

IHS Markit Canada Manufacturing PMI®

Operating conditions strengthen amid solid output growth

Key findings

Quicker uplifts in output and employment during February

Inflationary pressures continue to mount

Delivery times lengthen markedly

Data were collected 10 - 22 February 2022.

A solid uplift in output and new orders supported an improvement in business conditions in Canada's manufacturing sector during February. Output, new orders and purchasing activity all rose solidly while favourable demand conditions underpinned job creation. There were, however, ongoing supply-side issues with material scarcity leading to lengthy lead times. As a result, severe capacity pressures emerged, and backlogs rose sharply.

On the cost front, sharp price pressures continued with input price inflation accelerating in February. Firms passed on part of the burden in an attempt to protect profit margins.

The headline seasonally adjusted IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI®) registered at 56.6 in February, up from 56.2 in January. The latest result signalled the strongest uptick for three months, and one that continued the run of growth which began July 2020.

A key driver of the latest improvement was a quicker uplift in output. Survey respondents linked rising production volumes to higher unit orders, and greater employment. Similarly, new orders rose sharply in February amid new product launches, and greater demand following a further relaxation of COVID-19 restrictions. Contrary to the trend for domestic sales, exports fell for the first time in over a year.

A solid uptick in production schedules was supported by additional staff recruitment across the manufacturing sector, which extended the current period of job creation to 20 successive months. Despite this, latest data highlighted severe capacity pressures with backlogs rising sharply, albeit at the softest pace for eight months.

At the same time, vendor performance deteriorated in February amid poor transportation conditions, shipping delays and material shortages. Overall, delivery times lengthened markedly, and to the

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Canada Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Shreeya Patel, Economist at IHS Markit, said:

"February data revealed another expansion in Canada's manufacturing sector with the headline PMI improving during the month. Growth was underpinned by a quicker expansion in output, following sharp uplifts to headcounts and supportive domestic demand conditions."

"That said, supplier delivery times were marked once again, a common theme since the pandemic hit in March 2020. Material shortages, poor transportation conditions and price hikes have forced firms to plan in advance, but productivity has been somewhat hit."

"For now, businesses in Canada are coping with external pressures, but issues surrounding rising costs and supply are likely to persist for the duration of the year. The picture for the pandemic continues to improve, however."

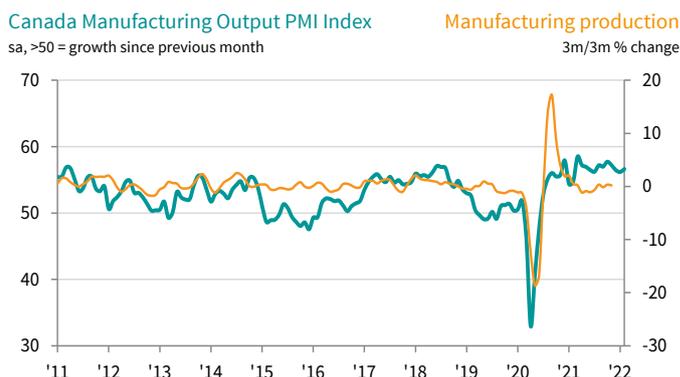
fifth-greatest extent in the survey's 11-and-a-half-year history.

In line with higher workloads, firms increased their buying activity during the month, albeit at the softest pace for a year. Meanwhile, efforts to protect against future delivery delays and price shocks drove a marginal uplift in pre-production inventories. Stocks of finished goods fell solidly, however.

Intense cost pressures persisted with the rate of input price inflation robust in February. Higher raw material prices were overwhelmingly linked to the latest surge, though there were also reports of rising transportation, energy and fuel costs.

Subsequently, and in a bid to protect profits, charges levied by manufacturers in Canada rose sharply. The overall rate of inflation was robust, and among the steepest in the series history.

Looking ahead, firms remained widely upbeat about their output expectations for the next 12 months. Sentiment was underpinned by hopes that supply issues would ease and virus-related restrictions would end.



Sources: IHS Markit, StatCan.

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Survey methodology

The IHS Markit Canada Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

Data were collected 10 - 22 February 2022.

Data were first collected October 2010.

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Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html