

Manufacturing sector downturn moderates at the start of 2016

Key findings:

- Manufacturing PMI picks up from December's survey-record low
- Slower declines in output, new orders and employment
- New export work increases at strongest pace since November 2014

The Canadian manufacturing sector moved closer to stabilization in January, following the survey-record downturn experienced at the end of 2015. Measured overall, business conditions deteriorated to the lowest degree for five months, reflecting softer falls in output, new business and employment. The main bright spot in the latest survey was a solid rebound in export sales, which helped offset some of the downturn in domestic demand. A number of manufacturers noted that the weaker loonie had contributed to rising new business wins from U.S. clients. At the same time, exchange rate depreciation also led to a strong and accelerated increase in average cost burdens, with the rate of input price inflation hitting an 18-month high in January.

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.

At 49.3 in January, the seasonally adjusted RBC Canadian Manufacturing PMI recovered from December's survey-record low of 47.5, but remained below the neutral 50.0 threshold for the sixth consecutive month. The current period of decline is the longest since the survey began in late-2010, although the latest reading was the highest since last August.

January data signalled a slower reduction in output volumes than that recorded in December. Moreover, the rate of decline was only marginal and the least marked for five months. Anecdotal evidence

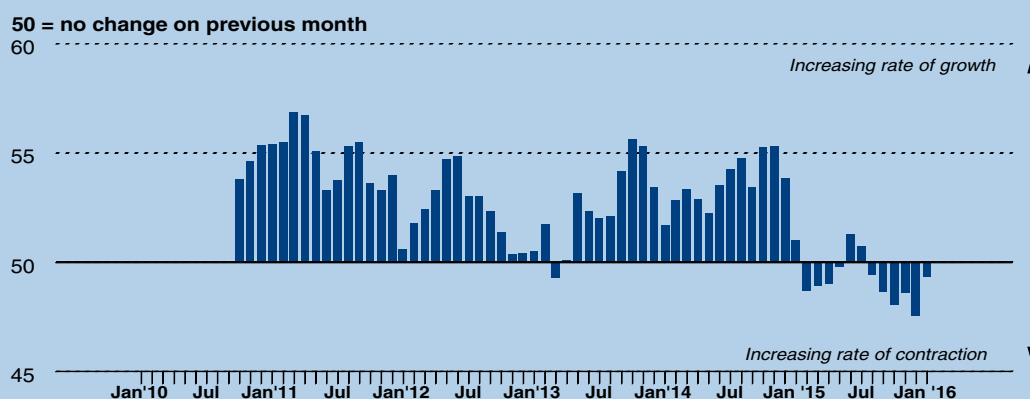
suggested that improving export demand had supported production levels in January. At the same time, heightened economic uncertainty and ongoing declines in capital spending by energy sector clients was cited as a brake on manufacturing output.

Mirroring the trend for production, latest data pointed to a considerably slower fall in new business volumes than that seen at the end of 2015. Moreover, the rate of decline in overall new orders was only marginal and the slowest since the current downturn began last September. There were widespread reports that greater demand from abroad had helped to stabilize new business levels in January. Reflecting this, latest data pointed to the strongest rise in new export orders since November 2014.

Job shedding moderated across the manufacturing sector at the start of 2016, following the survey-record fall seen during December. In contrast, the rate of decline in staffing numbers was the slowest for six months during January. A number of firms noted that the uncertain business outlook had led to the non-replacement of voluntary leavers. Moreover, backlogs of work dropped for the fourteenth month running, suggesting a sustained lack of pressure on operating capacity.

January data suggested only a slight squeeze on suppliers' delivery times, while input buying fell over the month. Moreover, manufacturers continued to lower their inventories at the start of 2016. However, upward pressure on costs persisted, with overall input prices rising at the fastest pace since July 2014. This in turn contributed to the sharpest increase in factory gate charges for over a year-and-a-half.

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



Components of the RBC Canadian Manufacturing PMI™

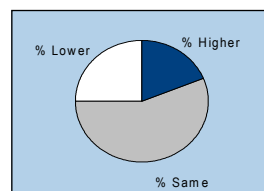
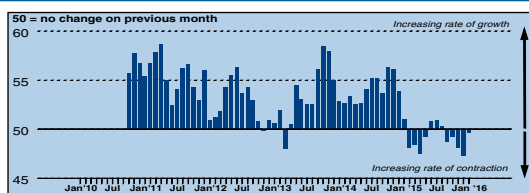
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

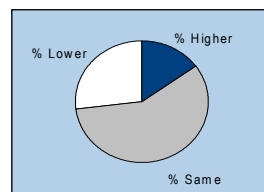
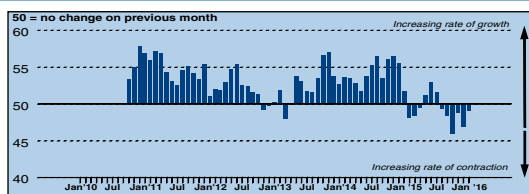
Q. Please compare the state of your new orders (in units) this month with one month ago.



January data highlighted a further reduction in new work received by Canadian manufacturing companies. That said, the seasonally adjusted New Orders Index was only marginally below the 50.0 threshold and pointed to the slowest pace of decline since the recent downturn began in September 2015. Some manufacturers suggested that improved export sales had partially offset weak domestic demand at the start of 2016.

Output Index (0.25)

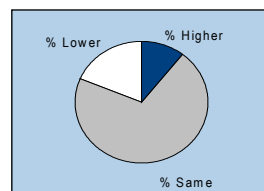
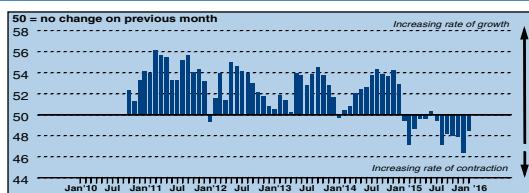
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index posted only slightly below the 50.0 no-change mark in January, thereby signalling the slowest reduction in production levels for five months in January. A number of firms noted that a softer downturn in new business volumes had supported output at their plants. Nonetheless, there were also reports that heightened economic uncertainty continued to act as a brake on production volumes.

Employment Index (0.20)

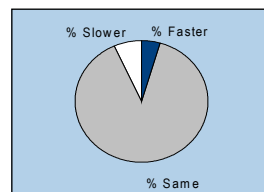
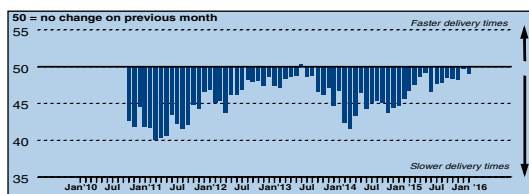
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Adjusted for seasonal influences, the Employment Index picked up from December's survey record low and pointed to only a modest reduction in staffing numbers across the manufacturing sector. Moreover, the rate of job shedding was the slowest since July 2015. Reports from survey respondents suggested that lower payroll numbers mainly reflected the deliberate non-replacement of voluntary leavers.

Suppliers' Delivery Times Index (0.15)

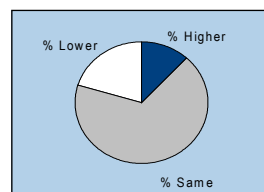
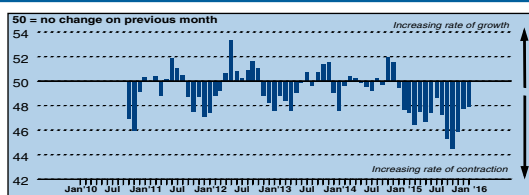
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index remained well above the survey average and highlighted only a slight lengthening of average lead times from vendors. Manufacturers that reported a deterioration in supplier performance mainly cited reduced stocks held by suppliers.

Stocks of Purchases Index (0.10)

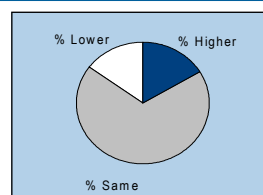
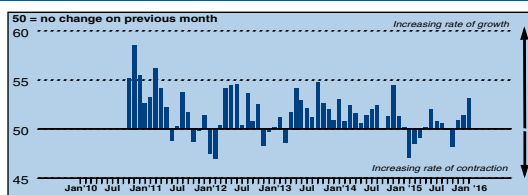
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Manufacturers continued to lower their inventory levels in January, which extended the current period of decline to 14 consecutive months. That said, the seasonally adjusted Stocks of Purchases Index picked up fractionally during the latest survey period and was the highest since July 2015. Some firms suggested that a slower decline in new work had led to less cautious inventory management at their plants.

New Export Orders Index

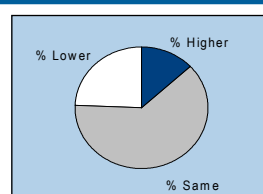
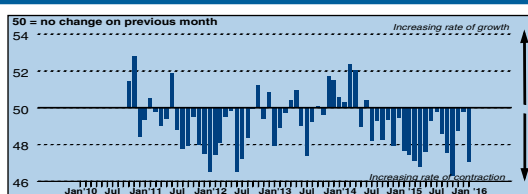
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Canadian manufacturers experienced a solid rebound in new export work at the start of 2016. The seasonally adjusted New Export Orders Index registered above the neutral 50.0 threshold for the third month running and pointed to the fastest rate of expansion since November 2014. Survey respondents widely commented on greater export sales to new and existing U.S. clients, helped by the weaker exchange rate.

Stocks of Finished Goods Index

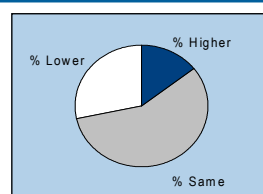
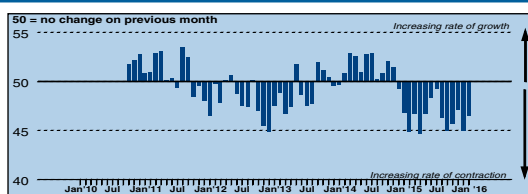
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Inventories of finished goods were lowered across the manufacturing sector during January, thereby extending the current period of decline to 19 months. The seasonally adjusted Stocks of Finished Goods Index pointed to the sharpest rate of inventory reduction since October 2015. A number of manufacturers cited efforts to reduce stocks in response to uncertainty about the business outlook.

Backlogs of Work Index

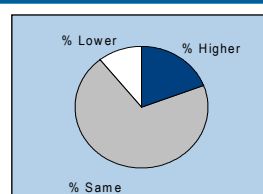
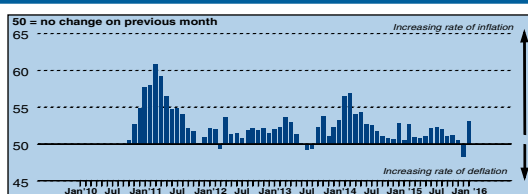
Q. Please compare the level of outstanding business in your company this month with one month ago.



January data indicated a further reduction in unfinished work at Canadian manufacturing firms. However, the seasonally adjusted Backlogs of Work Index signalled that the rate of decline eased since December. Where a drop in outstanding business was reported, survey respondents mostly pointed to a lack of pressure on operating capacity at their plants.

Output Prices Index

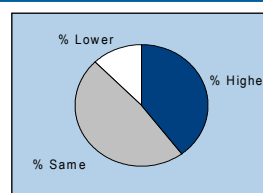
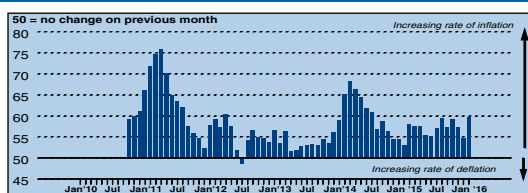
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Adjusted for seasonal influences, the Output Prices Index rose back above the neutral 50.0 value in January. The latest reading indicated a solid rise in factory gate prices and the rate of inflation was the fastest since May 2014. Higher output charges were attributed to strong rises in input costs across the manufacturing sector at the start of the year.

Input Prices Index

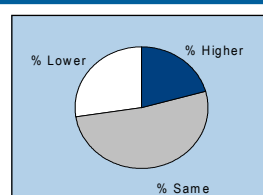
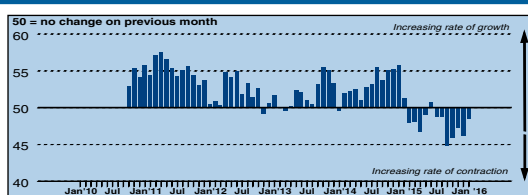
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



The latest survey pointed to a sharp and accelerated increase in average cost burdens across the Canadian manufacturing sector. Adjusted for seasonal influences, the Input Prices Index signalled the fastest rate of input price inflation for a year-and-a-half. Increased costs were overwhelmingly attributed to the impact of exchange rate depreciation against the U.S. dollar.

Quantity of Purchases Index

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



Volumes of input buying decreased again in January, which extended the current period of decline to seven months. Although still below the neutral 50.0 threshold, the seasonally adjusted Quantity of Purchases Index was the highest since August 2015 and signalled only a moderate rate of decline.



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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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