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## IHS MARKIT CANADA MANUFACTURING PMI®

### Subdued manufacturing conditions persist in January

#### KEY FINDINGS

Marginal rise in output

New business returns to growth

Employment falls for first time since April 2019

Business conditions improved only slightly across the Canadian manufacturing sector in January, with subdued customer demand continuing to hold back production volumes and staff hiring. Moreover, manufacturers sought to reduce their inventory volumes in response to weak order books. Stocks of purchases dropped for the second month running, while post-production inventories were cut to the greatest extent since March 2019.

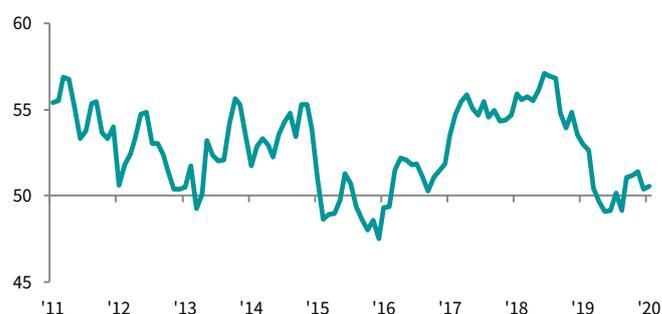
On a more positive note, latest data pointed to a solid rebound in confidence towards the year ahead business outlook, which survey respondents partly attributed to hopes of an improvement in global trade conditions. The degree of business optimism was the highest since last July.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) registered 50.6 in January, up slightly from December's four-month low of 50.4. Improving business conditions have been recorded in each month since September 2019, but the pace of recovery remained only marginal at the start of the year.

January data pointed to divergent trends across the three broad sub-sectors monitored by the survey. Consumer goods producers once again outperformed, with a robust upturn in conditions contrasting with weakness in the intermediate and investment goods categories.

Output across the manufacturing sector as a whole increased marginally in January, which was supported by a return to new business growth during the latest survey period. However, the improvement in new order books was

Manufacturing PMI  
sa, >50 = improvement since previous month



only modest, with survey respondents often citing subdued customer demand and weaker export sales. Lower volumes of new work from abroad have now been recorded in each of the past four months.

A lack of pressure on business capacity allowed manufacturers to focus resources on the completion of unfinished work in January. Reduced backlogs and weak sales volumes led to cautious staff hiring strategies at the start of 2020. Moreover, latest data signalled an overall drop in payroll numbers for the first time since last April.

Efforts to streamline inventories continued in January and this contributed to another drop in purchasing activity. The latest fall in input buying was the sharpest since December 2015. Lower demand for raw materials did not prevent a further deterioration in supplier performance at the start of the year. Longer lead-times were often attributed to adverse weather conditions, shortages of transport capacity and low stocks among vendors.

Meanwhile, input cost inflation was only modest in January and eased to its lowest for four months. A number of survey respondents noted that lower steel prices had helped to alleviate overall cost pressures. Softer input price inflation contributed to the weakest rise in factory gate charges since October 2019.

## COMMENT

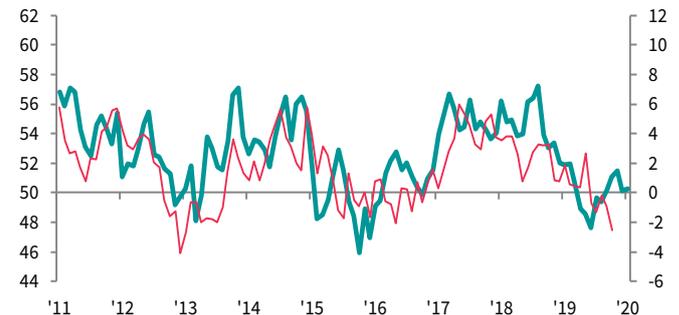
Commenting on the PMI data, Tim Moore, Economics Associate Director at IHS Markit said:

*"Canada's manufacturing sector continued to experience subdued business conditions at the start of 2020, with production volumes rising only marginally amid subdued customer demand. Incoming new work did return to growth in January, but falling export sales constrained the overall rebound in order books. At the same time, manufacturers reported a drop in employment numbers for the first time since April 2019 and input buying was cut back at the fastest pace for just over four years.*

*"The main source of positivity in January was the outperforming consumer goods category, which remained on a robust growth trajectory and helped to offset some of the weakness from intermediate and investment goods. Manufacturers of consumer products are also the most optimistic about their prospects for the year ahead, with stronger growth expectations in January the main reason for a rise in overall manufacturing confidence to its highest since July 2019."*

## 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.

January data were collected 13-27 January 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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](http://ihsmarkit.com/products/pmi.html).