

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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Markit Canada Manufacturing PMI™

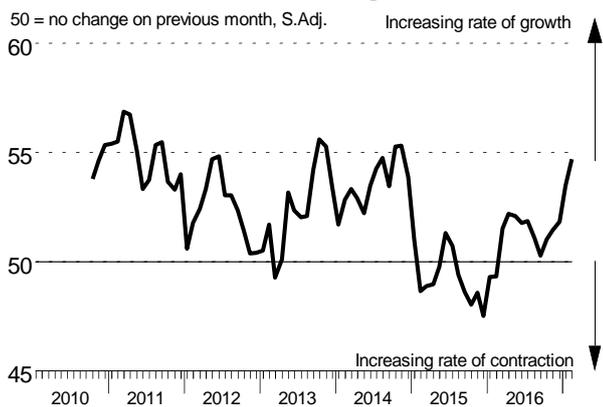
Strongest manufacturing performance for more than two years

Key findings:

- PMI reaches 27-month high of 54.7 in February
- Robust upturn in incoming new work, led by domestic sales
- Business optimism reaches three-year peak

Data collected February 10-22

Markit Canada Manufacturing PMI



Source: IHS Markit

Canada's manufacturing sector remained on track to record its fastest quarterly upturn in business conditions since Q4 2014. February data revealed robust and accelerated growth in new order intakes, input buying and production levels. This contributed to a sustained recovery in job creation and business confidence across the manufacturing sector.

Meanwhile, pressures on supply chains continued in February, driven by a rebound in demand for inputs. The latest survey also revealed a strong rise in average cost burdens, largely reflecting higher commodity prices on world markets.

At 54.7 in February, up from 53.5 in January, the seasonally adjusted **Markit Canada Manufacturing Purchasing Managers' Index™ (PMI™)** signalled

the strongest improvement in business conditions since November 2014. The average reading for Q1 2017 so far (54.1) is up from 51.5 in Q4 2016 and the highest quarterly figure for over two years.

Faster rates of output and new business growth were the main factors boosting the headline PMI in February. In both cases, the rate of expansion was the steepest since late-2014. Survey respondents noted that greater demand from domestic markets, especially the energy sector, had underpinned the improvement in manufacturing growth. There were also reports that the upturn in new order intakes had been supported by customers' efforts to replenish inventories. Meanwhile, export sales growth remained subdued, and therefore provided only a marginal contribution to overall new business gains in February.

The latest survey pointed to a rebound in manufacturing sector confidence regarding the year-ahead business outlook. Moreover, the degree of positive sentiment reached its strongest for exactly three years. This was linked to resurgent optimism about domestic demand and the general outlook for the Canadian economy.

Greater business confidence contributed to the strongest increase in employment for 27 months in February. Manufacturers also sought to boost their stocks of finished goods in line with expectations for improved sales growth. The rise in post-production inventories was the strongest since April 2014. However, stocks of inputs were depleted in February, which was attributed to rising demand for inputs and longer delivery times from suppliers.

Meanwhile, a strong rate of input cost inflation persisted in February, with the latest reading only fractionally below the 31-month peak seen at the start of 2017. Manufacturers commented on rising

raw material costs, particularly for metals and oil-related inputs. This led to a solid increase in factory gate charges, although the rate of output price inflation slipped to a three-month low.

Regional highlights:

- Alberta & B.C. recorded the strongest upturn in manufacturing output since December 2010
- New orders rose in all regions except Quebec
- Staffing levels increased in all regions, led by Alberta & B.C.

Comment:

Tim Moore, Senior Economist at survey compilers IHS Markit:

“IHS Markit’s PMI data reveal a strong reacceleration in manufacturing growth so far this year, helped by improving domestic economic conditions and greater sales to clients in the oil and gas sector. The boost from rising spending by energy sector companies led to a surge in manufacturing growth across Alberta & B.C., with production volumes expanding at the fastest pace since late-2010.

“Across the Canadian manufacturing sector as a whole, business optimism about the 12-month outlook reached its highest level since early-2014. This contributed to renewed inventory building and the steepest rise in payroll numbers for over two years in February.

“Stronger demand for inputs continued to exert pressure on manufacturing supply chains, with delivery times lengthening amid widespread reports of depleted stocks among vendors. Against a backdrop of rising global commodity prices, this placed upward pressure on raw material costs and meant that the overall pace of cost inflation remained close to its strongest for two-and-a-half years.”

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“A robust and accelerated rise in domestic demand helped the manufacturing sector to post its strongest upturn in business conditions since late-2014. Purchasing managers cited an improving economy and greater investment spending in the energy sector. Manufacturers also expect the good news to continue in 2017, with business confidence reaching a three-year high in February.

“Alberta & B.C. continue to lead the recovery in manufacturing growth, with the latest expansion of production volumes the fastest for just over six years. Provincial data also pointed to a Canada-wide increase in manufacturing employment, helped by rising demand and improving confidence across the sector.”

-Ends-

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Note to Editors:

The Markit Canada Manufacturing PMI™ Report is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by company workforce size and by Standard Industrial Classification (SIC) group, based on industry contribution to Canada GDP.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. The Markit Canada Manufacturing Purchasing Managers' Index™ (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

Markit does not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@ihsmarkit.com.

About Supply Chain Management Association

The Supply Chain Management Association (SCMA) is Canada's largest association for supply chain management professionals. We represent 7,500 members as well as the wider profession working in roles that cover sourcing, procurement, logistics, inventory, and contract management. SCMA sets the standards for excellence and ethics, and is the principal source of professional development and accreditation in supply chain management in Canada. www.scma.com.

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About PMI

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