

PMI remains at lowest level in survey history as output stagnates in December

Key findings:

- RBC PMI remains at lowest reading since data collection began in October 2010
- Output broadly unchanged from November, while new orders increase only marginally
- Slowest rate of employment growth since January

The RBC PMI remained at its lowest level since data collection began in October 2010, signalling only a marginal improvement in Canadian manufacturing business conditions in December. Although new orders increased, partly reflecting greater demand and new product launches, output levels were broadly unchanged from November. Meanwhile, employment continued to increase, but the rate of job creation was at an 11-month low, and input prices rose at the slowest pace since July.

The headline figure derived from the survey is the RBC Canadian Manufacturing *Purchasing Managers' Index™ (PMI™)*, which is designed to provide timely indications of changes in prevailing business conditions in the Canadian manufacturing sector. PMI readings above 50.0 signal an improvement in business conditions, while readings below 50.0 signal deterioration.

After adjusting for seasonal variation, the RBC PMI was unchanged at 50.4 in December and signalled only a marginal improvement in overall business conditions. Meanwhile, the PMI average for the fourth quarter as a whole was 50.7, down from 52.8 in the third quarter, and was the lowest quarterly reading since data collection began in October 2010.

Canadian manufacturers received a larger volume of new orders in December, after broadly no change in November. Firms commented on greater client demand and the launch of new products. That said, the rate of growth was only marginal, with new export work falling for the second month running.

Despite the rise in new orders, output was broadly unchanged from one month earlier. Nonetheless, the flat production trend was an improvement from a modest reduction in the previous survey period. Concurrently, backlogs of work were depleted at a marked pace and stocks of finished goods rose, albeit the rate of inventory accumulation was only marginal.

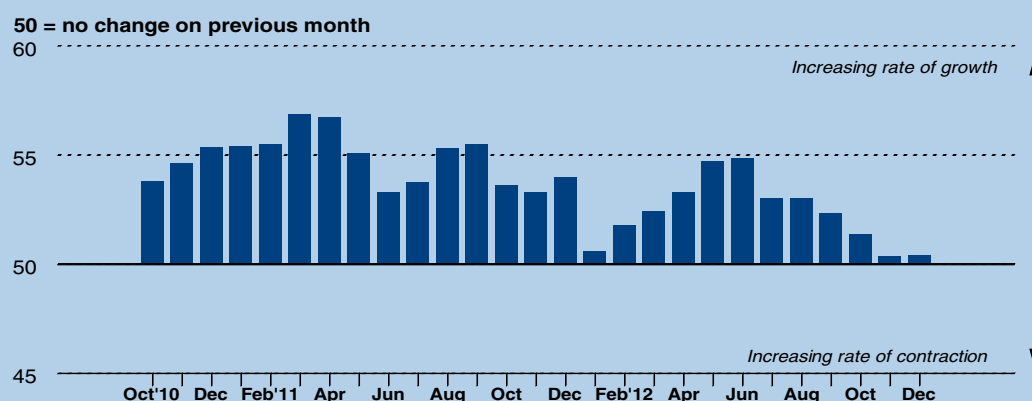
Employment in Canada's manufacturing sector increased further during December, with approximately 14% of firms hiring additional staff since November. Job creation has been reported in each month since February, but having slowed for the seventh month running, was the weakest in this sequence of growth.

A marginal increase in the quantity of purchases was reported by respondents in the latest survey period. That said, input inventories were depleted and at the strongest rate since January.

Suppliers' delivery times lengthened further in December, with panellists commenting on raw material shortages and transportation delays, particularly with international vendors. However, the latest increase in lead times was only modest and the weakest in the 27-month series history.

Manufacturers reported a fifth successive monthly rise in input costs in December. Although the rate of inflation was solid, it was nonetheless the slowest in the current sequence of price increases. Firms passed greater costs on to clients by raising their output charges. Nonetheless, average selling prices rose only modestly and at the weakest rate since July.

RBC Canadian *Purchasing Managers' Index™ (PMI™)*



Components of the RBC Canadian Manufacturing PMI™

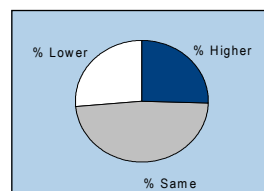
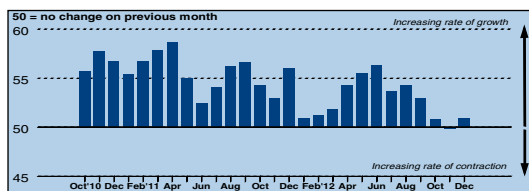
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

New Orders	0.30
Output	0.25
Employment	0.20
Suppliers' Delivery Times (inverted)	0.15
Stocks of Purchases	0.10

In total, the RBC Canadian Manufacturing PMI survey covers eleven individual indicators that are presented as 'diffusion' indices. These are summary measures showing the prevailing direction of change. An index reading above 50.0 indicates an overall increase in that variable, whilst index readings below 50.0 signal an overall decrease. All data are seasonally adjusted.

New Orders Index (0.30)

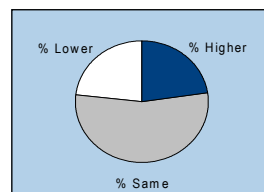
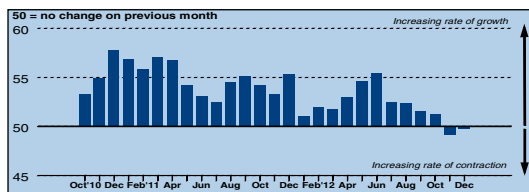
Q. Please compare the state of your new orders (in units) this month with one month ago.



After having remained broadly unchanged in November, the volume of new orders placed at Canadian manufacturers increased in December. This was signalled by the seasonally adjusted New Orders Index rising above the 50.0 no-change mark. Firms generally cited greater demand and the launch of new products. Although the index rose to a three-month high, it was consistent with only a marginal rise in new work overall.

Output Index (0.25)

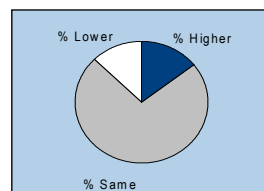
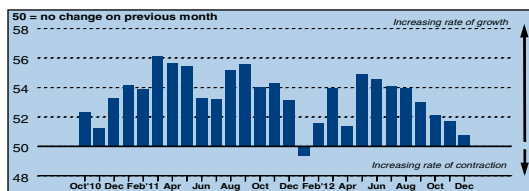
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output was broadly unchanged in December, with the seasonally adjusted Output Index registering only fractionally below the neutral threshold. The vast majority of surveyed firms (approximately 54%) reported no change in production levels since November. The broadly flat output trend was nonetheless an improvement from a modest reduction recorded one month previously.

Employment Index (0.20)

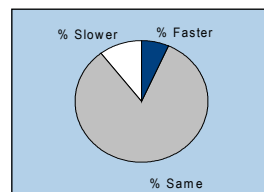
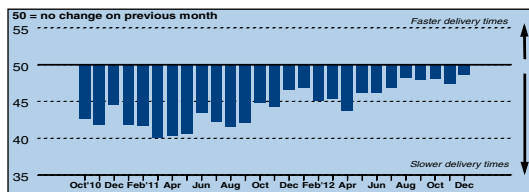
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in Canada's manufacturing sector increased for the eleventh consecutive month in December. Approximately 14% of firms hired additional staff over the month, while almost 13% reduced their employee numbers. The overall rate of job creation was only marginal, however, and having slowed for the seventh successive month, was the weakest since January.

Suppliers' Delivery Times Index (0.15)

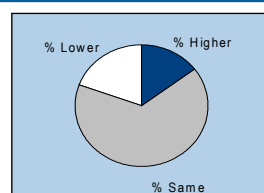
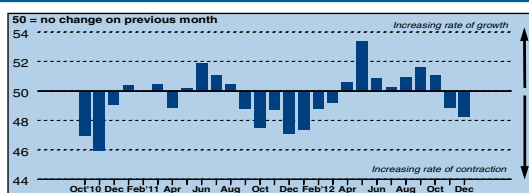
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Suppliers' delivery times lengthened further in December, with anecdotal evidence generally attributing this to raw material shortages and transportation delays, particularly at international suppliers. However, the latest deterioration in vendor performance was only modest, with the seasonally adjusted Suppliers' Delivery Times Index rising to its highest level since data collection began in October 2010.

Stocks of Purchases Index (0.10)

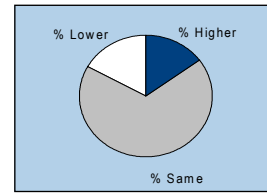
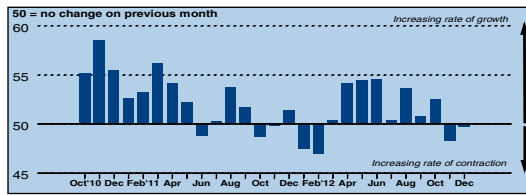
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Stocks of purchases fell for the second month running in December. Approximately 19% of monitored companies reported a depletion of input inventories (while 15% registered an increase), largely linking this to leaner stock holding policies. The latest reduction in inventories was moderate and, with the seasonally adjusted Stocks of Purchases Index having fallen since November, the strongest in 11 months.

New Export Orders Index

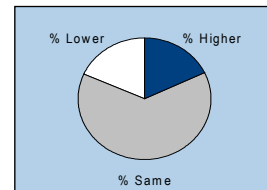
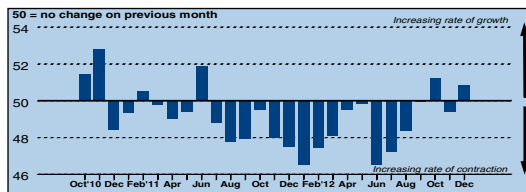
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Canadian manufacturing companies reported a further reduction in new export orders during December. The latest decline, however, was only slight and weaker than that registered one month previously. Firms that reported lower new work intakes from abroad (approximately 17%) generally commented on weak U.S. client demand.

Stocks of Finished Goods Index

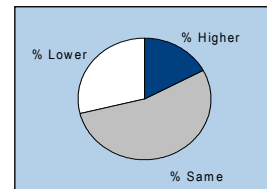
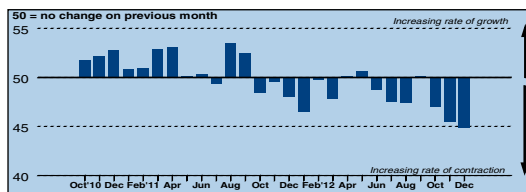
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



In contrast to the stock depletion recorded in November, post-production goods inventories increased in December. A number of survey respondents attributed the increase to larger new order requirements. Although the rate of stock accumulation was only marginal, December was nonetheless only the second month where growth has been reported in the past year-and-a-half.

Backlogs of Work Index

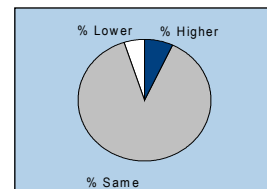
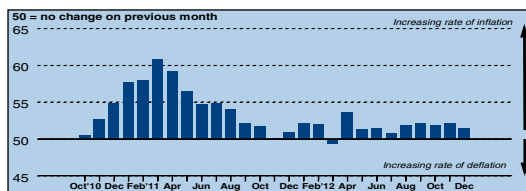
Q. Please compare the level of outstanding business in your company this month with one month ago.



Outstanding business at Canadian manufacturing companies fell for the third month running in December. This was signalled by the seasonally adjusted Backlogs of Work Index posting below the 50.0 no-change mark that separates an increase in work-in-hand from a decline. Moreover, the index fell to its lowest level since data collection started in October 2010 and was consistent with a marked reduction overall.

Output Prices Index

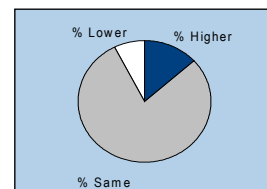
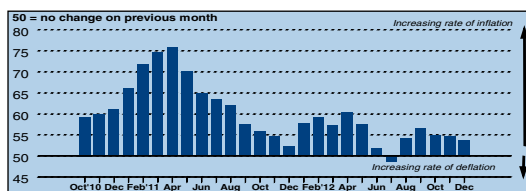
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Manufacturing companies in Canada raised their selling prices further in December, taking the current sequence of output price inflation to nine months. Where an increase in factory gate prices was reported, panellists generally commented on passing greater cost burdens on to clients. Nonetheless, the rate of inflation slowed to its weakest pace since July and was modest overall.

Input Prices Index

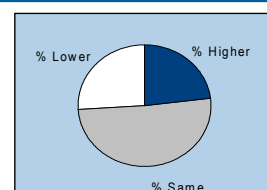
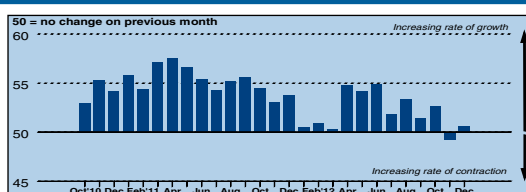
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input prices faced by monitored companies increased for the fifth successive month in December. Approximately 13% of firms reported higher costs (while 8% registered a reduction), with raw materials such as steel particularly mentioned as having increased in price over the month. Although the latest increase was solid overall, it was nonetheless the weakest in the current sequence of inflation.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Reflective of the increase in new orders, the quantity of inputs bought by Canadian manufacturers rose during December. Although an increase in purchases volumes was in contrast to a reduction registered one month previously, the rate of growth was only marginal and weaker than the historic series average.



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The RBC Canadian Manufacturing Purchasing Managers' Index™ (PMI™), produced by Markit and in association with PMAC, is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Canadian GDP.

Survey respondents reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators, the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the diffusion index. This index is the sum of the positive responses plus a half of those reporting 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50.0 indicates an overall increase in that variable, below 50.0 an overall decrease. All data are seasonally adjusted.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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