

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

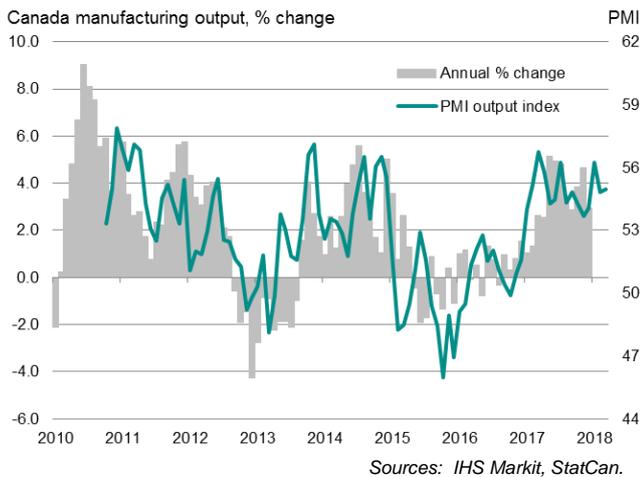
Strong manufacturing growth maintained, but cost inflation highest since April 2014

Key findings:

- Robust rises in output and new orders in March
- Sharp increase in average cost burdens
- Input buying expands at fastest pace since April 2011

Data collected March 12-23

IHS Markit Canada Manufacturing PMI



Canadian manufacturers signalled a robust improvement in business conditions during March, which continued the positive trends seen throughout the first quarter of 2018.

Relatively strong rates of output and new order growth resulted in another marked rise in employment numbers, alongside the fastest upturn in purchasing activity for almost seven years. Supply chain pressures remained intense in March, which encouraged manufacturers to build safety stocks and led to the greatest rise in pre-production inventories since May 2012.

Adjusted for seasonal influences, the **IHS Markit**

Canada Manufacturing Purchasing Managers' Index® (PMI™) registered 55.7, little-changed from 55.6 in February and above the neutral 50.0 threshold for the twenty-fifth consecutive month.

The headline PMI reading in March was supported by a robust and accelerated rise in production volumes across the manufacturing sector. A number of survey respondents noted that strong client demand had resulted in efforts to boost production capacity at their plants.

New order volumes increased at a robust pace in March, which marked eighteen months of sustained expansion. Anecdotal evidence suggested that greater sales to domestic and export clients had underpinned the latest upturn in new business intakes. There were also some reports that clients had brought forward spending in response to the prospect of factory gate price rises related to higher raw material costs.

March data pointed to sustained pressure on operating capacity across the manufacturing sector, as highlighted by another solid rise in backlogs of work. A number of survey respondents noted that sales growth had outstripped production capacity at their plants in recent months.

Input buying increased at a sharp and accelerated pace in March, with the rate of expansion the steepest since April 2011. Higher levels of purchasing activity were linked to a combination of rising production and efforts to build safety stocks. Reflecting this, inventories of manufacturing inputs were accumulated at the sharpest rate for almost six years. At the same time, suppliers' delivery times lengthened markedly, which was primarily attributed to transportation issues and capacity

constraints.

Meanwhile, input cost inflation picked up to its fastest for almost four years in March, which firms mainly linked to higher prices for steel and chemicals. Increased operating expenses in turn led to another robust rise in factory gate charges, although the rate of inflation eased to a three-month low in March.

Regional highlights:

- Robust rates of manufacturing growth recorded in all regions during March
- Alberta & British Columbia continues to experience the fastest upturn in output
- Manufacturers in Quebec saw the strongest rise in new orders since May 2017
- Ontario posted the steepest rate of factory gate price inflation

Comment:

Tim Moore, Associate Director at survey compilers IHS Markit:

“Robust manufacturing growth was achieved again in March, driven by strong domestic sales as well as supportive global economic conditions. The forward-looking survey indicators also remain positive, most notably the elevated rates of input buying and inventory accumulation reported across the manufacturing sector in March.

“Intense supply chain pressures and sharply rising raw material costs have been key headwinds for Canadian manufacturing companies so far this year. The latest survey indicated that input price inflation was the highest for around four years, reflecting strong cost pressures for end users of steel and chemicals in particular.”

Christian Buhagiar, President and CEO, SCMA

“March’s improvement in business conditions rounds off a strong first quarter of the year for the manufacturing sector. Survey respondents reported robust increases in output, new orders and employment, helped by a sustained upturn in underlying demand so far in 2018.

“Manufacturers remain relatively upbeat about their growth prospects for the coming 12 months, reflecting healthy order books and ongoing efforts to boost production capacity. The main concern at present is overstretched supply chains, as highlighted by another steep lengthening of delivery times for raw materials and semi-manufactured inputs.”

“Purchasing activity increased at the fastest pace for almost seven years in March, driven by strong demand for inputs and efforts to build up safety stocks. Adding to strains on supply chain capacity, there were reports that some manufacturers had sought to bring forward input buying in the hope of alleviating future price increases by suppliers.

“Manufacturers commented on particularly marked cost pressures for chemicals and steel-related items in March. Measured overall, the latest rise in input prices was the steepest since April 2014, which contributed to another robust increase in manufacturers’ charges at the factory gate.”

-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.

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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