

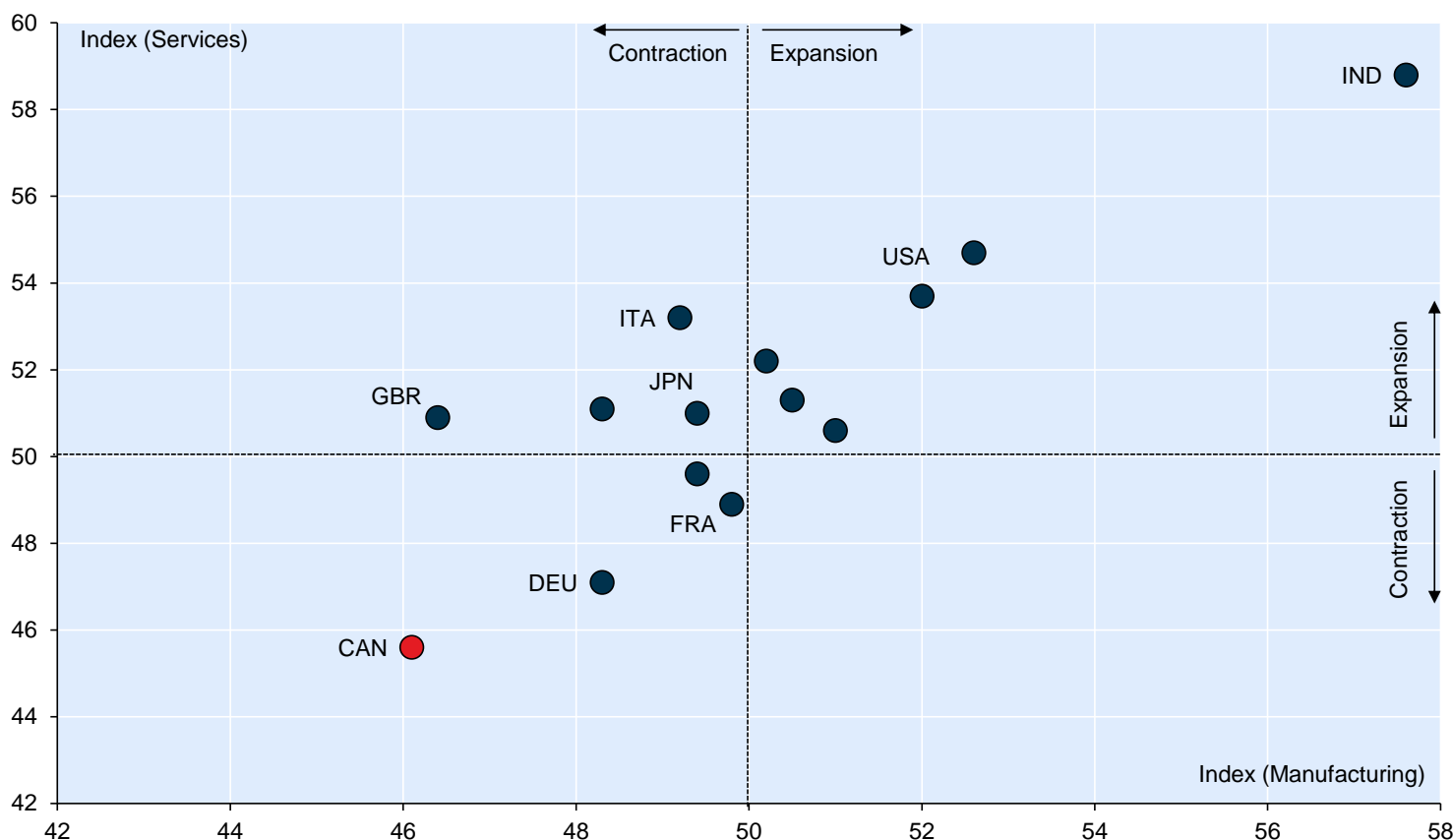
Canada Watch

By Taylor Schleich, Matthieu Arseneau and Noah Black

Earlier this week, we put the spotlight on Canada's manufacturing sector through the lens of S&P Global's manufacturing PMI ([link](#)). While improved from April, the index in May remained firmly in contraction territory and was the lowest among the now 30 published countries. Manufacturing comprises not quite 10% of national GDP so weakness here doesn't necessarily spell trouble for the broader Canadian economy. Unfortunately, the services sector, which makes up roughly three quarters of GDP, doesn't look much better. Indeed, S&P Global's Services PMI, released yesterday for the month of May, is also in contraction (45.6). The index technically improved relative to an ultra-downbeat April (41.5) but there was still a marked drop in activity and new business in the month. To make a bad situation worse, the reading is weak on an absolute *and* relative basis, as the Canadian reading was the weakest of all 14 countries whose services sector is covered by S&P Global. As today's Hot Chart shows, that's dead last in manufacturing *and* dead last in services, leaving Canada as clear outlier in this sample of key peers. Complicating matters, the report on Canada also flags an acceleration in input price inflation and the biggest rise in output prices in a year. That won't come as any comfort to the Bank of Canada, who left its policy rate on hold yesterday in light of tariff-related inflation risks. But while there may be cost pressures that stem from the disrupted trade environment, there are also disinflationary pressures associated with the economic slack that has accumulated and will continue to accumulate this year. On balance, we're less concerned about near-term inflation than we are for the health of the economy. As more data accrues over the next eight weeks, we expect the Bank of Canada to adopt a similar view allowing for a resumption of the rate cutting cycle in late July.

Canada: Tariff uncertainty is not only dragging down the factories

S&P Global Manufacturing and Services PMIs: May 2025



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