

RBC Canadian Manufacturing *Purchasing Managers' Index*™ finds output growth strengthens to eight-month high in December

JANUARY 3, 2012 – Production and new orders both rose strongly in December, according to the **RBC Canadian Manufacturing *Purchasing Managers Index*™ (RBC PMI™)**, a monthly survey, conducted in association with Markit, a leading global financial information services company, and the Purchasing Management Association of Canada (PMAC), which offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

The headline **RBC PMI** – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – posted 54.0 in December, up from 53.3 in November, and signalled a solid improvement in Canadian manufacturing business conditions. Index readings above 50.0 signal expansion from the previous month; readings below 50.0 indicate contraction.

The RBC PMI found that Canadian manufacturing business conditions improved further in December. Firms generally commented on greater client demand. Concurrently, both new orders and output increased strongly and at rates faster than registered in November. New export orders also rose in December, ending a two-month period of decline. Meanwhile, the rate of input price inflation eased further during the latest survey period and was at the slowest pace in the 15-month series history.

*"The Canadian manufacturing sector has demonstrated its resilience as the global economy faces some strong headwinds," said **Craig Wright**, senior vice-president and chief economist, RBC. "After some temporary setbacks in 2011, Canada's economy is set to grow by 2.5 per cent in 2012, provided that European policymakers contain the sovereign debt crisis in that region."*

In addition to the [headline RBC PMI](#), the survey also tracks changes in output, new orders, employment, inventories, prices and supplier delivery times.

Key findings from the December survey include:

- Strong increases in both new orders and production
- Job creation remains solid
- Rate of input price inflation slowest in 15-month series history

Firms partly linked the improvement in business conditions to greater client demand. Approximately 30 per cent of respondents reported an increase in **new orders**, compared with 21 per cent that registered a decrease. Overall, new order growth was strong and the fastest in three months. Incoming **new work from abroad** also rose in December, in contrast to declines registered in each of the past two months.

Reflective of larger new order volumes, Canadian manufacturing firms raised **production** in December. Output increased strongly, with the rate of growth the fastest since April. **Stocks of finished goods** were also depleted, while **backlogs** were reduced for the third month running.

The amount of **inputs bought** by monitored companies increased in December, as has been the case since data collection began in October 2010. Meanwhile, **input inventories** were depleted for the fourth consecutive month. Anecdotal evidence attributed higher purchasing activity to larger new order requirements.

Lead times on inputs increased further during the latest survey period. Panellists suggested that vendors struggled with greater input demand. Although the latest lengthening of **delivery times** was solid, it was nonetheless the weakest in the 15-month survey history.

Employment in Canada's manufacturing sector rose solidly in December. Approximately 19 per cent of surveyed firms hired additional staff (while 13 per cent reduced their workforces), and largely linked job creation to the recent increases in new order volumes.

Canadian manufacturers reported higher **input costs** in December, with raw materials such as steel and sugar particularly mentioned as having increased in price. That said, the rate of input price inflation eased further from April's peak and was the slowest in the series history. Firms partly passed on larger cost burdens to clients by raising their **selling prices**. However, the latest increase in output charges was only marginal and below the series average.

Regional highlights include:

- Regional PMI data indicated that business conditions improved in three out of four regional manufacturing sectors in December. The only exception was **Quebec**, where operating conditions were unchanged from November.
- **Ontario** posted the fastest rate of new order growth, closely followed by **Alberta & British Columbia**.
- **Quebec** was the only region to register job losses in December.
- The fastest rate of input price inflation was registered in **Alberta & British Columbia**.

*"Canadian manufacturing sector business conditions improved further in December, with both output and new orders increasing strongly. This in part reflected greater client demand from both domestic and foreign clients. The rate of input price inflation was also at the slowest pace in the 15-month series history," said **Cheryl Paradowski**, President and Chief Executive Officer, PMAC. "Although the overall story from the latest survey is generally positive, the headline PMI nonetheless ends 2011 at a level below the series average."*

The report is available at www.rbc.com/newsroom/pmi

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Notes to Editors:

The RBC Canadian Manufacturing *PMI™* Report 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 responses 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 responding '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 indicates an overall increase in that variable, below 50 an overall decrease.

The RBC Canadian Manufacturing *Purchasing Managers' Index™* (RBC *PMI™*) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

The *Purchasing Managers' Index (PMI)* survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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About Purchasing Management Association of Canada

The Purchasing Management Association of Canada (PMAC) is the leading, and the largest, association in Canada for supply chain management professionals. With 7,000 members working across private and public sectors, PMAC is the principal source of supply chain training, education and professional development in the country, requiring all members to adhere to a Code of Ethics. Through its 10 Provincial and Territorial Institutes, PMAC grants the SCMP (Supply Chain Management Professional) designation, the highest achievement in the field and the mark of strategic leadership. For more information please see www.pmac.ca.

About Markit

Markit is a leading, global financial information services company with over 2,300 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial marketplace. For more information, see www.markit.com.

About PMIs

Purchasing Managers' Index™ (*PMI™*) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.

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