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IHS MARKIT CANADA MANUFACTURING PMI®

Sharpest rise in production volumes since February

KEY FINDINGS

Modest growth of output and incoming new work

Employment increases at a slower pace in October

Cost inflation picks up from September's 86-month low

October data signalled a modest improvement in business conditions across the Canadian manufacturing sector, driven a sustained rebound in output and new business levels.

At 51.2 in October, up from 51.0 in September, the seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) posted above the crucial 50.0 no-change value for the second month running. The latest reading was the highest since February, but signalled only a marginal improvement in overall operating conditions.

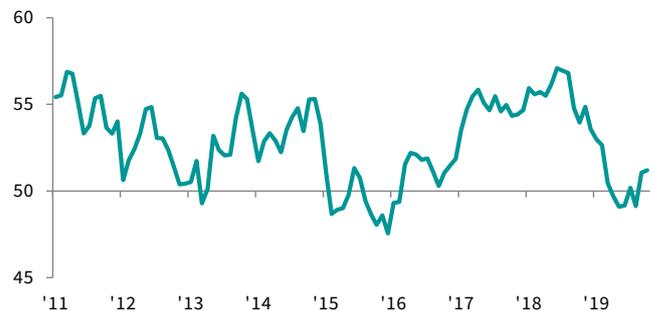
Faster rates of output and new order growth boosted the headline PMI in October, more than offsetting a slightly weaker contribution from the employment component.

The latest expansion of production volumes was the strongest for eight months, albeit still softer than the long-run survey average. Manufacturers commented on a gradual recovery in client demand, especially in domestic markets. At the same time, goods producers noted that subdued global trade conditions remained a drag on growth.

Total new work increased for the second month running during October. In contrast, latest data revealed a renewed drop in export sales, which survey respondents often attributed to intense competitive pressures.

Employment numbers rose again in October, but the rate of expansion was only marginal and softer than in the previous month. Some manufacturers suggested that a lack of new work to replace completed projects had constrained staff recruitment at their plants. A marked decline in backlogs of

Manufacturing PMI
sa, >50 = improvement since previous month



work during October also pointed to a lack of pressure on business capacity.

Manufacturers remained cautious in terms of their input buying during the latest survey period. Softer demand for raw materials helped to alleviate some of the strain on suppliers, with vendor lead-times lengthening only slightly in October.

Latest data signalled a marginal accumulation of pre-production inventories across the manufacturing sector. In contrast, stocks of finished goods were depleted for the first time in three months. A number of survey respondents commented on efforts to boost cash flow by streamlining their post-production inventories.

Meanwhile, input cost inflation accelerated from the seven-year low seen during September. Manufacturers often commented on higher commodity prices in the latest survey period. Factory gate charges nonetheless increased only slightly, with some firms noting that subdued business conditions had held back their pricing power.

Looking ahead, manufacturers in Canada are optimistic overall about their prospects for growth during the next 12 months. The degree of positive sentiment picked up to its highest since July. This was linked to new product launches and, in some cases, hopes of an improvement in global trade conditions.

COMMENT

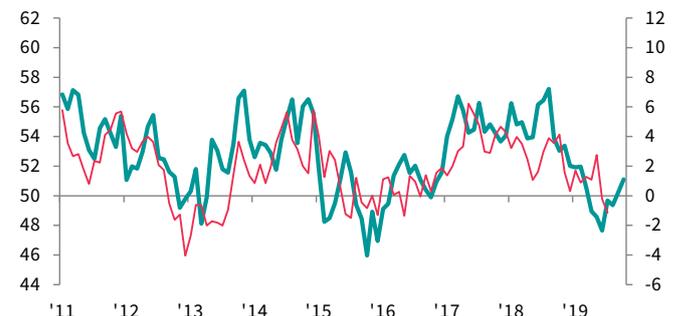
Commenting on the PMI data, Tim Moore, Economics Associate Director at IHS Markit said:

"October's survey data indicates a change of fortunes for the Canadian manufacturing sector, with output growth hitting an eight-month high in response to improving order books. Rising domestic demand has underpinned the gradual recovery in new work since the summer, but export sales remain relatively sluggish against a backdrop of weaker global trade conditions.

"A steady pace of manufacturing employment growth was recorded in October, while the modest recovery in order books also helped to lift business optimism to its highest for three months."

Output Index

sa, >50 = growth since previous month



Sources: IHS Markit, StatCan.

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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.

October 2019 data were collected 11-25 October 2019.

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

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About PMI

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. To learn more go to ihsmarkit.com/products/pmi.html.