Canadian manufacturers signalled a rebound in production volumes and new work in July, led by improving customer demand as more parts of the economy reopen after stoppages during the coronavirus 2019 (COVID-19) pandemic.

At 52.9 in July, up from 47.8 in June, the headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers’ Index® (PMI®) registered above the 50.0 no-change threshold for the first time in five months. The latest PMI reading was the highest since January 2019 and signalled a partial rebound in business conditions from the low point seen during April (index at 33.0).

July data indicated the fastest increase in output levels since September 2018. Anecdotal evidence attributed the expansion to a phased restart of production schedules and a return to growth for incoming new business.

Total new orders increased for the first time since February, but the pace of expansion was only modest. Survey respondents commented on a tentative recovery in sales as customers returned to work and restarted purchasing. However, underlying demand remained weak, especially in overseas markets. Latest data indicated a downturn in new export orders, which continued the trend seen since March.

Higher levels of production supported a modest rise in payroll numbers during July. The increase in employment was the first recorded by the survey since February. However, another marked reduction in backlogs of work suggested that excess capacity persisted across the manufacturing sector at the start of the third quarter.

Manufacturers remained cautious about their inventory levels in July amid ongoing efforts to improve cash flow and realign stocks with the subdued demand environment. As a result, both pre-
production inventories and stocks of finished goods were depleted in July.

Input buying returned to growth in the Canadian manufacturing sector, which ended a seven-month period of decline. Manufacturers were once again faced with lengthening delivery times from suppliers in July, which was mostly linked to stock shortages and transport delays across international borders.

Higher transportation costs and reports of supplier surcharges related to COVID-19 resulted in rising input prices in July. Some manufacturers also noted that exchange rate depreciation against the US dollar had pushed up raw material prices. Latest data indicated a solid overall increase in average cost burdens, although the rate of inflation eased slightly since June. Manufacturers had some difficulties passing on higher costs to clients, with factory gate prices unchanged on average during July.

Meanwhile, manufacturers in Canada remained optimistic overall about their prospects for higher production volumes in the next 12 months, which contrasted with the record low sentiment seen in April. However, business expectations moderated since June and some manufacturers commented on concerns about the global economic outlook due to the prospect of a second wave of the pandemic.

Survey 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.

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

Survey dates and history
Data were collected 13-27 July 2020.

Data were first collected October 2010.

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