

News Release

RBC Canadian Manufacturing PMI™ drops to its lowest level in nearly two years during January

FEBRUARY 2, 2015 – January data indicated a sharp slowdown in the Canadian manufacturing sector, with overall business conditions improving at the weakest pace since April 2013, according to the **RBC Canadian Manufacturing Purchasing Managers' Index™ (RBC PMI™)**. The latest survey signalled that output and new business volumes grew, but at much slower rates than in December, while employment numbers dropped for the first time since the start of 2014. Manufacturers recorded softer input cost inflation during the latest survey period, while factory gate charges increased at the slowest pace for almost a year and a half.

A monthly survey, conducted in association with Markit, a leading global financial information services company, and the Supply Chain Management Association (SCMA), the **RBC PMI** offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

At 51.0 in January, down from 53.9 in December, the seasonally adjusted RBC Canadian Manufacturing PMI signalled only a marginal improvement in overall business conditions at the start of 2015. Moreover, the headline index was at its lowest level for 21 months, largely driven by weaker rates of output and new business growth in January.

*"The latest data indicates that Canada's manufacturers started the year with concerns around uncertainty about global growth prospects, financial market volatility and a sharp drop in oil prices," said **Craig Wright, senior vice president and chief economist, RBC**. "As we look ahead, we expect an eventual recovery in oil prices alongside a strong U.S. economy and a more competitive currency. These factors will support economic growth similar to the 2 ½ per cent rate achieved last year and the manufacturing sector offsetting weakness in the energy sector."*

The [headline RBC PMI](#) reflects changes in output, new orders, employment, inventories and supplier delivery times.

Key findings from the January survey include:

- Output and new business growth both eased sharply
- Manufacturing employment fell for the first time in 12 months
- Input cost inflation dropped to its lowest since September 2013, despite a weaker exchange rate

Manufacturing production growth has now moderated for two months running, with the latest increase in output volumes being the slowest since May (and the joint-weakest since August 2013). Meanwhile, new business volumes rose at the least marked rate since April 2013. Anecdotal evidence from survey respondents, especially investment goods producers, suggested that softer demand from clients in the oil and gas sector had weighed on overall new order gains during the month of January. Moreover, relatively subdued export trends continued during the latest survey period. New orders from abroad increased fractionally and at the weakest pace for four months, although some firms noted a boost to export sales from improving U.S. economic conditions, similar to responses in previous surveys.

Canadian manufacturers signalled a slight reduction in payroll numbers during January, which ended an 11-month period of sustained job creation across the sector. Survey respondents suggested that uncertainty towards the business outlook and a lack of pressure on operating capacity had weighed on staff recruitment at the start of the year. Moreover, latest data pointed to the sharpest fall in backlogs of work since March 2013.

January data highlighted a further month of cautious inventory policies across the manufacturing sector. Stocks of finished goods and pre-production inventories both declined at faster rates than in December. Meanwhile, input buying among Canadian manufacturing firms increased at the slowest pace since May 2014.

Input cost inflation moderated for the third time in the past four months during January. Although the lowest since September 2013, there were widespread reports that the weakening exchange rate had limited the decline in cost inflation. Factory gate charges meanwhile increased only slightly at the start of 2015.

Regional highlights include:

- All regions monitored by the survey recorded weaker output trends than in December
- Quebec and Alberta & British Columbia saw the most noticeable reductions in employment
- Input cost pressures moderated in all regions at the start of 2015

*“Canadian manufacturing firms indicated a disappointing start to the year, with overall business conditions improving at the slowest pace for almost two years,” said **Cheryl Paradowski, president and chief executive officer, SCMA.** “There were some reports that weaker demand for investment goods, especially among clients in the oil and gas sector, had a negative influence on manufacturing production and job creation in January.”*

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 does 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.

About RBC

Royal Bank of Canada is Canada's largest bank, and one of the largest banks in the world, based on market capitalization. We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management services, insurance, investor services and capital markets products and services on a global basis. We employ approximately 78,000 full- and part-time employees who serve more than 16 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 38 other countries. For more information, please visit bc.com.

RBC supports a broad range of community initiatives through donations, sponsorships and employee volunteer activities. In 2014, we contributed more than \$111 million to causes worldwide, including donations and community investments of more than \$76 million and \$35 million in sponsorships.

About Supply Chain Management Association

As the leading and largest association in Canada for supply chain management professionals, the Supply Chain Management Association (SCMA) is the national voice for advancing and promoting the profession. SCMA sets the standard of excellence for professional skills, knowledge and integrity and was the first supply chain association in the world to require that all members adhere to a Code of Ethics.

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. For more information, please visit scmanational.ca.

About Markit

Markit is a leading global diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ over 3,000 people in 10 countries. Markit shares are listed on NASDAQ under the symbol "MRKT". For more information, please see www.markit.com.

About PMI

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 markit.com/economics.

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