News Release

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S&P Global Canada Manufacturing PMI®

Manufacturing conditions continue to deteriorate

Key findings

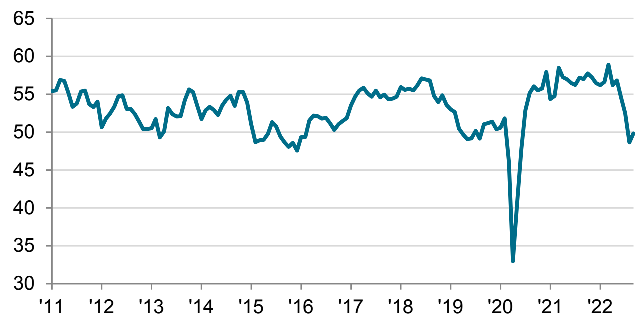
Output and new orders fall for third month running...

... but rates of decline ease in September

Overall input price inflation slows to 22-month low

Canada Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12 - 26 September 2022.

Latest data for Canada's manufacturing sector signalled another difficult month with output and new orders falling once again. Demand was hit by interest rate hikes and client uncertainty while firms grew less optimistic over their output expectations for the year-ahead. Subsequently, staffing levels, purchasing activity and inventory holdings all fell for the second month in a row.

There were, however, positives on the price front with both input price and output charge inflation easing to 22-month lows. There were still reports of rising wage and material prices, however.

The seasonally adjusted S&P Global Canada Manufacturing Purchasing Managers' Index® (PMI®) registered at 49.8 in September, up from 48.7 in August, indicating a second monthly deterioration in manufacturing performance. The latest fall was only slight, however, with the headline figure improving from that seen in August and only fractionally below the 50.0 neutral value.

A solid reduction in new orders was central to the latest decline. According to panel comments, interest rate hikes, and weak macroeconomic conditions led clients to refrain from placing orders. A similar trend was seen with regards to exports which declined for the fourth month running. That said, the rate of contraction in both cases eased from those seen in the previous survey period.

Production levels in Canada's manufacturing sector fell for the third month running in September with manufacturers attributing the fall to a subdued demand environment and a lack of material availability. That said, the rate of decline was modest and eased notably from that in August.

With new orders falling, there were further signs of spare capacity in Canada's manufacturing sector. Backlogs fell at a solid and accelerated pace.

The lack of pressure on operating capacity across Canada's

Comment

Commenting on the latest survey results, Shreeya Patel, Economist at S&P Global Market Intelligence said:

"The close of the third quarter yielded a mixed bag of results for Canada's manufacturing sector with a back-to-back deterioration in operating conditions recorded during September. Output and new orders continued to fall with the sector still feeling the repercussions of material shortages and delivery delays. Demand was once again hit by client hesitancy in the wake of rising interest rates and weak macroeconomic conditions. This led to a third monthly build-up of finished items held at Canadian manufacturing firms; the longest run in over eight years.

"More concerning news came on the sentiment front with firms less optimistic about output levels in the next 12 months. Anecdotal evidence suggested that Canadian companies feared a recession which had led firms to re-evaluate their growth projections.

"That said, not all is gloom and doom with latest data also pointing to a slowdown in inflation. Both output charge and input price inflation moderated to 22-month lows and were only just above their respective long-run series averages, suggesting tighter monetary policies are having the desired effect on price pressures."

manufacturing sector led firms to cut their headcounts, for the second month in a row. Canadian firms also attributed job shedding to cost-saving efforts.

Sustained reductions in output and difficulties sourcing some inputs led to a decline in purchasing activity in September. Stocks of pre-production inventories also continued to decrease.

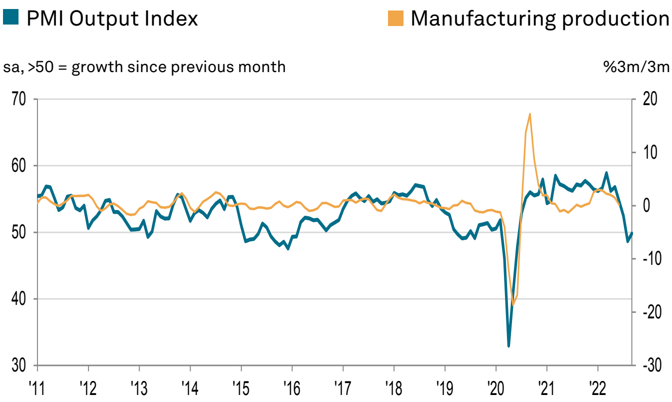
With demand falling sharply, firms recorded an accumulation in post-production inventory holdings. The latest increase signalled three successive months of expansion, the longest sequence of growth for over eight years.

Meanwhile, vendor performance deteriorated at the end of the third quarter. That said, lead times lengthened to the least extent for over two-and-a-half years.

Looking ahead, firms were still optimistic that their output levels would grow over the coming 12 months, but the degree of sentiment was the fifth-weakest since the question was first put forward in July 2012. Anecdotal evidence pointed to greater concerns over a recession. Rising interest rates and weak demand also weighed on confidence.

In positive news, Canadian manufacturing firms registered the weakest inflation of input costs in 22 months, with the rate of increase slowing for the third month running. Despite this, panellists highlighted a number of price rises, including fuel, wage and material charges.

Firms continued to pass on higher cost burdens on to their clients, though selling prices also rose at the weakest pace for 22 months.



Sources: S&P Global, StatCan.

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Survey methodology

The S&P Global Canada Manufacturing PMI® is compiled by S&P Global 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. Data collection began in October 2010.

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.