Canada Manufacturing PMI®

Operating conditions improve sharply amid stronger demand conditions

Key findings

PMI improves to fourth-highest in the series history during August

Supplier delivery delays worsen, prompting advance input buying

Input price inflation strengthens to new series high amid shortages

Data were collected 12-24 August 2021.

Canadian manufacturers recorded another robust expansion in manufacturing conditions with the PMI at a four-month high in August. Quicker upticks in output, new orders, exports and purchases underpinned growth and in turn supported optimism. Delivery delays were again, however, a common theme in the latest survey period, with lead times lengthening markedly. As a result, firms sought to protect against future shortages by building pre-production inventories but consequently faced steep cost pressures. Input price inflation strengthened to a fresh new series high, but selling prices rose at a fractionally softer pace.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) registered 57.2 in August, up from 56.2 in July. The latest reading extended the period of growth to 14 successive months, with the latest expansion the fourth-quickest in the near 11-year history of the survey.

Production volumes at Canadian manufacturers rose at a sharp and accelerated pace. Firms often reported that greater demand combined with larger workforces allowed firms to raise output volumes. Around 23% of firms increased production in August compared to July, compared with 11% who reported declines.

Similarly, higher sales to both international and domestic markets resulted in a marked uptick in new orders. Firms mentioned a general improvement in customer demand. Higher sales to US and European markets also drove the increase, according to panellists.

Higher output requirements and rising backlogs resulted in additions to headcounts in August, bringing the current period of job creation to 14 months. The rate of increase moderated slightly from July but remained higher than the long-run series average. Some firms found it difficult to source skilled replacements for voluntary leavers, however.

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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:

"Canada's manufacturing sector recorded another robust improvement in operating conditions in August. The latest uptick gained momentum from that seen in July after demand in both domestic and international markets rose further. Higher inventory levels in response to greater output requirements also supported growth."

Employment, meanwhile, rose for the fourteenth month running, yet at a softer pace despite higher sales. Anecdotal evidence suggested staff shortages weighed slightly on hiring activity. Encouragingly, we could see employment growth in the manufacturing sector continue over the coming months."

"Despite rising cases and regional lockdowns over the year, Canada's manufacturing sector has dealt well with demand shocks. Its main concern, as with many economies, has been price and supply chain pressures which have often stemmed from material shortages. With costs intensifying over the course of the month, prices look set to remain elevated for some time."

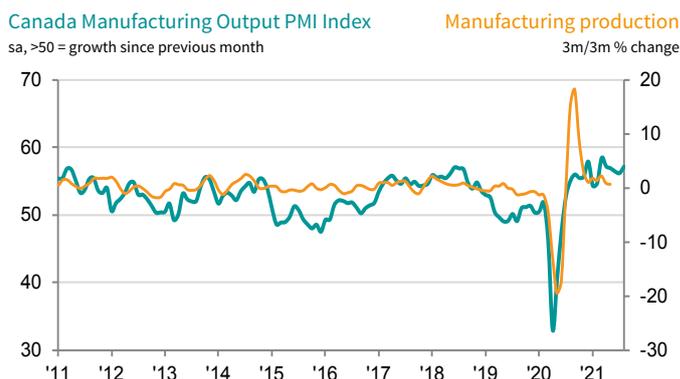
"On the COVID-19 front, vaccination efforts have triumphed with the majority of the population inoculated. Firms will now hope the vaccine proves effective against the fourth wave of cases to prevent another tightening of measures."

Robust expansions in new orders, along with some reports of insufficient staffing levels led to another increase in outstanding business. In fact, backlogs rose at the third-quickest rate in the series history. Material shortages and transportation bottlenecks were also blamed for the rise in incomplete work. As a result, firms fulfilled sales through existing stocks of finished goods which were depleted at a quicker pace.

Supply chains were once again under intense pressure in August. Global material shortages and port congestions added to lead times which lengthened to the second-greatest extent in the series history. In a bid to protect against future supply shocks, firms added to their pre-production inventories, and at the second-quickest rate on record.

Rising demand led to input price inflation strengthening to a new series high. Material shortages and higher prices for steel, resin and transportation were also mentioned. The relatively strong demand environment allowed firms to partially pass-through higher expenses, with output price inflation the third-fastest on record.

Finally, outlook reflected the strong demand environment, which improved notably in the latest survey period.



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 August 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