

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

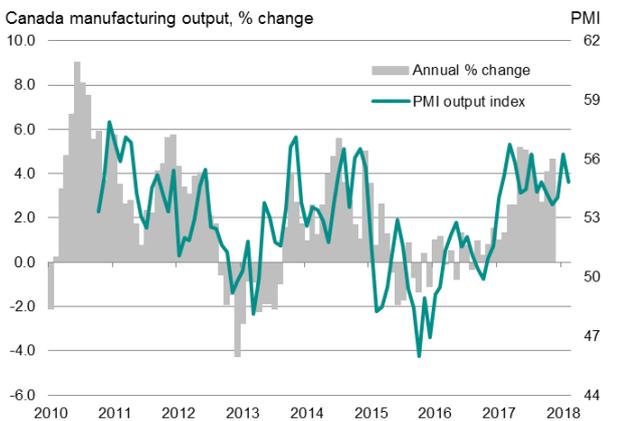
Manufacturing rebound continues, helped by fastest rise in export sales since November 2014

Key findings:

- Robust increases in output, new orders and employment
- Input buying expands at strongest rate since May 2011
- Supplier delivery times lengthen again in February

Data collected February 12-22

IHS Markit Canada Manufacturing PMI



Sources: IHS Markit, StatCan.

February data pointed to a relatively strong improvement in overall business conditions, which continued the positive start to 2018 for the manufacturing sector. Robust rises in output and new orders contributed to the sharpest pace of job creation for six months.

At the same time, input buying increased to the largest extent since May 2011, driven by a combination of higher workloads and efforts to boost inventories. Stronger demand for manufacturing inputs and stretched transport capacity resulted in a further sharp lengthening of suppliers' delivery times during the latest survey

period.

At 55.6 in February, the seasonally adjusted **IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI™)** eased only slightly from 55.9 in January and remained well above the 50.0 no-change threshold. Improving business conditions have been recorded in each month since March 2016.

Manufacturing production growth slowed from January's six-month peak, but remained stronger than the average since the survey began in 2010. Robust rises in output levels were driven by another marked improvement in new business intakes in February. Survey respondents cited improving underlying demand and greater sales to export clients in particular.

New orders from abroad expanded at the strongest rate since November 2014, which manufacturers linked to increased sales to US clients and a more supportive global economic backdrop. However, there were signs of capacity pressures across the Canadian manufacturing sector in February, with backlogs of work accumulating at the steepest pace in almost seven-and-a-half years of data collection. Anecdotal evidence suggested that greater workloads and supply chain bottlenecks were a factor leading to increased volumes of unfinished work.

Efforts to boost operating capacity led to a robust rate of employment growth and the fastest rise in input buying for almost seven years in February. Strong demand for materials in turn led to one of the steepest declines in supplier performance since early-2011. A number of manufacturers noted that new US trucking regulations had added to capacity

issues among vendors.

Meanwhile, intense cost pressures persisted in February, with the rate of input price inflation still close to the 43-month peak seen in November 2017. Higher raw material prices and rising staff salaries also contributed to another sharp rise in factory gate charges.

Regional highlights:

- All regions experienced manufacturing growth in February, led by Alberta & British Columbia
- Quebec posted its fastest rise in export sales for just over four years
- Staff recruitment was strongest in Alberta & British Columbia, followed by Ontario

Comment:

Tim Moore, Associate Director at survey compilers IHS Markit:

“February data indicates that the manufacturing sector maintained its positive start to 2018. Job creation reached a six-month high and input buying was the strongest since early-2011, suggesting that goods producers are gearing up for a sustained improvement in demand conditions.”

“Canadian manufacturers widely commented on feeling a positive impact from the strengthening U.S. economy, which meant that export sales performed particularly well in February.”

“However, stronger demand for raw materials resulted in intense pressure on manufacturing supply chains, especially in relation to transportation capacity. Manufacturers noted that logistics bottlenecks had pushed up input costs and encouraged inventory building in February. Meanwhile, greater operating expenses and resilient demand meant that factory gate price inflation held close to its highest seen for seven years.”

Christian Buhagiar, President and CEO, SCMA

“Canadian manufacturers continue to experience robust growth conditions. Of particular note and a key positive development was the pick up in export order books in February. The latest increase in new work from abroad was the fastest for just over three years, helped by supportive global economic conditions and rising demand from U.S. markets in particular.”

“A sustained expansion of manufacturing workloads encouraged firms to take on additional staff and expand capacity in February. However, there were signs of growing pains across the manufacturing sector, with sharply rising supplier lead-times contributing to the largest accumulation of incomplete work since the survey began in 2010.”

“Purchases of raw materials increased at the strongest rate for almost seven years, which indicates that manufacturers intend to boost production schedules and rebuild inventories in the months ahead.”

“The latest survey data revealed that the manufacturing rebound remained broad-based by region. An export-led recovery in Quebec was among the standout developments in February, with manufacturers reporting the strongest upturn in new work from abroad since the start of 2014.”

-Ends-

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Note to Editors:

The IHS 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 IHS 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.

IHS 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 IHS Markit. Please contact economics@ihsmarkit.com.

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