

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 09:30 (EDT) / 13:30 (UTC) October 3rd 2016

Markit Canada Manufacturing PMI™

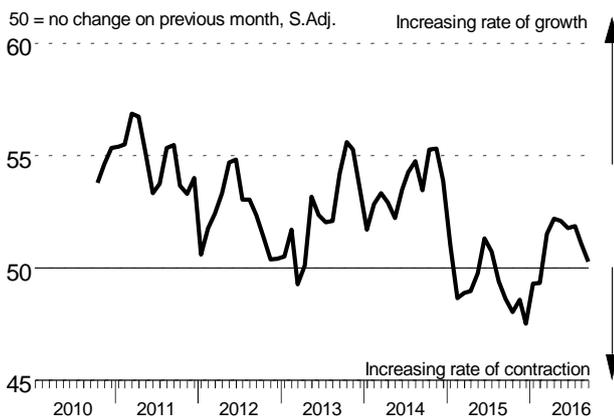
Subdued manufacturing conditions continue in September

Key findings:

- Production volumes close to stagnation
- New orders fall for first time since February
- Marginal drop in employment during September

Data collected September 12-26

Markit Canada Manufacturing PMI



Source: IHS Markit

Canadian manufacturers signalled another slowdown in growth momentum during September, with production volumes expanding at the weakest pace for seven months. The latest survey also pointed to a renewed decline in overall new business volumes, partly driven by a sharper drop in export sales. Subdued demand conditions contributed a slight fall in employment numbers and a greater degree of inventory drawdown in September.

At 50.3 in September, down from 51.1 in August, the **Markit Canada Manufacturing Purchasing Managers' Index™ (PMI™)** pointed to only a marginal improvement in overall business conditions and the slowest pace of recovery since the upturn began in March. Lower new order volumes and reduced payroll numbers were the

main negative influences on the headline index, alongside the sharpest drop in pre-production inventories since the start of 2016.

September data signalled only a marginal increase in **manufacturing production**, and the rate of expansion continued to soften from the 11-month peak recorded in May. Survey respondents noted that lower levels of incoming new work and renewed efforts to streamline inventories had acted as brakes on output growth at their plants.

Manufacturers indicated a drop in **new work** for the first time since February, although the pace of decline was only fractional. Anecdotal evidence cited generally subdued client demand and lower spending on investment goods in particular. Moreover, reduced levels of **new business from abroad** were recorded for the third month in a row, and the rate of contraction was one of the fastest seen since early-2015.

Signs of a slowdown in client spending resulted in more cautious inventory policies during September. Reflecting this, **stocks of finished goods** were depleted for the sixth consecutive month and the decline in **pre-production inventories** was the sharpest recorded since the start of the year. Manufacturers also pointed to lower **staffing levels** in September, which ended a six-month period of sustained jobs growth. Survey respondents mainly commented on the non-replacement of voluntary leavers. This contributed to a further rise in **unfinished work**, with the rate of backlog accumulation the steepest since October 2014.

Input buying decreased for the third successive month in September, but this did not prevent a further marked deterioration of vendor performance. Moreover, latest survey data indicated that **supplier lead-times** lengthened to the greatest degree since June, which manufacturers linked to

low stocks and shipping delays.

Meanwhile, **input cost inflation** was the slowest recorded so far in 2016. Reduced cost pressures allowed for a return to falling **factory gate prices** and, although only marginal, the latest drop in output charges was the fastest since December 2015.

Regional highlights:

- Manufacturing output growth was largely confined to Alberta & B.C. and Quebec
- Ontario recorded a decline in production volumes for the first time in just over three years
- All regions recorded a moderate fall in new export sales during September

Comment:

Tim Moore, Senior Economist at survey compilers IHS Markit:

“September’s survey data highlight another month of disappointingly weak manufacturing output growth, and the renewed drop in new orders raises concerns that this soft patch may continue into the final quarter. Sluggish external demand appears to have held back new business gains across the manufacturing sector, in contrast to the exports outperformance at the start of 2016.

“At the same time, backlogs of work accumulated at the fastest pace for almost two years, which is a sign that temporary factors acted as a headwind to production growth during September. In particular, supplier lead-times lengthened markedly since August, despite subdued input buying, with some manufacturers citing global shipping disruptions and a squeeze on stocks among vendors.”

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Cheryl Farrow, president and chief executive officer, SCMA:

“Business conditions remained challenging for Canadian manufacturers in September, partly due to subdued demand for exports. This contributed to Canada’s first fall in new orders for seven months and the slowest upturn in production since the recovery began in March. Although Western Canada bucked the trend and did see its first growth in new orders since January 2015.

“Manufacturers responded to the softer demand by drawing down inventories and cutting back on staff hiring during September. Meanwhile, supplier performance deteriorated at one of the fastest rates seen over the past year-and-a-half, which some manufacturers linked to transportation disruptions and global shipping delays in particular.”

-Ends-

Supply Chain Management Association

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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@markit.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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