Manufacturing PMI hits four-month high in July

KEY FINDINGS

Production and new orders decline at slower rates

Employment numbers continue to rise

Input cost inflation eases to lowest since May 2013

Canadian manufacturers signalled another fall in production levels during July, largely reflecting a sustained decrease in new orders. However, the latest drop in output was the least marked since the downturn began in April. Moreover, manufacturers signalled a rebound in business optimism regarding the year ahead outlook and staffing levels picked up for the third month running. At the same time, input cost inflation eased to its weakest for just over six years, which a number of survey respondents linked to lower steel prices.

The seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers’ Index® (PMI®) registered 50.2 in July, up from 49.2 in June and above the 50.0 no-change value for the first time since March. A slower fall in output and a rise in pre-production inventories were the main factors pushing the headline PMI into positive territory in July.

Latest data revealed a slight reduction in manufacturing output, but the rate of decline eased markedly from the three-and-a-half year record seen in June. New orders were also closer to stabilisation in July, with the latest survey pointing to the slowest drop in sales since March.

Companies reporting a decrease in new work generally cited subdued export demand in July. Moreover, latest data indicated that new orders from abroad fell at the fastest pace for four months. Anecdotal evidence suggested that softer economic growth in the US and Europe had acted as a brake on export sales. Some manufacturers also cited a headwind from ongoing global trade frictions.

Subdued customer demand contributed to another sharp reduction in backlogs of work in July. Lower volumes of work-in-hand have been recorded in each month since March. Survey respondents continued to comment on a lack of pressure on business capacity. However, payroll numbers were increased again in July, with the rate of job creation the strongest for five months.

Some manufacturing firms attributed additional staff recruitment to long-term business expansion plans and a rise in optimism about the demand outlook. Reflecting this, latest data signalled the second-strongest degree of confidence regarding the year-ahead growth outlook since May 2018.

Pre-production inventories increased for the first time in six months. However, manufacturers reported another decline in their stocks of finished goods. A number of firms commented on efforts to improve cash flow.

Meanwhile, input price inflation moderated in July and was the lowest since May 2013. Softer cost pressures and intense competition for new work resulted in the weakest increase in factory gate charges for just under three years in July.
COMMENT

Commenting on the PMI data, Tim Moore, Economics Associate Director at IHS Markit said:

"July data provides some encouragement that the downturn in Canadian manufacturing production has started to lose intensity, with the latest survey pointing the slowest drop in output for four months. A rebound in business expectations and stronger jobs growth were also positive developments in July. At the same time, the slowdown in input price inflation to its lowest for over six years is a welcome relief and should help alleviate some of the pressure on operating margins. "External demand conditions remain the main concern for the manufacturing sector, as highlighted by an accelerated reduction in new export orders in July. There were widespread reports that global trade frictions and softer economic growth in key markets had held back export sales."

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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.

July 2019 data were collected 12-24 July 2019.

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

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