

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

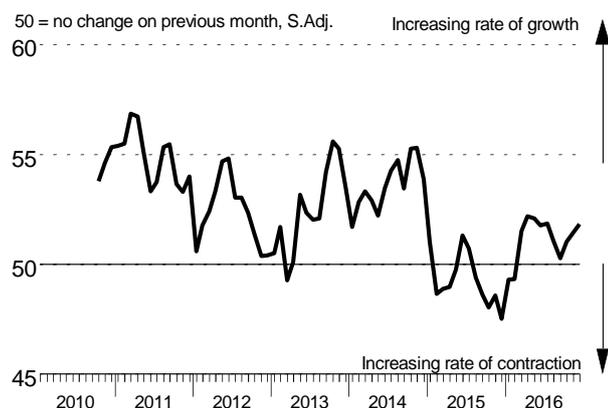
### New order growth hits two-year high in December

#### Key findings:

- Manufacturing PMI rises to 51.8, led by stronger new order growth
- Modest increase in production volumes
- Fastest rate of output charge inflation since May 2014

Data collected December 6-16

#### Markit Canada Manufacturing PMI



Source: IHS Markit

December data highlighted a positive end to 2016 for the Canadian manufacturing sector, led by the fastest upturn in incoming new work for two years. The latest survey also pointed to the strongest pace of production growth since July and a sustained rise in payroll numbers. However, input cost inflation accelerated for the third month running, driven by higher prices for imported materials, especially metals. Pressure on operating margins resulted in the steepest rise in factory gate prices since May 2014.

At 51.8 in December, up from 51.5 in November, the seasonally adjusted **Markit Canada Manufacturing Purchasing Managers' Index™ (PMI™)** signalled a modest improvement in overall

business conditions across the manufacturing sector. The latest reading was the strongest since July and well above the survey-record low seen at the same time in 2015 (47.5). Stronger business conditions largely reflected a sustained rebound in new order growth in December, alongside rising production volumes and continued job creation among manufacturing firms.

Output growth picked up to a five-month high in December, which survey respondents mainly linked to improving demand conditions. Reflecting this, new business levels rose at the steepest pace for two years, with manufacturers commenting on greater spending among clients in the energy and automotive sectors. Export sales increased only marginally, although the upward trend in December signalled a continued rebound from the declines seen during the third quarter of 2016.

Canadian manufacturers reported another increase in their staffing levels during December, which extended the current period of growth to three successive months. Additional staff recruitment was driven by rising production schedules, which in turn contributed to a further slight reduction in backlogs of work at the end of 2016.

Post-production inventories decreased in December, which continued the downward trend seen in each month since April. Some firms noted that stronger-than-expected sales growth had led to lower warehouse stocks of finished goods at the end of 2016. Pre-production inventories were also depleted across the manufacturing sector, although the rate of decline was only marginal. Meanwhile, manufacturers reported longer delivery times from suppliers in December, which some attributed to rail freight delays.

Input cost inflation reached its strongest for almost

two-and-a-half years in December, which manufacturers linked to exchange rate factors and rising commodity prices in general. Mirroring the upward trend for operating costs, latest data signalled the steepest rise in output charges since May 2014.

### Regional highlights:

- Alberta & B.C. recorded the fastest rise in new orders since November 2013
- Manufacturers in Quebec reported a sustained fall in output, led by weaker export sales
- For the first time since February 2015, all regions posted a rise in factory gate prices

### Comment:

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

*“Canada’s manufacturing sector ended the year on a much stronger footing than it started, with production volumes and new orders both returning growth territory. Survey respondents attributed the latest improvement in manufacturing sales to greater demand from domestic clients, especially those in the energy and automotive sectors.*

*“December data pointed to widening provincial disparities in growth momentum. A steeper rebound in manufacturing output across Alberta & B.C. contrasted with relatively subdued growth patterns elsewhere, most notably an export-led slowdown in Quebec.”*

**Mike Whelan, Chair, SCMA National Board:**

*“Stronger new business growth and a rebound in energy sector spending underpinned the improved performance of Canada’s manufacturing sector at the end of 2016. The latest upturn in new orders was the fastest in two years, despite a relatively subdued contribution from export sales. Moreover, the combination of increasing orders and depleted inventories in December bodes well for output growth heading into 2017.*

*“However, manufacturers continue to face longer delivery times and higher prices for raw materials, with input cost inflation now close to a two-and-a-half year peak.*

*“December’s survey reveals that Western Canada is driving the current upturn in manufacturing conditions. Production growth across Alberta & B.C. hit a two-year high in December, helped by the largest rise in incoming new orders since late-2013.”*

-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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