

In association with the Purchasing Management Association of Canada

## Improved manufacturing conditions in March boost RBC PMI to highest level so far this year

## Key findings:

- Output and new orders both increase modestly in March
- Fastest rate of job creation since last November
- Average selling prices fall for first time in 18-month series history

Canadian manufacturing business conditions strengthened in March. The latest improvement was the strongest in 2012 so far, with firms generally citing greater client demand. New orders and output both increased over the month, although growth in the latter was the second-weakest in the 18-month survey history. Concurrently, job creation was at a four-month high in March, while the rate of input price inflation eased since February.

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.

Business conditions in Canada's manufacturing sector improved moderately in March, as signalled by the RBC PMI registering above the 50.0 no-change mark. At 52.4, up from 51.8 in February, the PMI indicated the strongest improvement in operating conditions so far in 2012. Nevertheless, the average PMI reading for Q1 as a whole (51.6) was the lowest since data collection began in October 2010.

Firms generally linked the latest improvement in business conditions to greater client demand. Incoming new work rose modestly in March, with the latest expansion the strongest in three months. Moreover, new export orders also increased over the month, albeit fractionally, in contrast to declines reported in January and February.

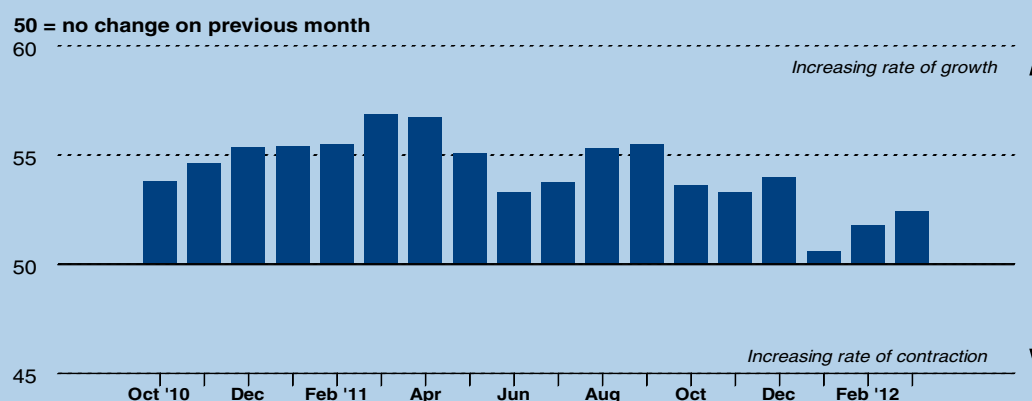
Reflective of greater client demand, Canadian manufacturers raised

production during the latest survey period. Output has increased in each month since data collection began in October 2010, but the latest rise was nonetheless the second-weakest in this sequence of growth. Panellists also depleted stocks of finished goods to help fulfil new order requirements, while backlogs of work fell moderately overall.

The amount of inputs purchased by monitored companies increased in March, albeit marginally and at the weakest pace in the 18-month series history. Meanwhile, input inventories were depleted for the seventh consecutive month. A number of panellists cited leaner stock holding policies. Concurrently, suppliers' delivery times lengthened further in March. Anecdotal evidence suggested that vendors struggled to meet greater demand for inputs during the latest survey period.

Employment in Canada's manufacturing sector rose solidly in March. Approximately one-fifth of respondents hired additional staff (while 11% reduced their workforces), with the overall rate of job creation the strongest since last November.

Canadian manufacturers reported higher input costs in March, with fuel, steel and resin all particularly mentioned as having increased in cost. Although the rate of input price inflation remained strong, it was nonetheless the weakest in three months. Meanwhile, firms reduced their selling prices during the latest survey period, largely commenting on stronger competitive pressures. Notably, this was the first reduction in factory gate prices in 18 months of data collection.

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

## Components of the RBC Canadian Manufacturing PMI™

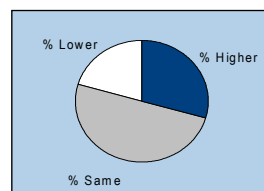
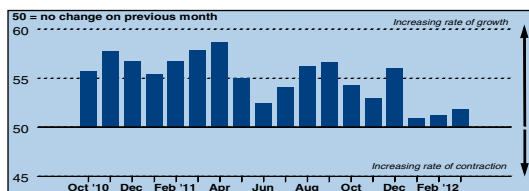
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

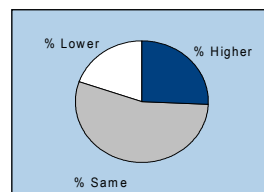
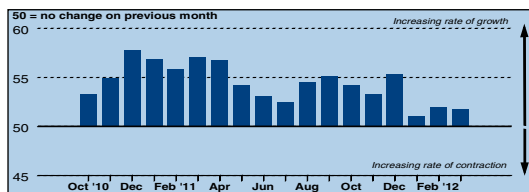
Q. Please compare the state of your new orders (in units) this month with one month ago.



Incoming new work at Canadian manufacturers increased further in March. Approximately 30% of firms received a larger volume of new orders during the latest survey period, generally attributing this to greater client demand and new contract wins. Despite the latest expansion in new orders being the fastest in 2012 so far, it remained weaker than the series average.

### Output Index (0.25)

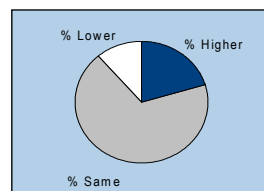
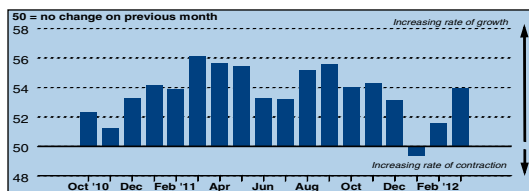
Q. Please compare your production/output this month with the situation one month ago.



Following the trend that has been registered in each month since data collection began in October 2010, Canadian manufacturing firms reported a further increase in output during March. Panellists cited greater demand as the main contributor to the rise in production. That said, the rate of output growth was slightly weaker than that registered in February and the second-slowest in the series history.

### Employment Index (0.20)

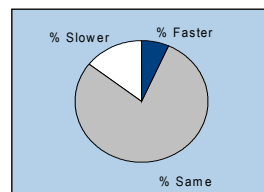
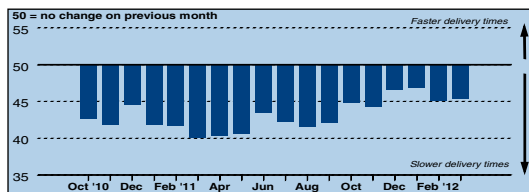
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in Canada's manufacturing sector rose solidly in March, as signalled by the seasonally adjusted Employment Index posting above the 50.0 no-change mark. Having risen since the previous survey period, the index indicated the fastest rate of job creation in four months. Firms that hired additional staff in March (approximately one-fifth) largely commented on higher production requirements.

### Suppliers' Delivery Times Index (0.15)

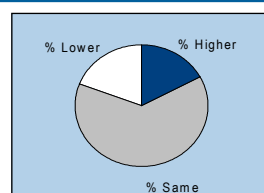
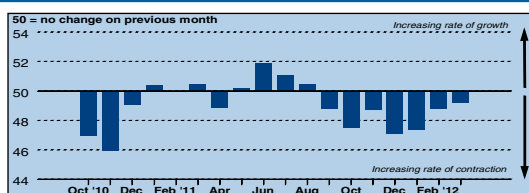
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Suppliers' delivery times lengthened further during March, with approximately 15% of surveyed firms reporting a deterioration in vendors' performance over the month. Anecdotal evidence provided by panellists suggested that suppliers were working with leaner inventories during the latest survey period, and struggled to meet greater demand for inputs.

### Stocks of Purchases Index (0.10)

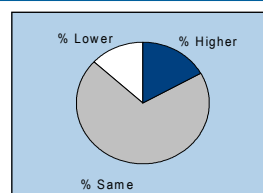
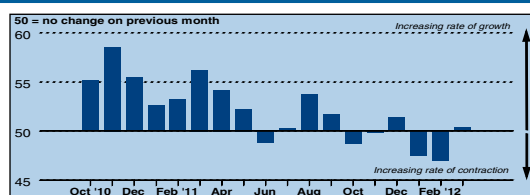
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Canadian manufacturers depleted stocks of purchases for the seventh consecutive month in March. However, the latest reduction of input inventories was only marginal and the weakest in this sequence of decline. Where lower stocks of pre-production goods were reported, panellists generally attributed the reduction to leaner stock holding policies.

## New Export Orders Index

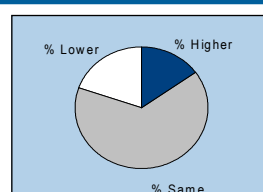
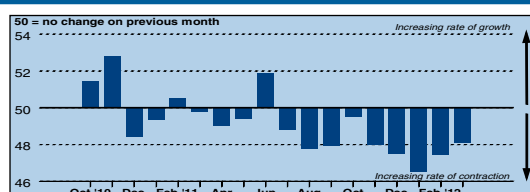
Q. Please compare the state of your new export orders (in units) this month with one month ago.



The seasonally adjusted New Export Orders Index signalled only a marginal rise in the volume of new export orders received by Canadian manufacturing companies in March. Nevertheless, this was the first increase in new work from abroad in 2012 so far. Firms that reported an increase in new export orders (approximately 17%) generally commented on greater demand, particularly from the US.

## Stocks of Finished Goods Index

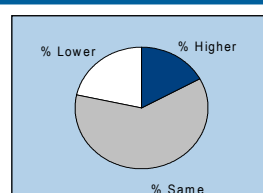
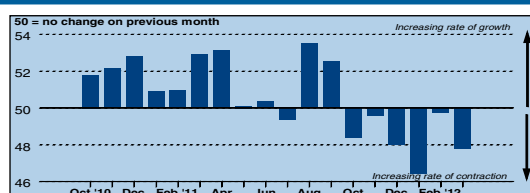
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Holdings of post-production goods at Canadian manufacturers fell for the ninth successive month in March. A number of monitored companies commented that stocks of finished goods were reduced to partly fulfil higher new orders during the latest survey period. Overall, the latest depletion of finished goods inventories was modest and the weakest since last October.

## Backlogs of Work Index

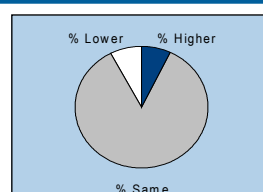
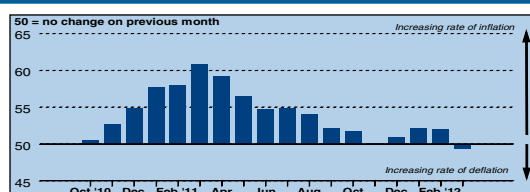
Q. Please compare the level of outstanding business in your company this month with one month ago.



Outstanding business at Canadian manufacturing firms fell further during March. Lower backlogs of work have been reported in each month since last October, with the latest reduction solid overall. Anecdotal evidence suggested that outstanding work was partly fulfilled through an increase in production during March.

## Output Prices Index

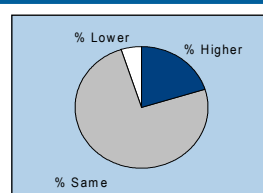
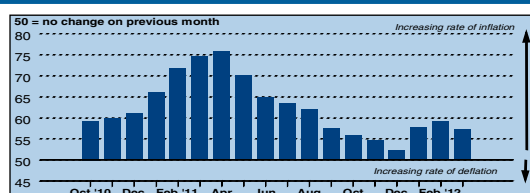
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



The average price charged by Canadian manufacturers fell during March, as indicated by the seasonally adjusted Output Prices Index posting below the 50.0 no-change mark. Notably, this was the first reduction in factory gate prices since data collection began in October 2010. Panellists that lowered their output charges generally cited stronger competitive pressures during the latest survey period.

## Input Prices Index

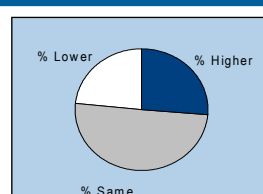
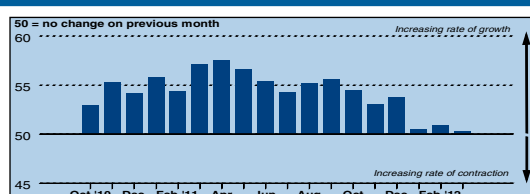
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Manufacturing companies operating in Canada reported a further rise in input costs in March. Raw materials such as fuel, steel and resin were all particularly mentioned by panellists as having increased in price. Overall, the rate of input price inflation remained strong, but weakened since the previous survey period to a three-month low.

## Quantity of Purchases Index

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



The amount of inputs bought by Canadian manufacturers increased further in March. Approximately 26% of surveyed firms purchased additional inputs over the month, generally citing higher production requirements. The latest rise in purchases was only marginal, however, and the weakest in the 18-month series history.



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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 geographically 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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