June data suggested that the Canadian manufacturing recovery stepped down a gear at the end of the second quarter, with output, new business and employment growth all easing slightly since May. Moreover, new export orders were virtually unchanged in June, which contrasted with the solid contribution to growth seen earlier in 2016. At the same time, stocks of finished goods dropped at a survey-record pace in June, with manufacturers noting that subdued client demand and uncertainty about the economic outlook had encouraged tighter inventory management at their plants.

The headline figure derived from the survey is the RBC Canadian Manufacturing Purchasing Managers’ Index™ (PMI™), which is designed to provide timely indications of changes in prevailing business conditions in the Canadian manufacturing sector. PMI readings above 50.0 signal an improvement in business conditions, while readings below 50.0 signal deterioration.

Adjusted for seasonal influences, the RBC Canadian Manufacturing PMI registered 51.8 in June, down from 52.1 in May. Although the index posted above the 50.0 no-change value for the fourth month running, the latest reading signalled only a marginal upturn in overall business conditions and the weakest pace of improvement since March.

A slowdown in output growth from May’s 11-month high was one of the key factors weighing on the headline PMI during June. The latest expansion of production volumes was the weakest since March, which manufacturers linked to softer client demand and efforts to reduce finished goods inventories at their plants. Post-production stocks have now fallen in each month since April and the latest reduction was the steepest for over five-and-a-half years.

Canadian manufacturers indicated a marginal upturn in overall new business volumes in June. The latest survey suggested that domestic sales were a key driver of growth, as new export work was broadly unchanged over the month. Higher levels of business underpinned further staff recruitment across the manufacturing sector in June, which extended the current period of net job creation to four months. However, the pace of employment growth eased slightly since May amid reports of heightened uncertainty about the business outlook and a lack of pressure on operating capacity.

Survey respondents pointed to ongoing supply chain pressures in June, with average lead-times from vendors lengthening to the greatest degree since December 2014. This was linked to unusually low stocks at suppliers and a marginal upturn in input buying among manufacturers. Despite a rise in purchasing activity, latest data signalled that pre-production inventories were broadly unchanged over the month, which firms mainly linked to cautious stock policies at their plants.

June data signalled a return to rising factory gate charges among Canadian manufacturers, although the rate of inflation was only marginal. A number of firms noted that subdued underlying demand had acted as a brake on output charge inflation and placed pressure on margins. Moreover, higher steel and fuel prices contributed to a robust rise in average cost burdens in June. The latest increase in overall input prices was the fastest recorded since March.
New business growth was maintained across the manufacturing sector in June, although the pace of expansion slowed further from April’s 16-month peak. The seasonally adjusted New Orders Index has now posted above the 50.0 no-change mark for four months running, but the latest reading was the weakest seen over this period. Survey respondents mainly commented on subdued underlying business conditions in June.

In line with the trend for new work, latest data signalled a rise in production volumes for the fourth consecutive month, but the pace of expansion slowed from May’s recent peak. The seasonally adjusted Output Index eased to its lowest since March and indicated only a marginal increase in manufacturing production.

Canadian manufacturers added to their payroll numbers in June, which survey respondents linked to greater workloads and renewed efforts to boost operating capacity. The seasonally adjusted Employment Index was little-changed from May and remained close to its highest recorded over the past year-and-a-half.

June data signalled a sharp and accelerated deterioration in vendor performance. Adjusted for seasonal influences, the Suppliers’ Delivery Times Index indicated that vendor lead times lengthened to the greatest degree since December 2014. Longer delivery times were mainly linked to rising demand for manufacturing inputs and unusually low stocks among suppliers.

Input buying remained stable across the manufacturing sector in June, as highlighted by the seasonally adjusted Stocks of Purchases Index posting broadly in line with the 50.0 no-change value. Reports from survey respondents suggested that uncertainty about the demand outlook had contributed to cautious inventory management policies in recent months.
New export sales stabilized in June, following a slight reduction during the previous month. However, the seasonally adjusted New Export Orders Index remained well below the 16-month high recorded in March. While some manufacturers commented on greater sales to U.S. and European clients, there were also reports that subdued business conditions in emerging markets had weighed on new orders from abroad.

Manufacturers recorded a sharp and accelerated reduction in post-production inventories during June, which extended the current period of decline to three months. Adjusted for seasonal influences, the Stocks of Finished Goods Index pointed to the steepest rate of contraction since the survey began in October 2010. Panel members widely commented on deliberate stock reduction policies at their plants.

June data highlighted another reduction in outstanding work among Canadian manufacturers. The seasonally adjusted Backlogs of Work Index has registered below the 50.0 no-change mark in each month since December 2014, but the latest reduction was only marginal and the weakest for three months.

The seasonally adjusted Output Prices Index signalled a return to rising factory gate prices across the manufacturing sector in June, although the rate of inflation was only marginal. Anecdotal evidence suggested that subdued client demand continued to place pressure on operating margins.

The latest survey indicated a robust and accelerated increase in average cost burdens at manufacturing firms. Adjusted for seasonal influences, the Input Prices Index picked up to a three-month high. Survey respondents widely reported higher prices for steel and fuel in particular. A number of firms also cited exchange rate depreciation as a factor behind higher raw material prices.

Adjusted for seasonal influences, the Quantity of Purchases Index registered above the 50.0 no-change mark for the fourth consecutive month in June. The latest reading signalled a marginal rise in input buying among manufacturing firms, which was mainly linked to greater production volumes. Some panel members noted that efforts to streamline inventories had acted as a headwind to purchasing activity.
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SCMA was formed in 2013 through the amalgamation of the Purchasing Management Association of Canada and Supply Chain and Logistics Association of Canada. With a combined history of more than 140 years, today the association embraces all aspects of strategic supply chain management, including: purchasing/procurement, strategic sourcing, contract management, materials/inventory management, and logistics and transportation.

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The RBC Canadian Manufacturing Purchasing Managers’ Index™ (PMI™), produced by Markit and in association with PMAC, 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 Canadian GDP.

Survey respondents 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 reporting ‘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 50.0 indicates an overall increase in that variable, below 50.0 an overall decrease. All data are seasonally adjusted.

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