News Release

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IHS MARKIT
CANADA MANUFACTURING PMI®

Production falls at fastest pace for three-and-a-half years

KEY FINDINGS

Further declines in output and incoming new work

Employment growth maintained in June

Input cost pressures remain much weaker than in 2018

June data signalled another difficult month for the Canadian manufacturing sector, with falling volumes of new work contributing to the sharpest drop in production for three-and-a-half years. Survey respondents commented on more subdued economic conditions in both domestic and export markets, alongside a drag on sales from global trade frictions.

At 49.2 in June, the headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers’ Index® (PMI®) picked up fractionally from May’s 41-month low of 49.1. However, the latest reading was below the crucial 50.0 no-change value for the third month running, which marks the longest period of decline since 2015/16.

A sharper reduction in production levels was the main factor weighing on the headline PMI in June. The downturn in output accelerated since the previous month and was the fastest since December 2015. Manufacturers generally cited a lack of new work to replace completed orders at their plants. Reflecting this, the latest survey revealed the steepest fall in backlogs of work since data collection began in October 2010.

The lack of pressure on operating capacity across the manufacturing sector largely reflected a sustained deterioration in order books during June. Lower volumes of new work have been recorded in each of the past four months, although the latest decline was only modest and slower than seen in May.

Export sales were broadly unchanged in June, which ended a three-month period of decline. Some manufacturers noted a boost to export sales from the removal of US trade tariffs on steel and aluminium. However, there were also reports that softer underlying demand in US markets and ongoing global trade frictions had held back total new orders from abroad.

In contrast to the reductions signalled for output and incoming new work, latest data pointed to a rise in employment numbers for the second month running. However, the rate of job creation was only marginal. A number of manufacturers suggested that softening client demand had encouraged more cautious staff hiring strategies. Moreover, latest data revealed a drop in business optimism towards the year-ahead outlook, which was partly attributed to concerns that global trade frictions would act as a brake on manufacturing sector performance.

Meanwhile, manufacturers pointed to the sharpest drop in purchasing activity since December 2015. Weaker demand for materials and lower steel prices led to subdued cost pressures, with input price inflation holding close to the 52-month low seen in May. Where a rise in input prices was reported, manufacturers often cited greater transportation bills and the pass-through of higher trade tariffs on China by US suppliers.

At the same time, intense competitive pressures contributed to the slowest rise in prices charged by Canadian manufacturers since October 2016.
COMMENT

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

"Manufacturing business conditions remained on a downward path during June, according to the latest PMI data. Output fell to the largest extent for three-and-a-half years as a lack of new work to replace completed orders continued to act as a brake on production schedules. In fact, unfinished work decreased at the sharpest rate since the survey began in 2010.

"The latest survey results provide a clear sign that US-China trade frictions are holding back the Canadian manufacturing sector. New orders have now decreased for four months in a row, with survey respondents widely commenting on subdued export demand and weaker global trade volumes so far this year. Moreover, manufacturers indicated that their business optimism dropped sharply in June and was among the weakest seen since the start of 2016."

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.

June 2019 data were collected 12-24 June 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.

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