

News Release

RBC Canadian Manufacturing *Purchasing Managers' Index*[™] finds both output and new order growth slows sharply in January

FEBRUARY 1, 2012 – Production and new orders increased only modestly in January, 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 – registered 50.6 in January, down sharply from 54.0 in December, and indicated the weakest improvement in Canadian manufacturing business conditions since data collection began in October 2010. 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 in January, with firms reporting further output and new order growth. However, both rates of expansion were only modest and the weakest since data collection began. Concurrently, employment fell for the first time in the survey history, while the rate of input price inflation strengthened to a five-month high.

*“Global economic uncertainty, particularly rooted in the euro zone, weighed heavily on the Canadian manufacturing sector in the first month of 2012,” said **Craig Wright**, senior vice-president and chief economist, RBC. “Canada’s modest recovery may be jeopardized if European policymakers fail to contain the sovereign debt crisis.”*

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 January survey include:

- Modest rise in total new orders, as new work from abroad falls solidly
- Net job losses for first time since data collection began in October 2010
- PMI signals weakest improvement in business conditions in survey history

Monitored companies partly attributed the improvement in business conditions to greater client demand. **New orders** received by Canadian manufacturers increased further in January, but growth was only modest and notably slower than that registered in December. In contrast, new work intakes from abroad fell solidly during the latest survey period, with almost one-fifth of respondents reporting lower volumes of **new export orders**.

Reflective of the rise in total new orders, Canadian manufacturers raised **production** and depleted **stocks of finished goods** in January. However, output growth was only modest and the weakest in the 16-month survey history. **Backlogs** declined for the fourth consecutive month, with a number of panellists citing the completion of large projects and weak growth of incoming new work.

Firms purchased a greater amount of inputs during the latest survey period, as has been the case since the series started in October 2010. However, the latest rise in **input buying** was only marginal. Stocks of purchases meanwhile were depleted for the fifth month running in January. Anecdotal evidence linked the fall in **input inventories** to leaner stock holding policies. **Suppliers’ delivery times** continued to lengthen in January, but the latest increase in lead times was slightly weaker than that reported in December.

Employment in Canada's manufacturing sector fell for the first time in the 16-month series history during the latest survey period. Approximately 17 per cent of firms reduced their workforces (while 14 per cent hired additional staff), and generally attributed job losses to the slower rate of new order growth.

Input costs rose further in January, with panellists reporting price increases across a wide variety of goods. Notably, the rate of **input price** inflation was strong and the fastest since last August. Firms partly passed on greater cost burdens to clients by raising their output charges. Although the rate of **output price** inflation quickened since December, it remained slower than its series average.

Regional highlights include:

- Regional PMI data indicated that manufacturing business conditions improved in **Alberta & British Columbia** and **Ontario** during January.
- Firms in **Quebec** recorded a fall in new order volumes.
- Employment growth was only reported in **Alberta & British Columbia**.
- The rates of input price inflation quickened in all four regions in January. The strongest increase was posted in **Alberta & British Columbia**.

*"Growth in the Canadian manufacturing sector slowed sharply in January, with both output and new orders increasing at the slowest rates in the survey's history. The latter partly reflected weakness in the global economy, as new export orders fell solidly from a month earlier," said **Cheryl Paradowski**, President and Chief Executive Officer, PMAC. "Meanwhile, Canadian manufacturers reported a sharp rise in input costs at the beginning of 2012, even after adjusting for annual price increases. Raw materials such as metals and resins were highlighted as having increased in cost."*

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

For further information, please contact:

Royal Bank of Canada

Rina Cortese, Director, Media Relations
RBC
Telephone +001-416-974-5506
Email rina.cortese@rbc.com

Gillian McArdle, Head of Communications, Canada
RBC Capital Markets
Telephone +001-416-842-4231
Email gillian.mcardle@rbc.com

Purchasing Management Association of Canada

Cheryl Paradowski, President and CEO
Telephone +001-416-542-9120
Email cparadowski@pmac.ca

Cori Ferguson, Director, Public Affairs & Communications
Telephone +001-416-542-9129
Email cferguson@pmac.ca

Markit

Mark Wingham, Economist
Telephone +44-1491-461-004
Email mark.wingham@markit.com

Rachel Harling, Corporate Communications
Telephone +44-20-7264-6283 / +44-782-7891-072
Email rachel.harling@markit.com

Notes to Editors:

The RBC Canadian Manufacturing *PMI*TM 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*TM (RBC *PMI*TM) 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*TM (*PMI*TM) 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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