

## Canadian manufacturing sector returns to growth in March

## Key findings:

- Modest rebound in output and new business levels
- New export orders increase at faster pace
- Employment numbers stabilize, following eight-month period of decline

Canadian manufacturers indicated a positive end to the first quarter, with production and overall new orders returning to growth after a sustained period of decline. Stronger export demand was a key driver behind the rebound in manufacturing conditions, with new work from abroad rising at the joint-fastest pace since November 2014. Survey respondents noted that exchange rate depreciation had encouraged greater focus on export markets in recent months, which helped to boost sales to U.S. clients in particular. Manufacturers nonetheless continued to experience strong input price inflation as suppliers passed on higher imported raw material costs, which contributed to another solid rise in factory gate charges in March.

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 51.5 in March, up from 49.4 in February, the seasonally adjusted RBC Canadian Manufacturing PMI posted above the critical 50.0 no-change threshold for the first time in eight months. Moreover, although pointing to only a moderate improvement in business conditions, the index was the highest since December 2014.

The upturn in manufacturing performance was underpinned by a modest rebound in production during March, which ended a seven-month period of falling output volumes. Reports from survey respondents suggested that a combination of stronger demand

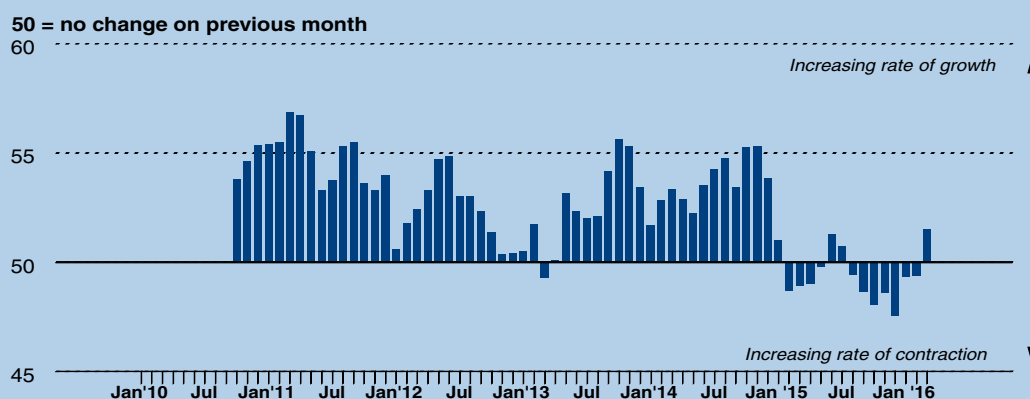
conditions and the desire to stabilize inventories had acted as a boost to production schedules. Some firms also noted that efforts to improve productivity at their plants had supported output growth in March.

Latest data highlighted an increase in overall levels of new work for the first time since August 2015 and, although only moderate, the pace of expansion was the fastest for 15 months. The main reasons cited were greater export sales, new product launches and competitive pricing strategies. Manufacturers also continued to report weak demand from clients in the energy sector. At the same time, new orders from abroad rose for the fifth month running, and the pace of expansion was the joint-fastest since November 2014.

Manufacturers continued to report cautious job hiring strategies at their plants. However, the latest survey indicated that overall payroll numbers stabilized in March, thereby ending an eight-month period of falling workforce levels. Meanwhile, a lack of pressure on operating capacity persisted as backlogs of work dropped again across the manufacturing sector.

Renewed production growth and a rebound in new work resulted in greater input buying during March. Although only marginal, the upturn in purchasing activity was the fastest since January 2015. Some firms also noted efforts to boost pre-production inventories amid lower stocks and longer lead-times from suppliers.

On the prices front, latest data pointed to a robust pace of cost inflation. Despite reports of squeezed pricing power, manufacturers passed on a proportion of their higher costs to clients in March, with the rate of charge inflation picking up slightly since February.

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

## Components of the RBC Canadian Manufacturing PMI™

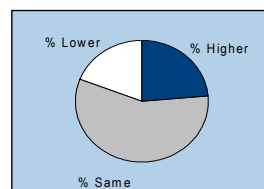
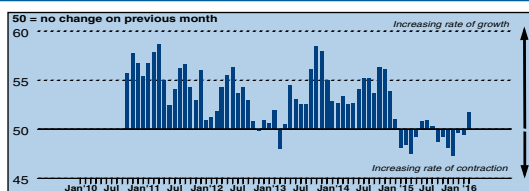
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

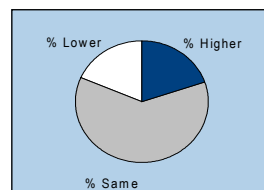
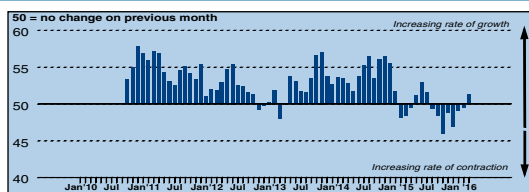
Q. Please compare the state of your new orders (in units) this month with one month ago.



March data signalled a rebound in new work received by Canadian manufacturing companies, thereby ending a six-month period of sustained decline. Although the seasonally adjusted New Orders Index pointed to only a moderate pace of expansion, the latest reading was the highest since December 2014. Survey respondents widely commented that a recovery in new export sales had underpinned growth in March.

### Output Index (0.25)

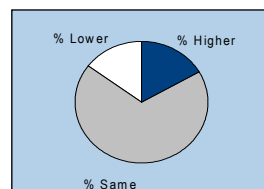
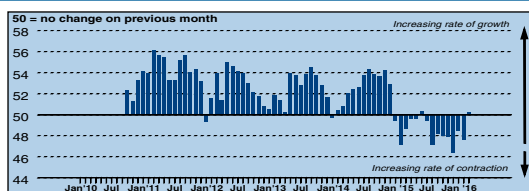
Q. Please compare your production/output this month with the situation one month ago.



In line with the trend for new work, the seasonally adjusted Output Index indicated a return to production growth across the manufacturing sector during March. The increase in output levels was the first since July 2015, but weaker than the long-run survey average. Manufacturers noted that stronger demand conditions and, in some cases, successful efforts to boost productivity had led to rising output volumes at their plants.

### Employment Index (0.20)

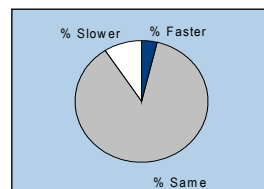
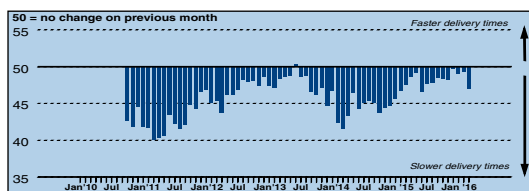
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Staffing numbers broadly stabilized in March, which ended an eight-month period of job cuts across the manufacturing sector as a whole. Adjusted for seasonal influences, the Employment Index was fractionally above the 50.0 no-change value in March. Anecdotal evidence suggested that the uncertain economic outlook and reduced pressure on operating capacity had held back staff hiring among manufacturing firms.

### Suppliers' Delivery Times Index (0.15)

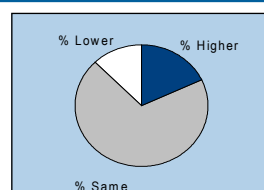
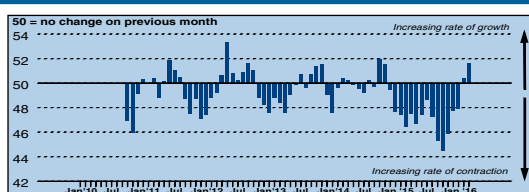
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Manufacturers indicated an ongoing deterioration in vendor performance during March, as highlighted by the seasonally adjusted Suppliers' Delivery Times Index positing below the neutral 50.0 threshold for the thirty-third month running. Moreover, the latest reading pointed to the greatest lengthening of lead-times since June 2015. Panel members mainly cited low stocks and capacity cutbacks at suppliers.

### Stocks of Purchases Index (0.10)

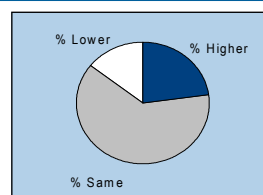
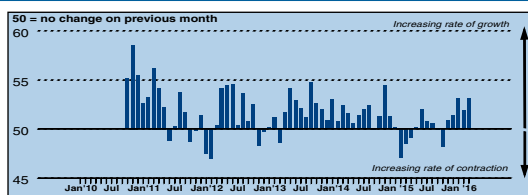
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Purchases Index pointed to a further modest increase in pre-production inventory volumes across the manufacturing sector during March. Although only marginal, the latest increase in stocks of purchases was the fastest since November 2014. Some firms suggested that reduced raw material availability and longer supplier lead-times had encouraged stock building at their plants.

## New Export Orders Index

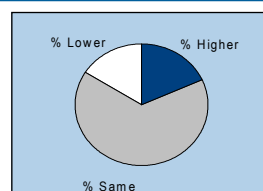
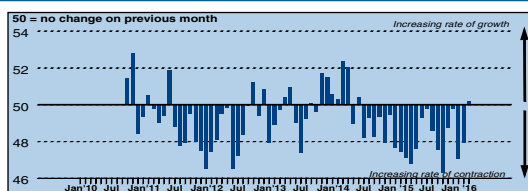
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Faster growth of incoming new work from abroad helped to support the overall upturn across the manufacturing sector in March. The seasonally adjusted New Export Orders Index registered above the 50.0 no-change mark for the fifth consecutive month and pointed to the joint-fastest pace of expansion since November 2014. Manufacturers widely commented that the weaker exchange rate had boosted demand from clients in the U.S.

## Stocks of Finished Goods Index

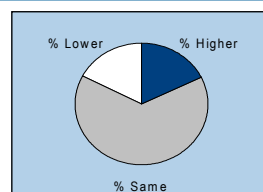
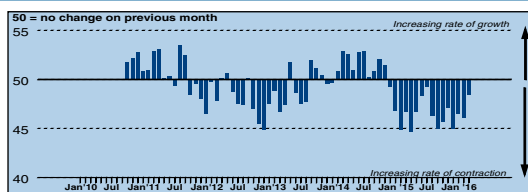
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Canadian manufacturers indicated that post-production inventories stabilized in March. Adjusted for seasonal influences, the Stocks of Finished Goods Index was fractionally above the 50.0 no-change threshold, which was the first positive reading since June 2014. Of those companies that reported a rise in their stocks of finished goods, a number cited deliberate inventory replenishment amid improving sales volumes.

## Backlogs of Work Index

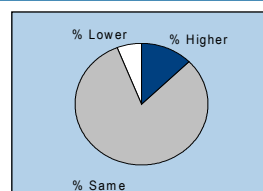
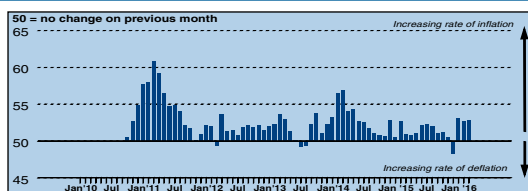
Q. Please compare the level of outstanding business in your company this month with one month ago.



The seasonally adjusted Backlogs of Work Index remained inside contraction territory during March, which suggested an ongoing lack of pressure on operating capacity across the manufacturing sector. Lower levels of unfinished work have been reported for almost a year-and-a-half, but the latest reduction was only moderate and the slowest since July 2015.

## Output Prices Index

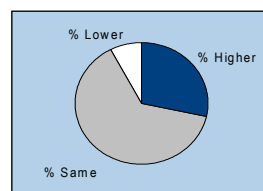
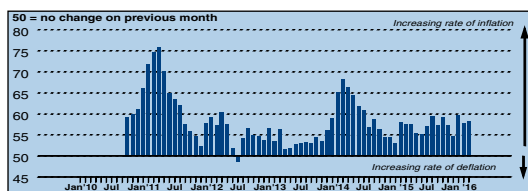
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Factory gate charges increased for the third month running in March. The seasonally adjusted Output Prices Index was slightly above the long-run survey average (52.6) and pointed to a solid rate of inflation. Reports from panel members indicated that the efforts to pass on higher imported raw material costs had contributed to greater output charges, although manufacturers also commented on weak pricing power.

## Input Prices Index

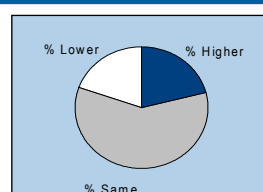
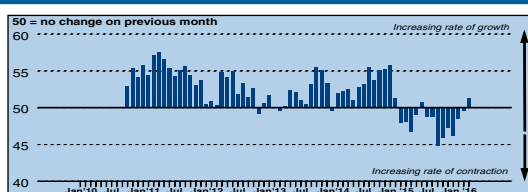
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Anecdotal evidence suggested that exchange rate depreciation against the U.S. dollar continued to drive up input costs across the manufacturing sector in March. The seasonally adjusted Input Prices Index rose to its second-highest level since October 2015 and signalled a robust rate of overall cost inflation.

## Quantity of Purchases Index

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



Higher levels of production and efforts to boost stocks of inputs resulted in a rebound in purchasing activity among manufacturing firms in March. Adjusted for seasonal influences, the Quantity of Purchases Index highlighted a rise in input buying for the first time in nine months. Moreover, although only moderate, the rate of expansion was the steepest since January 2015.



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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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