

# Canada: When down is up.

## IVEY PMI (Jul) at 54.0, down from June's 58.9

**Canada's IVEY PMI rang the bell at 54.0 in July, back of June's 58.9 and slightly softer than the median at 55.5. Our own forecast was looking for a more pessimistic 52.0. And while the IVEY looks soft in comparison to the June reading, it is at 54.0 actually running well above the historical norms for the headline IVEY purchaser index at this time of year.**

For the IVEY PMI it is important to remember that the number set is not seasonally adjusted and that Canada is very much a seasonal economy.

A little historical context. On average, outside of particularly strong readings in 2006 and 2008, the July IVEY PMI has averaged just 50.2 with comparably little variation from the mean. At 54.0, the reading on the IVEY is actually particularly strong given the tendency of the index to pick up on the seasonal shutdowns that occur at this time of year in the auto sector. So while the IVEY is down in July from June, its is historically up on the average.

Details of the report are interesting. Employment index at 52.0 remains above the boom bust line although Statcan reported a decline in jobs for July. There in lies the Achilles heel of the PMI's - they give no insight into orders of magnitude but rather merely indicate to us where the balance of opinion lies.

So too are the details on inventories showing continued expansion at 53.2 although in both the case of employment and inventory indexes, the readings are softer than the previous month. Growing inventories are in keeping with the typical inventory build that takes place early on in the economic cycle.

The supplier delivery index drops to 39.0 from 43.5. What we have found is that the supplier delivery index has tended to dip to rather low levels (which is to say that deliveries were slower than the previous month) at times in which the economy has in the past struggled with capacity constraints. The index seems to rarely move above the boom/bust line at 50 outside of periods of economic slowdown and recession. It happens but the historical record - short as it is - tends to suggest that a low reading on the supplier delivery index corresponds with tightness in the economy. So too does it also correspond with the typically low readings for the month of July and the capacity constraints associated with plant closures for summer retooling which tend to crimp supply chains and stall deliveries.

That said, the Bank of Canada does not forecast a closing of the output gap before the end of 2011.

Deflation? Not for the balance of the 175 companies surveyed in the IVEY. The pricing index remains elevated at 56.0 although back of last months 58.3.

Net, net, the number is not out of context with the idea of continued economic growth, and continued economic recovery for Canada. That said, the number lacks the breadth (only 175 companies) or the history (begins January 1999) to really have a full understanding as to how the number set behaves under the conditions of economic recovery.

# Disclosure appendix

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