

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

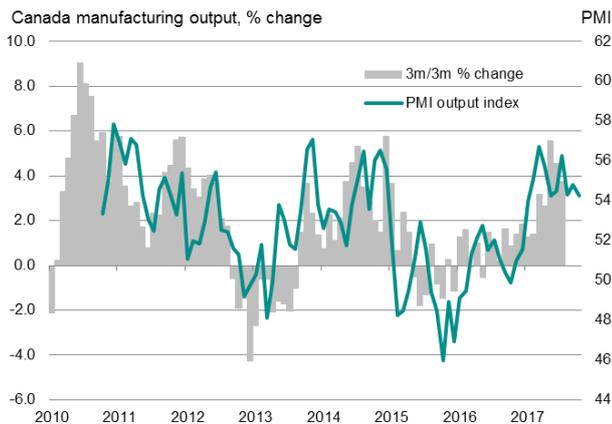
Slowest rise in new orders in year-to-date

Key findings:

- Weaker growth of total new business, while new export orders decline
- Hurricane disruption leads to higher input costs and longer delivery times
- Marked job creation recorded

Data collected October 12-25

IHS Markit Canada Manufacturing PMI



Sources: IHS Markit, StatCan.

Growth in the Canadian manufacturing sector showed signs of easing in October, with both output and new orders rising at weaker rates. New export orders decreased for the first time in a year.

Disruption caused by Hurricane Harvey in the U.S. continued to impact the sector, leading to longer suppliers' delivery times and increased costs for raw materials.

The seasonally adjusted **IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI™)** dipped to 54.3 in October from 55.0 in September. Although continuing to signal stronger business conditions at the start of the fourth quarter, the latest improvement in the health of the

sector was the weakest since January.

Both output and new orders rose at slower rates during October. Production increased for the twelfth successive month, but at the weakest pace since January. Where output rose, this was mainly linked to higher new orders.

Total new business expanded for the thirteenth month running. In contrast, new export orders declined, the first reduction for a year. That said, the rate of contraction was fractional.

Data pointed to pressure on capacity in the manufacturing sector, with backlogs of work rising for the sixth time in the past seven months.

In response to pressure on capacity, firms stepped up their hiring activities in October. Employment rose at a marked pace, extending the current sequence of job creation to 13 months. In the meantime, firms used inventories to help fulfil orders. As a result, stocks of finished goods decreased solidly again.

The supply of raw materials continued to be impacted by the effects of Hurricane Harvey in the U.S. Resulting shortages of raw materials led to a substantial lengthening of suppliers' delivery times and one that was surpassed only by the survey record in March 2011.

Supply shortages fed through to increases in the cost of raw materials. Input prices rose sharply, with the rate of inflation unchanged from September. Manufacturers subsequently passed on some of these price rises to their clients, with charges up solidly again. Purchasing activity continued to rise in October, but at the weakest pace in 2017 so far as some firms opted to use existing inventories to

support output growth. As a result, stocks of purchases decreased at the fastest pace since January 2016.

Firms remained confident that output will increase over the coming year, with sentiment little-changed from September.

Regional highlights:

- All regions experienced a slower improvement in manufacturing business conditions than those recorded during September.
- Alberta & British Columbia remained by far the best performing region for manufacturing growth.
- Manufacturing payroll numbers rose at the fastest pace for over six years in Alberta & British Columbia.
- Ontario continued to record relatively weak manufacturing growth, partly reflecting subdued export sales.

Comment:

Tim Moore, Associate Director at survey compilers IHS Markit:

“Business conditions improved at a slower pace in the manufacturing sector at the start of the fourth quarter, as softer rises in output and new order volumes dragged down the headline PMI figure. Weaker growth in manufacturing workloads in part reflected a dip in export sales for the first time since October 2016.

“In contrast to export sales, domestic demand remained on an upward path during October, helped by greater spending among oil and gas companies. The improvement in sales to energy-related clients meant that Western Canada continued to outperform. Manufacturers based in Alberta & British Columbia saw another robust improvement in business conditions during October, which was underpinned by the steepest rate of job creation since the third quarter of 2011.”

Christian Buhagiar, President and CEO, SCMA

“Manufacturing growth was sustained in October, but there were signs that momentum has eased back from the peaks seen during the summer. The latest expansion of production volumes was the slowest since the start of 2017, reflecting a more modest upturn in new orders. Export sales were particularly subdued, meaning that manufacturers were reliant on domestic demand to drive growth during October.

“Meanwhile, supply chain issues persisted as hurricane-related disruptions resulted in longer lead times for raw materials and upward pressure on input prices.

“The main bright spot in October was the continued robust growth experienced in Western Canada. Manufacturers in Alberta & British Columbia reported the fastest expansion of employment numbers for over six years as firms sought to boost capacity in response to rising demand.”

-Ends-

For further information, please contact:**IHS Markit**

Tim Moore, Associate Director
Telephone +44-1491-461-067
Email tim.moore@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone +44-207-260-2234
E-mail joanna.vickers@ihsmarkit.com

Supply Chain Management Association

Lynne Coles
Vice President, Growth and Chief Marketing Officer
Telephone 416-542-3860
Email coles@scma.com

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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