

Canada's IVEY PMI (Aug) sprouts horns, adopts attitude.

Headline purchaser index at 65.9 vs 54.0.

Canada's IVEY PMI (Aug) running a tad strong. 65.9 vs 54.0 Not that many put much stock in the IVEY PMI, a number that fails to really correlate well with any other economic metric in Canada, it is none-the-less landing in a market that may be more receptive to an upside data print given today's rate announcement out of the BoC and the post meeting statement that is seen cutting across the rug and traipsing onto the hawkish side of the dance floor.

At 65.9, the August purchaser index is well above the median at 55.5 and our own forecast looking for 55.0. It is also the highest print ever recorded for August since the inception of the number in 1999.

And while the PMI's are good at pinpointing inflection points and changes in sentiment they provide little insight into orders of magnitude. That said, it is a rather remarkable print for the IVEY although it is important to note that it is a small sample size (175 companies), with little history (1999), little understanding as to how the index performs under conditions of economic recovery and is not seasonally adjusted. Our inclination is not to get overly carried away with the high print despite our inclination to suggest the Canadian economy is in better shape than what is suggested by a 2.0%q/q ann growth rate generated in the second quarter.

Underneath the headline purchaser index, the sub components reflect a more cautious picture. Employment index slipped slightly from 52 to 51.6, while supplier deliveries jumped from 39 to 47.5. Supplier deliveries are counter intuitive. Low readings (slower deliveries) have in the past corresponded with periods of tight capacity constraints and high levels of activity in the economy while high readings on the supplier index have been associated with periods of economic slowdown (excess capacity opens up and the economic system is less stressed).

Inventories rose to 55.3 from 53.2 and under the auspices of economic recovery this would be expected to be seen as voluntary and contributing to the economic recovery profile for Canada in Q3. Sentiment on prices on the high side with the pricing index at 60.8 vs 56.0.

Net, net, while the market tendency is to romance the PMI's, there is a note of caution associated with this particular number set. Given the uncertain economic back drop that exists it is difficult to square the robustness of the headline number. What doesn't make sense to us, causes us to treat carefully and cautiously.

Disclosure appendix

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