

Manufacturing PMI drops to a new survey-record low in December

Key findings:

- Sharpest deterioration in business conditions since the survey began in 2010
- Output, new order volumes and employment all decline at faster rates in December
- Factory gate charges decrease for the first time since August 2013

December data indicated that the manufacturing sector experienced another reduction in output volumes and new business intakes at the end of 2015, with the latest deterioration in overall conditions the sharpest since the survey began in October 2010. There were widespread reports that subdued business confidence had resulted in lower spending levels and delays to new projects, especially from clients operating in the energy sector. Manufacturers responded to the latest fall in new work by lowering their inventories and initiating price discounting strategies. Moreover, payroll numbers decreased for the sixth month running amid a sharp and accelerated fall in work-in-hand across the manufacturing sector.

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.

Adjusted for seasonal influences, the RBC Canadian Manufacturing PMI registered 47.5 in December, down from 48.6 in November and below the neutral 50.0 threshold for the fifth consecutive month. The latest PMI reading was the lowest in just over five years of data collection, largely reflecting weaker contributions from the output, new orders and employment components.

Canadian manufacturers signalled a decline in production levels for the fifth month running in December, which was overwhelmingly linked to weaker domestic demand patterns. Although new export

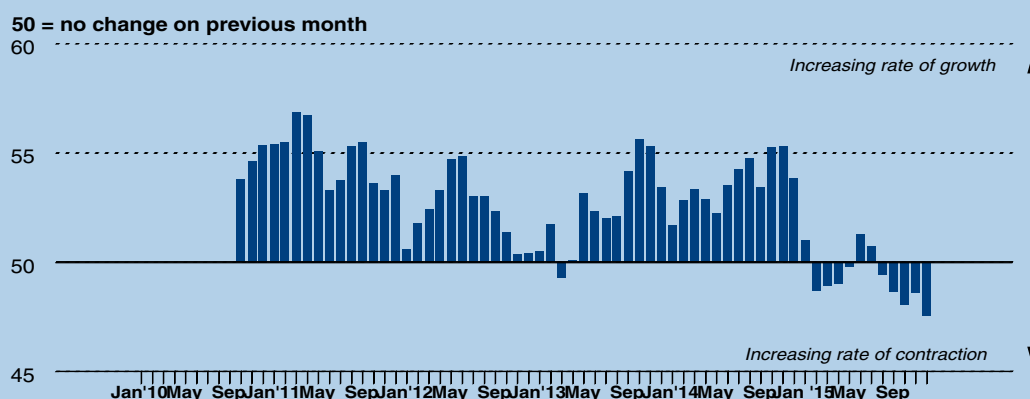
work picked up slightly, and at the fastest pace since June, overall volumes of new work decreased at a survey-record pace. Companies that reported a rise in export sales generally linked this to support from the weaker exchange rate, alongside successful efforts to enter new overseas markets. At the same time, survey respondents noted that falling domestic demand, especially for investment goods, had driven the overall decline in workloads at the end of 2015.

Staffing levels were reduced again in December, with the pace of job cuts accelerating to the fastest recorded since the survey began in October 2010. Anecdotal evidence suggested that lower payroll numbers reflected a lack of new work to replace completed projects and, in some cases, panel members also cited intense pressure on operating margins.

Lower workloads resulted in sustained efforts to reduce inventory holdings during December. Pre-production stocks and finished goods inventories both fell during the latest survey period, albeit at a slower pace than in November. Input buying decreased for the sixth month running, which contributed to the least marked deterioration in supplier performance for two-and-a-half years.

Meanwhile, average prices charged by Canadian manufacturers decreased at a moderate pace in December, which marked the first reduction since August 2013. Anecdotal evidence suggested that strong competition for new work had resulted in renewed price discounting at the end of 2015. At the same time, overall input price inflation eased sharply to its weakest since January, despite continued upward pressure on costs from the weaker exchange rate.

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



Components of the RBC Canadian Manufacturing PMI™

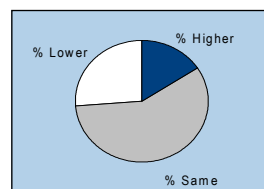
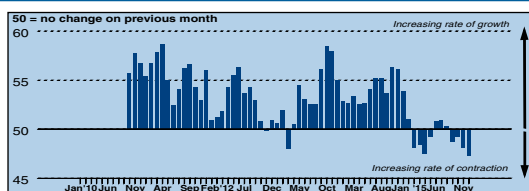
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

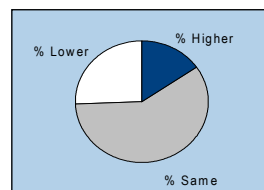
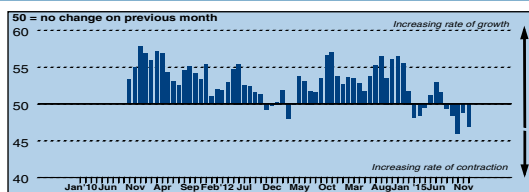
Q. Please compare the state of your new orders (in units) this month with one month ago.



Volumes of new work continued to fall across the manufacturing sector in December, which marked four consecutive months of decline. The seasonally adjusted New Orders Index was the lowest on record and pointed to a solid rate of reduction. Survey respondents noted that softer domestic demand, especially from clients within the energy sector, had offset the marginal increase in new work from abroad.

Output Index (0.25)

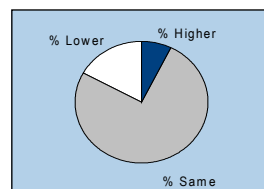
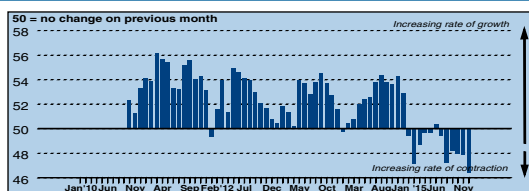
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index registered below the 50.0 no-change value for the fifth successive month in December, signalling the longest period of falling production volumes since the survey began in 2010. Moreover, the latest decline was the second-fastest in the series history. Manufacturers mainly commented on reduced production schedules in response to a lower workloads and delays to new projects.

Employment Index (0.20)

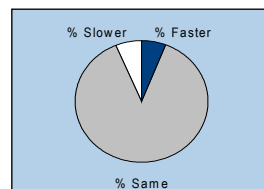
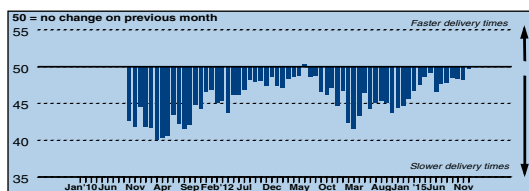
Q. Please compare the level of employment at your unit this month with the situation one month ago.



December data highlighted a further reduction in overall payroll numbers, thereby continuing the trend seen throughout much of 2015. Adjusted for seasonal influences, the Employment Index pointed to the fastest pace of job cuts since the survey began in October 2010. Survey respondents linked lower staffing levels to a lack of new work to replace completed projects and, in some cases, to squeezed margins.

Suppliers' Delivery Times Index (0.15)

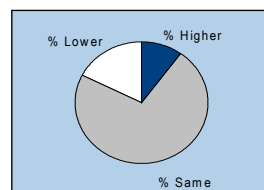
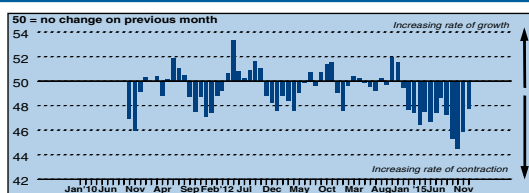
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Adjusted for seasonal influences, the Suppliers' Delivery Times Index registered below the neutral 50.0 threshold in December, thereby marking two-and-a-half years of worsening supplier performance. However, the latest lengthening of vendor lead-times was the least marked over this period. Some manufacturers noted that lower demand for raw materials had contributed to a softer downturn in supplier performance.

Stocks of Purchases Index (0.10)

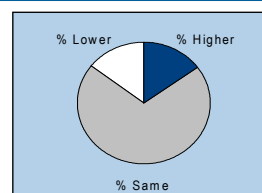
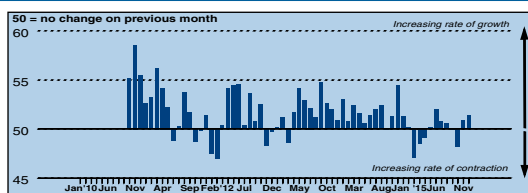
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Pre-production inventories were reduced again in December, which extended the current period of decline to 13 months. That said, the seasonally adjusted Stocks of Purchases Index pointed to the slowest rate of inventory cuts for five months. Manufacturers widely commented on deliberate stock reduction policies in response to lower demand and falling production volumes.

New Export Orders Index

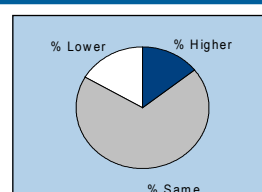
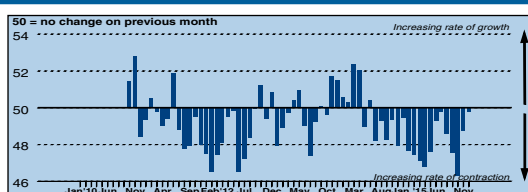
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Manufacturers indicated an increase in new work from abroad for the second successive month in December. Although only slightly above the neutral 50.0 threshold, the seasonally adjusted New Export Orders Index pointed to the fastest pace of expansion since June. Companies that reported a rise in new export sales cited the weaker exchange rate, alongside successful efforts to enter new overseas markets.

Stocks of Finished Goods Index

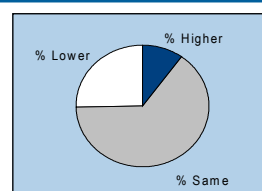
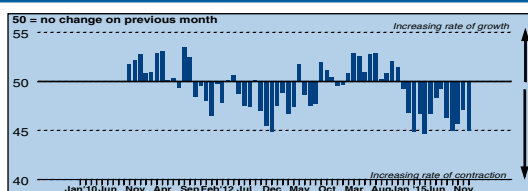
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index indicated that post-production inventory volumes declined only fractionally in December, with the rate of contraction the slowest since July. Anecdotal evidence suggested that efforts to tighten inventory policies persisted across the manufacturing sector amid weak demand patterns and a need to improve cash flow.

Backlogs of Work Index

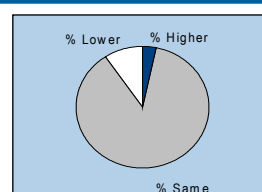
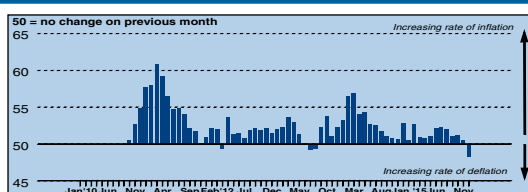
Q. Please compare the level of outstanding business in your company this month with one month ago.



Volumes of work-in-hand (but not yet completed) continued to decrease in December. The seasonally adjusted Backlogs of Work Index has now posted below the 50.0 no-change level for 13 successive months, with the latest reduction in unfinished business the sharpest since April. Survey respondents mainly commented that lower backlogs of work reflected a lack of pressure on operating capacity.

Output Prices Index

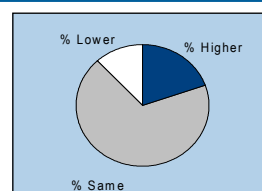
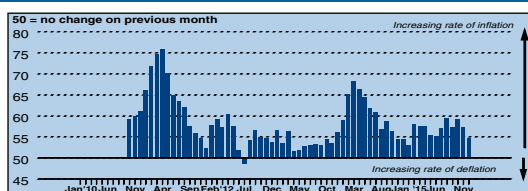
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Adjusted for seasonal influences, the Output Prices Index registered below the 50.0 no-change level for the first time since August 2013. Moreover, although the latest reading pointed to only a modest degree of price discounting, the rate of decline in average charges was the fastest since the survey began. Manufacturers that commented on price cuts mainly cited intense competitive pressures.

Input Prices Index

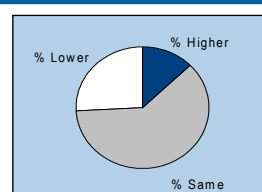
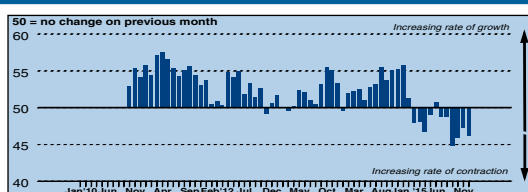
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Latest survey data indicated a sharp slowdown in input cost inflation since November. The seasonally adjusted Input Prices Index fell for the second month running and pointed to the weakest pace of cost inflation for 11 months. Survey respondents noted that the weaker exchange rate continued to push up the cost of imported materials, although some reported that lower commodity prices had been passed on by suppliers.

Quantity of Purchases Index

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



Input buying dropped at a solid pace in December, as highlighted by the seasonally adjusted Quantity of Purchases Index registering below the neutral 50.0 threshold for the sixth consecutive month. Lower levels of purchasing activity were overwhelmingly linked by manufacturers to weaker client spending patterns and tighter inventory policies at their plants.



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With nearly 8000 members working across the private and public sectors, SCMA is the principal source of supply chain training, education and professional development in the country. Through its 10 Provincial and Territorial Institutes, SCMA grants the Supply Chain Management Professional (SCMP) designation, the highest achievement in the field and the mark of strategic supply chain leadership.

SCMA was formed in 2013 through the amalgamation of the Purchasing Management Association of Canada and Supply Chain and Logistics Association of Canada. With a combined history of more than 140 years, today the association embraces all aspects of strategic supply chain management, including: purchasing/procurement, strategic sourcing, contract management, materials/inventory management, and logistics and transportation.

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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 by company workforce size 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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