

## Slowest deterioration in manufacturing business conditions for six months

### Key findings:

- Manufacturing PMI rose to its highest level since August 2015
- Production levels dropped only slightly in February
- New export orders picked up for the fourth month running

February data suggested that overall business conditions across the manufacturing sector moved another step closer to stabilization, with output and new orders both continuing to fall at slower rates than those seen at the end of 2015. Greater export sales remained a key factor providing support to Canadian manufacturers, as highlighted by a rise in new work from abroad for the fourth consecutive month. At the same time, the weaker exchange rate resulted in another robust increase in average cost burdens, with survey respondents widely commenting on higher prices for imported materials and a corresponding rise in factory gate prices.

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 49.4 in February, up fractionally from 49.3 in January but below the neutral 50.0 threshold for the seventh month running. Nonetheless, the latest reading was the highest since August 2015, largely reflecting a softer decline in production levels during February.

Manufacturing output has now declined for seven months running, but the latest fall was only marginal and the slowest over this period. Where a drop in production levels was reported, survey respondents commented on falling new business intakes and, in

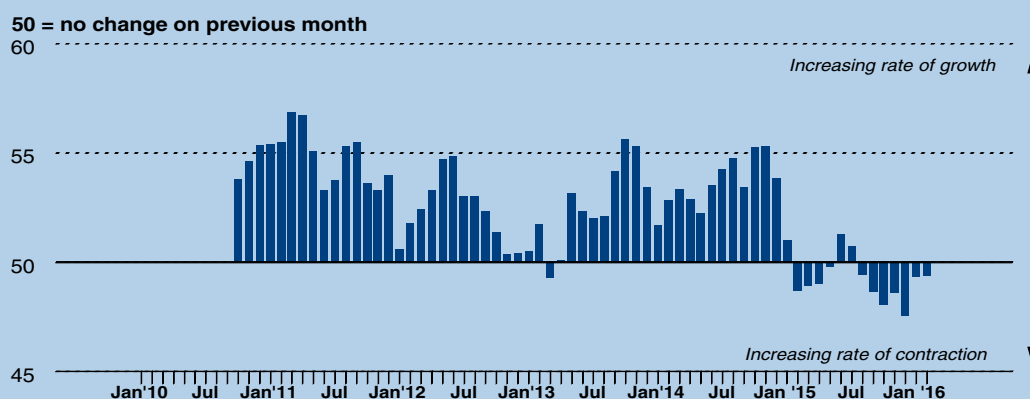
some cases, efforts to streamline stocks of finished goods.

Volumes of new work dropped for the sixth consecutive month in February, which is the longest continuous period since the survey began in late-2010. Anecdotal evidence pointed to subdued underlying client spending and an ongoing decline in sales to energy sector clients. Stronger export sales helped to offset some of the reduction in domestic demand in February. A number of manufacturers noted that exchange rate depreciation against the U.S. dollar had boosted new business intakes from export clients.

Canadian manufacturers remained cautious in terms of input buying in February, although the latest drop in purchasing activity was the slowest for eight months. Stocks of purchases increased for the first time since November 2014, but a number of firms linked this to weaker than expected demand patterns. Suppliers' delivery times lengthened slightly during the latest survey period, with worsening vendor performance partly linked to capacity cutbacks. Meanwhile, a robust pace of input cost inflation persisted in February, while factory gate charges increased for the second month running.

Payroll numbers dropped again in February and the rate of job shedding accelerated slightly from that recorded at the start of 2016. Survey respondents generally noted that a lack of pressure on operating capacity had resulted in hiring freezes and the non-replacement of voluntary leavers. At the same time, manufacturers reduced their stocks of finished goods in February, in part reflecting efforts to improve cash flow through tighter inventory management.

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



## Components of the RBC Canadian Manufacturing PMI™

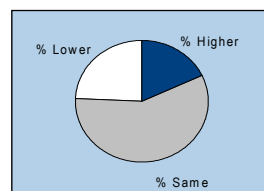
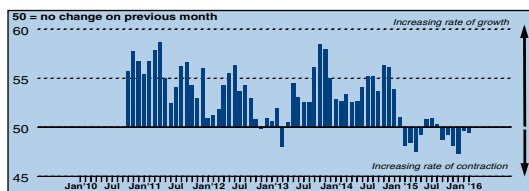
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

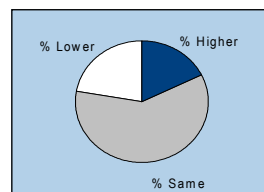
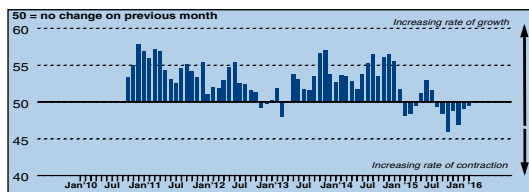
Q. Please compare the state of your new orders (in units) this month with one month ago.



Canadian manufacturers indicated another marginal reduction in new business in February. Adjusted for seasonal influences, the New Orders Index has now registered below the neutral 50.0 threshold for six months running. However, the rate of decline remained slower than the survey-record low seen at the end of 2015. Manufacturers noted subdued demand patterns and efforts by customers to reduce inventory levels.

## Output Index (0.25)

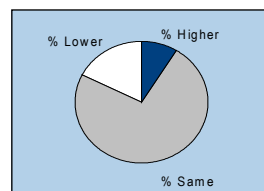
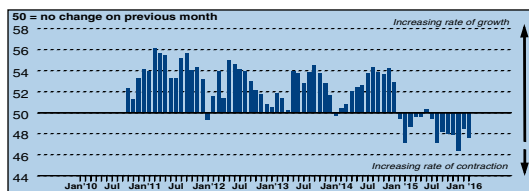
Q. Please compare your production/output this month with the situation one month ago.



February data pointed to another reduction in manufacturing production volumes, which extended the current period of decline to seven months. However, the seasonally adjusted Output Index signalled that the rate of contraction was only marginal and the least marked since the downturn began in August 2015. Survey respondents mainly linked lower output to weaker demand from clients in the energy sector.

## Employment Index (0.20)

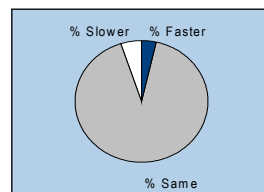
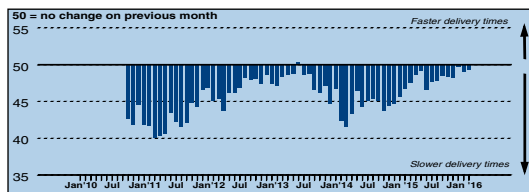
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Adjusted for seasonal influences, the Employment Index pointed to a moderate fall in staffing levels during February. Lower workforce numbers have now been recorded for eight months running, and the latest decline was slightly faster than at the start of 2016. Anecdotal evidence mainly pointed to job shedding in response to a sustained fall in demand. Some firms pointed to hiring freezes and the non-replacement of voluntary leavers.

## Suppliers' Delivery Times Index (0.15)

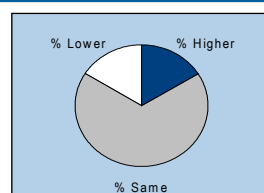
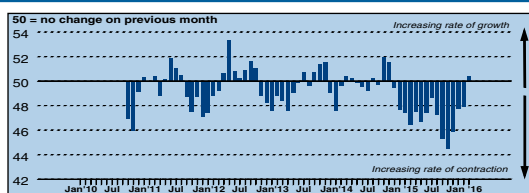
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index posted slightly below the neutral 50.0 threshold in February, to highlight only a marginal deterioration in vendor performance. Some manufacturers noted that softer demand for inputs had helped to alleviate supply chain bottlenecks, although there were also reports that tighter inventory management continued to exert a negative influence on overall vendor performance.

## Stocks of Purchases Index (0.10)

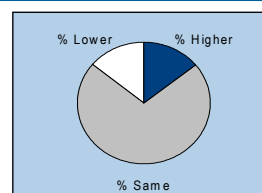
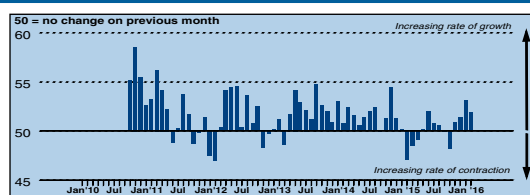
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Purchases Index rose back above the 50.0 no-change mark in February, thereby ending a 14-month period of destocking across the manufacturing sector. However, the latest reading signalled only a fractional overall increase in pre-production inventories.

## New Export Orders Index

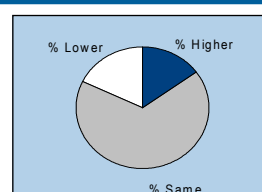
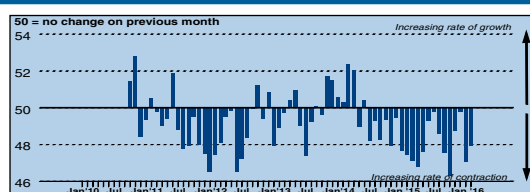
Q. Please compare the state of your new export orders (in units) this month with one month ago.



New business from abroad increased for the fourth consecutive month in February. The seasonally adjusted New Export Orders Index pointed to a slower rate of expansion than in January, but the latest reading was still the second-highest since June 2015. Survey respondents widely noted that exchange rate depreciation against the U.S. dollar had contributed to a rise in new export sales at their plants.

## Stocks of Finished Goods Index

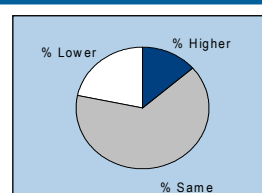
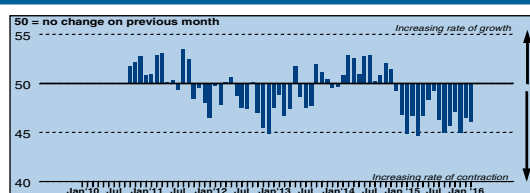
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



In contrast to the trend for pre-production inventories, the latest survey pointed to another reduction in stocks of finished goods across the Canadian manufacturing sector. Adjusted for seasonal influences, the Stocks of Finished Goods Index has now posted below the neutral 50.0 value for 20 consecutive months. Panel members noted that efforts to improve cash flow had resulted in lower inventory holdings in February.

## Backlogs of Work Index

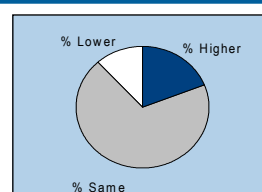
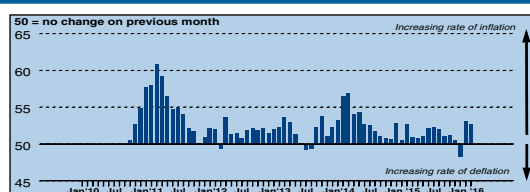
Q. Please compare the level of outstanding business in your company this month with one month ago.



Weaker volumes of new business contributed to another drop in pressures on operating capacity across the manufacturing sector in February. Reflecting this, the seasonally adjusted Backlogs of Work Index registered below the 50.0 no-change value for the fifteenth month running and pointed to a faster decline in unfinished business than seen on average since the survey began in late-2010.

## Output Prices Index

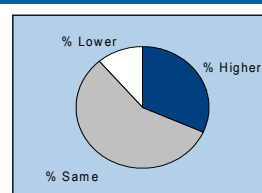
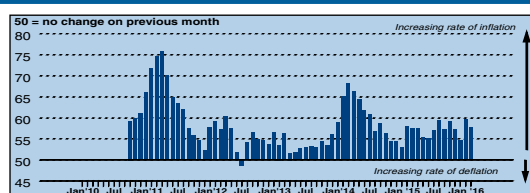
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Manufacturers reported a moderate increase in their factory gate charges in February. However, the seasonally adjusted Output Prices Index signalled that the rate of inflation eased from January's 20-month high. Companies that recorded a rise in their output charges overwhelmingly linked this to higher imported raw material prices during the latest survey period.

## Input Prices Index

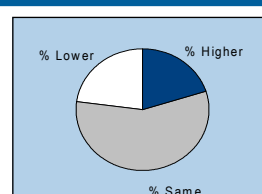
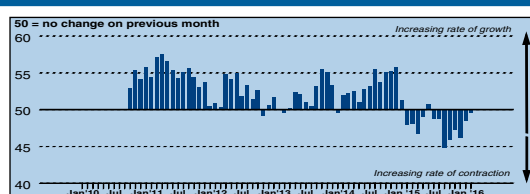
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



February data signalled a robust increase in average cost burdens at manufacturing firms. That said, the seasonally adjusted Input Prices Index pointed to a slower rate of inflation than the 18-month high seen in January. Anecdotal evidence from survey respondents widely suggested that the weaker exchange rate continued to push up the cost of imported materials.

## Quantity of Purchases Index

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



Input buying continued to decrease in February, with the seasonally adjusted Quantity of Purchases Index registering below the 50.0 no-change value for the eighth consecutive month. Nonetheless, the latest reduction in purchasing activity was only marginal and the weakest in the current period of contraction.



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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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