Canadian manufacturers signalled another sharp deterioration in overall business conditions during May, which survey respondents again almost exclusively attributed to the impact of the coronavirus disease 2019 (COVID-19) pandemic.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers’ Index® (PMI®) registered 40.6 in May, up from 33.0 in April but still well below the neutral 50.0 threshold. The latest declines in output, new orders and employment were all less severe than in April, but still the second-fastest since the survey began nearly ten years’ ago.

Production volumes have now decreased for three months running. On each occasion the rate of contraction has been faster than at any other time since the start of the survey in October 2010. Manufacturers widely noted that output had been scaled back in response to a rapid drop in customer demand. Some firms also noted that adjustments to plant operations to ensure social distancing measures had restricted operating capacity.

Where output growth was reported, this was linked to a gradual reopening of manufacturing supply chains and, for some firms, increased sales of healthcare-related products. Mirroring the trend for production volumes, the latest survey pointed to a slightly slower pace of decline in new business than the survey record seen during April. Anecdotal evidence mostly cited worsening global economic conditions and subsequent cutbacks to spending among clients, especially those in the energy sector. New export sales followed a similar trajectory in May, with orders falling sharply but at a slower rate than seen during April.

Despite some reports that social distancing measures had constrained production schedules, the latest survey highlighted an overall lack of pressure on operating capacity following a slump in customer demand. This was signalled by another sharp fall in backlogs of work across the manufacturing sector during May. Moreover, employment numbers continued to decrease at much a faster pace than at any time prior to the COVID-19 pandemic. Around 40% of the survey panel reported a decline in staffing levels, while only 9% signalled an increase.

May data indicated severe stress on manufacturing supply chains, with business closures, low stocks and international shipping delays all contributing to a sharp downturn in vendor performance. At the same time, purchasing prices increased at the fastest pace since February, which was often attributed to exchange rate depreciation against the US dollar.

Business expectations across the Canadian manufacturing sector picked up from April’s series record low. However, the degree of optimism was only modest in May, with survey respondents widely commenting on concerns that the COVID-19 pandemic would have a long-lasting impact on business operations.
COMMENT

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

"May data highlights that the Canadian manufacturing sector remains on a steep downward trajectory, despite the speed of decline moderating from April’s survey record. A severe drop in demand from both domestic and export markets amid the COVID-19 pandemic resulted in sharp cutbacks to production volumes. While some survey respondents commented on a gradual reopening of manufacturing supply chains, business operations were still adversely impacted by longer lead times for critical inputs and low stocks among suppliers. At the same time, exchange rate depreciation against the US dollar also fed through to higher purchasing prices in May.

“The latest survey pointed to widespread job cuts across the manufacturing sector. Around four times as many survey respondents reported a fall in employment as those indicating an increase in May, which was mostly attributed to concerns about the long-term impact of the COVID-19 pandemic on manufacturing workloads.”

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 data were collected 12-22 May 2020.

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

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