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IHS MARKIT CANADA MANUFACTURING PMI®

Manufacturing downturn sustained in May

KEY FINDINGS

Business conditions decline for second month in a row

New orders fall at fastest rate in over three years

Input price inflation at 51-month low

Canada's manufacturing sector saw operating conditions worsen again in May. Production continued to contract amid the sharpest drop in new orders since December 2015. More positively, employment saw a fractional increase after a slight dip in April, whilst input price inflation eased to its slowest rate in over four years.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) dropped from 49.7 in April to 49.1 in May, signalling a second successive monthly deterioration in business conditions. The latest PMI reading was the lowest in nearly three-and-a-half years, albeit still indicating only a slight downturn.

All components of the headline index, bar employment, had a downward impact on the figure. Output contracted at the most marked rate since the end of 2015. Panellists linked this to falling new orders and subdued global trade conditions.

Correspondingly, total new manufacturing orders dropped for the third month running and at the sharpest rate in this period. Firms noted weaker demand in both domestic and foreign markets. Some firms also cited a negative impact on sales from lower construction activity.

Manufacturers reacted by paring back input purchases for the third consecutive month, albeit at a modest and relatively unchanged pace since April. This led to a slight reduction in pre-production stock levels, while inventories of finished goods were broadly stable.

Conversely, workforce numbers increased marginally in May, reversing the mild drop last month. This was partly linked to

Manufacturing PMI
sa, >50 = improvement since previous month



expansion of factory space, countering the drag from softer production levels.

Supply chain performance deteriorated at only a slight pace, registering the smallest increase in delivery times for over three years. Some firms noted a shortage of raw material supply leading to longer delays.

On the price front, Canadian manufacturing firms registered the weakest inflation of input costs in over four years, and the joint-softest for nearly six years. Despite this, panellists highlighted a number of price rises, including fuel, resin and foodstuff charges. Tariffs from the US also inflated cost burdens, which firms then passed on to customers through a solid uptick in output charges.

Looking ahead, manufacturing companies remained upbeat regarding future output. In fact, the level of optimism climbed to the highest in 13 months, despite the current slowdown in the sector. Firms noted that a number of factors aided their positive expectations, such as new products, hiring plans and factory expansion, while also citing signs of a turnaround in the wider economy.

Meanwhile, latest data pointed to deteriorating business conditions across all regions monitored by the survey. Ontario registered the sharpest downturn in manufacturing performance during May, partly reflecting a survey-record decline in new export sales.

COMMENT

Christian Buhagiar, President and CEO at SCMA, said:

"The latest survey points to the weakest overall manufacturing sector performance since December 2015, mainly driven by sustained declines in both production levels and new order intakes. Manufacturers commented on softer underlying demand from domestic and export clients in May, which was often linked to subdued global trade volumes.

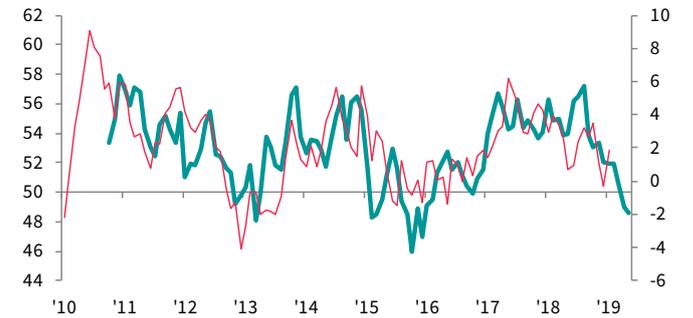
"On a more positive note, employment numbers increased slightly during the latest survey period and manufacturers indicated a rebound in their business expectations to a 13-month high. The improvement in manufacturing sector optimism reflected greater optimism in relation to domestic economic conditions, as well as planned business investment in new production capacity and hopes of a recovery in international trade conditions during the year ahead."

Output Index

sa, >50 = growth since previous month

Manufacturing production

% yr/yr



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.

May 2019 data were collected 13-24 May 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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About SCMA

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