

In association with the Purchasing Management Association of Canada

Output growth strengthens to eight-month high in December

Key findings:

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

Canadian manufacturing business conditions improved further in December, with firms generally commenting 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 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.

Business conditions in the Canadian manufacturing sector improved further in December, as signalled by the headline PMI index posting above the 50.0 no-change mark that separates growth from contraction. At 54.0, up from 53.3 in November, the latest improvement was solid and the strongest in three months, but nonetheless remained weaker than the series average.

Firms partly linked the improvement in business conditions to greater client demand. Approximately 30% of respondents reported an increase in new orders, compared with 21% 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.

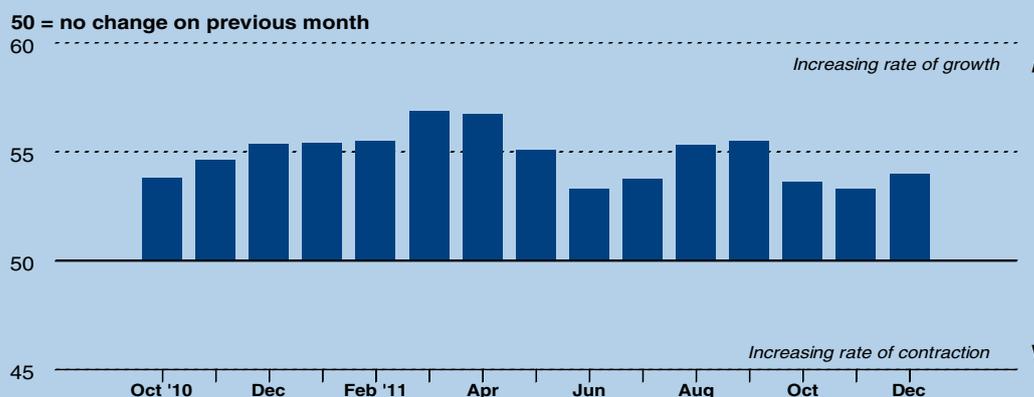
The amount of inputs bought by monitored companies increased in December, as has been the case since data collection began in October 2010. Meanwhile, input inventories were depleted for the fourth consecutive month. Anecdotal evidence attributed higher purchasing activity to larger new order requirements.

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% of surveyed firms hired additional staff (while 13% 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.

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



Components of the RBC Canadian Manufacturing PMI™

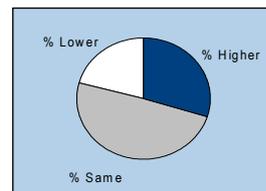
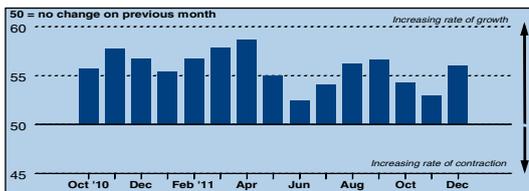
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

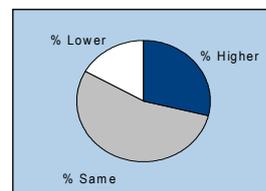
Q. Please compare the state of your new orders (in units) this month with one month ago.



Canadian manufacturers received a larger volume of new orders in December. Approximately 30% of surveyed firms reported an increase in new work intakes, compared with 21% that registered a decrease, and generally attributed the rise to greater client demand. Overall, the rate of new order growth was strong and the fastest in three months.

Output Index (0.25)

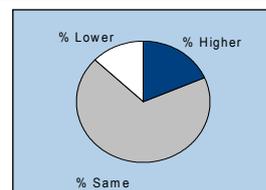
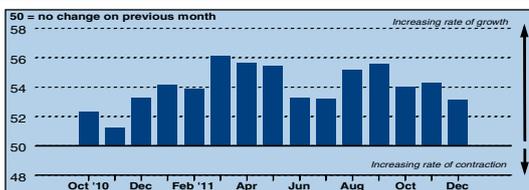
Q. Please compare your production/output this month with the situation one month ago.



Production at Canadian manufacturing companies increased in December, as has been the case since data collection began in October 2010. Panellists largely linked the rise in output to the increase in new orders. Notably, the rate of growth was strong, above the series average and the fastest since April.

Employment Index (0.20)

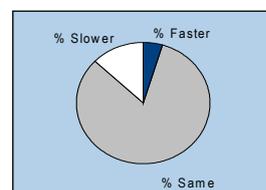
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in Canada's manufacturing sector increased solidly in December. Job creation has been registered in each month since the series started in October 2010. Approximately 19% of firms hired additional staff (while 13% reduced their workforces), and generally cited larger new order requirements. That said, employment growth slowed since the previous survey period to a five-month low in December.

Suppliers' Delivery Times Index (0.15)

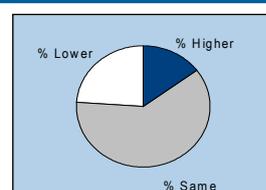
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index posted below the 50.0 no-change mark in December, signalling a further increase in input lead times. Anecdotal evidence suggested that vendors struggled with greater input demand, particularly as suppliers were working with leaner inventories. Although the latest lengthening of delivery times was solid, it was the weakest in the 15-month series history.

Stocks of Purchases Index (0.10)

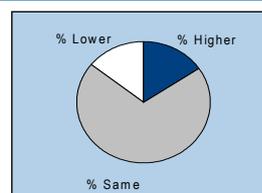
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Input inventories were depleted by Canadian manufacturers for the fourth consecutive month in December. Firms generally cited leaner stock holding policies during the latest survey period. Overall, the rate of depletion accelerated since November, as indicated by a lower seasonally adjusted Stocks of Purchases Index reading, and was the fastest since November 2010.

New Export Orders Index

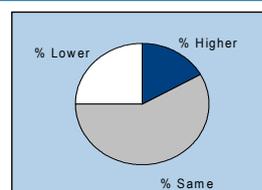
Q. Please compare the state of your new export orders (in units) this month with one month ago.



In contrast to the declines reported in October and November, incoming new work from abroad increased in December. This was signalled by the seasonally adjusted New Export Orders Index posting above the 50.0 no-change mark that separates growth from contraction. Panellists generally attributed the increase in new work intakes to greater demand from foreign clients.

Stocks of Finished Goods Index

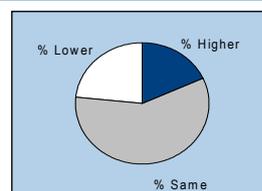
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods fell further in December, continuing the trend that began in July. Exactly one-quarter of surveyed firms reported a depletion of post-production goods inventories (while 17% registered an accumulation), and generally commented on larger new order requirements and leaner stock holding policies. Overall, the rate of decrease was solid and the fastest in the 15-month series history.

Backlogs of Work Index

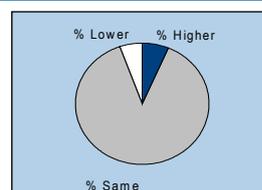
Q. Please compare the level of outstanding business in your company this month with one month ago.



Canadian manufacturers reported lower work-in-hand during December. Backlogs have decreased in each of the past three survey periods. Anecdotal evidence provided by panellists largely attributed the latest fall in outstanding business to faster output growth and the recent depletion of finished goods inventories.

Output Prices Index

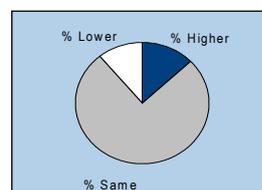
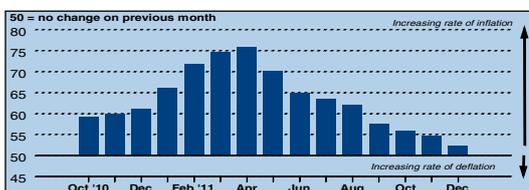
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Average selling prices increased in December, as has been the case since data collection began in October 2010. Canadian manufacturing companies partly passed on greater cost burdens to clients by raising their output charges during the latest survey period. However, the rate of output price inflation was only modest and below the series average.

Input Prices Index

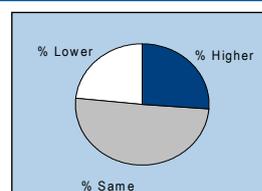
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input costs rose further in December, with panellists particularly mentioning raw materials such as steel and sugar as having increased in price. A number of monitored companies also commented that unfavourable exchange rates contributed to the overall rise in costs in December. The latest increase in input prices was nonetheless the weakest since data collection began in October 2010.

Quantity of Purchases Index

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



Canadian manufacturing firms bought a larger amount of inputs in December. Purchases have increased in each month since data collection began in October 2010. Panellists generally linked the rise in purchasing activity to larger new order requirements. Although the rate of increase quickened since the previous survey period, it nonetheless remained weaker than the series average.



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www.rbc.com



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.

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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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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.

As part of Markit's seasonal adjustment process, at the end of each calendar year our economists review the adjustments that have been made over the course of the preceding 12 months, focusing particularly on the annual averages of the unadjusted and seasonally adjusted series for each index variable to ensure that these are broadly in line. In simple terms, those months where we have adjusted data down because of strong seasonality will be broadly balanced out by those months where data are seasonally adjusted upwards. This review is particularly important for relatively young surveys where only a short history of back data are available. Revisions are never made to the raw, unadjusted data.

Following review of the RBC Canadian Manufacturing PMI data this month, we have made a number of revisions to the seasonally adjusted back data. These revisions have been made for the output, new orders, quantity of purchases, suppliers' delivery times and employment indexes. As a number of these indexes comprise the headline PMI, these revisions will also affect the back history of the PMI. In all instances the revisions are only minor and do not materially affect the trend indicated by the seasonally adjusted data.

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