

Canada: IVEY PMI (Sep) at 70.3, up from 65.9

The second-highest reading for the index

Canada's IVEY PMI at 70.3 for September is the second-highest reading on the purchaser index since its inception in 1999 and well ahead of the Street median and our own forecast of 62. It is also well outside of the historical norm for September and out of context with what is viewed as the broader economic context of Canada or the developed world. Yet it is in keeping with the historically high print for August that we saw previously.

Nonetheless, this represents a spot of good news in what has tended to be a rather uncertain environment. And the good news is not reserved for the headline only. The employment index at 54.8, up from 51.6, is encouraging, so too the inventory index at 58.5, up from 55.3, and the supplier deliveries moving down to 44.4 from 47.5. For Canada, supplier deliveries tend to decline (slowing deliveries) during periods of heightened activity and capacity constraints and to rise during periods of economic recession.

Attempting to draw broader conclusions about the Canadian economy from the IVEY index is fraught with caution, in our view. It is important to recognize that the IVEY is but a narrow sampling of companies, 175 to be exact. It is not seasonally adjusted and it does not have an extensive history, as it was created in 1999). In the past, we have had little success in getting the IVEY to correlate very well with what is going on in the economy, outside of perhaps the very broadest of measures. And we need not forget the relative weakness of the diffusion indexes, and the absence of any sense for orders of magnitude. Though an overwhelming number of purchasers are indicating that purchases in the current month are higher than those last month, it may very well be that they are only incrementally so.

So before we can embrace the essence of the IVEY PMI, we will patiently await more-concrete numbers to support that. Today's IVEY reading does not budge us from our view that the Canadian economy is gearing down into a mode of incremental rates of growth, consistent with the overall environment for developed world economies. To be certain, the story can be torqued by the high-growth stories in the EM space via the commodities connection, but we believe it is important to recognize that Canada's primary point of economic attachment with the global economy continues to flow through the US.

Disclosure appendix

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