Canada: Business Activity Appears to Be Ramping Up

Much like the ISM indexes in the United States, Canada’s Ivey-PMI index compiled by the Ivey Business School at Western University measures month-to-month changes in economic activity as indicated by a panel of purchasing managers from across Canada in all areas of activity, both public and private. The index features a primary question on changes in business purchases and secondary questions on employment, inventories, supplier deliveries and prices paid.

Since its inception, the Ivey-PMI index has rarely captured our attention in our analysis of Canada’s economy. The broad volatility of this index is the main reason for this, as it makes it more difficult to spot trends. That said, recent advances in the Ivey-PMI index have attracted attention, warranting a closer look.

The seasonally adjusted version of the Ivey-PMI index points to a major leap in April, to 71.5. This is an exceptionally high level, historically speaking. What’s more, this jump was preceded by a clear rise in the trend determined using the 6-month moving average. Besides the usual volatility in this index, a genuine improvement has been taking shape for the past few months. This suggests that business activity is ramping up. This improvement can also be seen in the secondary questions. The sub-index tied to employment is up, as are the prices paid and the supplier deliveries components. As graph 2 illustrates, increased business activity could also prompt businesses to hasten the pace of their investments.

**IMPLICATIONS**

Despite the lingering uncertainties about the North American Free Trade Agreement (NAFTA) renegotiations, non-residential investment could make a significant contribution to economic growth in the coming quarters. This should help sustain real GDP growth of about 2% throughout 2018.