

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

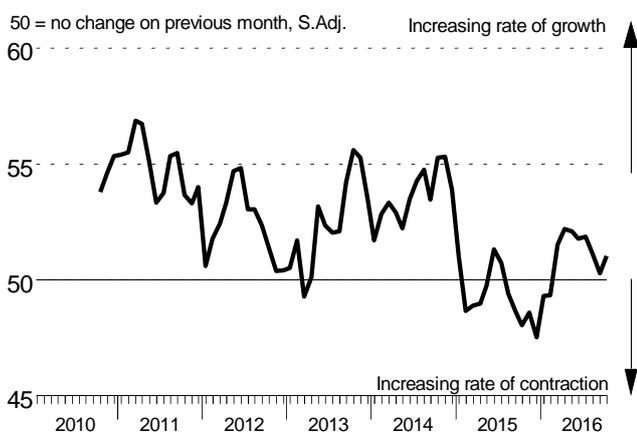
### Slight improvement in manufacturing conditions, led by rising new orders

#### Key findings:

- Manufacturing PMI edges up to 51.1 in October
- Renewed upturn in new orders, but output levels stagnate
- Margins squeezed by higher costs and continued price discounting

Data collected October 12-25

#### Markit Canada Manufacturing PMI



Source: IHS Markit

October data pointed to another challenging month for the Canadian manufacturing sector, with production volumes stagnating amid subdued demand patterns and ongoing efforts to reduce finished goods inventories. That said, the latest survey highlighted a slight improvement in overall business conditions, driven by a renewed rise in new work and greater employment numbers. Meanwhile, operating margins were eroded further amid falling factory gate charges and a sharper increase in manufacturers' input costs.

Adjusted for seasonal influences, the **Markit**

**Canada Manufacturing Purchasing Managers' Index™ (PMI™)** registered 51.1 in October, up from September's seven-month low of 50.3. The index has posted above the 50.0 no-change threshold in each month since March, but the latest reading was weaker than the survey average (52.4) and signalled only a marginal improvement in overall business conditions.

**Production volumes** stagnated in October, which was a key factor weighing on the headline PMI and contrasted with the sustained output growth seen during the previous seven months. Reports from survey respondents suggested that inventory drawdown and relatively weak client demand had placed a brake on production levels. Reflecting this, **stocks of finished goods** decreased at the sharpest pace since July.

October data highlighted a slight rebound in **new business volumes**, following the decline recorded during the previous month. Some firms linked rising sales to new product launches, alongside successful promotional discounting, but there were also reports that subdued energy sector demand had weighed on new business volumes. At the same time, **export sales** were broadly unchanged in October, which compared favourably with the marginal declines seen through the third quarter of 2016.

Mirroring the trend seen for new order volumes, the latest survey indicated a return to **employment** growth across the manufacturing sector. However, with some firms commenting on hiring freezes at their plants, the overall pace of job creation was only marginal. October data also pointed to a general lack of pressure on operating capacity, with **backlogs of work** broadly unchanged since the previous month.

Manufacturers suggested that supply chain

pressures worsened in October. **Vendor performance** deteriorated at one of the fastest rates since the end of 2014, which was linked to capacity cutbacks among suppliers, alongside low stocks and shipping delays. As a result, some firms sought to boost their **stocks of purchases**, and this contributed to a rise in **input buying** for the first time since June.

**Input cost inflation** picked up to a three-month high in October. This was partly attributed to greater imported raw material prices. However, **factory gate charges** fell for the second month running, which manufacturers mainly linked to intense competition for new work.

### Regional highlights:

- Business conditions improved in Alberta & B.C. for the first time since January 2015
- All regions reported a robust pace of input price inflation, led by Quebec
- Quebec recorded the sharpest downturn in supplier performance, followed by Ontario

### Comment:

**Tim Moore, Senior Economist at survey compilers IHS Markit:**

*“The latest survey data highlight a lack of growth momentum across the manufacturing sector at the start of the fourth quarter. New business volumes improved only slightly since September, held back by subdued export sales. Meanwhile, inventory cutbacks continued, which contributed to the softer trend for production schedules.”*

*“The main positive development during October was a nascent recovery in manufacturing conditions across Alberta & BC. The modest rebound in manufacturing growth was the first recorded by the survey since the start of 2015.”*

**Cheryl Farrow, president and chief executive officer, SCMA:**

*“Canada’s manufacturing companies continued to experience subdued growth conditions in October, with production levels stagnating and new orders only slightly up since last month. As a result, new hiring remained modest and manufacturers looked to streamline their inventories.”*

*“The latest survey provided further signs of squeezed operating margins across the manufacturing sector. Factory gate charges were lowered for the second month running, despite a robust and accelerated rise in input costs.”*

*“Western Canada outperformed the rest of the country in terms of new business growth, with manufacturers pointing to the fastest rise in sales since late-2014. This contributed to another marginal upturn in production volumes across the region, following the sharp downturn seen earlier in the year.”*

-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](mailto: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](http://www.scma.com).

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Purchasing Managers' Index® (PMI®) surveys are now available for over 30 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 [www.markit.com/economics](http://www.markit.com/economics).

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