

In association with the Purchasing Management Association of Canada

Both output and new order growth accelerates to fastest rates in 2012 so far

Key findings:

- RBC PMI at four-month high, but still below the series trend
- Greater client demand supports further increases in both total and export orders
- Employment growth the weakest in three months

April data signalled the strongest improvement in Canadian manufacturing business conditions in 2012 so far. Both output and new orders increased since March, with firms generally linking this to greater client demand. Notably, new export orders grew solidly and at the fastest pace in a year. Canadian manufacturers hired additional staff in April, albeit job creation was the slowest in three months, while the rate of input price inflation was the strongest since last August.

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.

Canadian manufacturing sector business conditions improved further in April, as indicated by the RBC PMI remaining above the 50.0 no-change mark. At 53.3, up from 52.4 in March, the PMI signalled the strongest improvement in operating conditions in 2012 so far. Although the PMI indicated a solid improvement in business conditions, the index remained below the series average in April.

Firms largely linked improved business conditions to greater client demand and new contract wins in April. Approximately 35% of firms received a larger volume of new orders compared with March, with the rate of growth accelerating to a four-month high. New work intakes from abroad also increased solidly in April, with new export

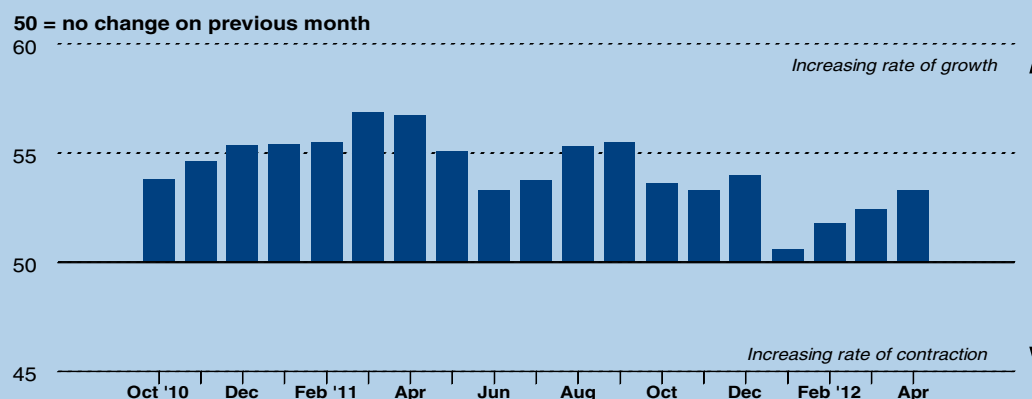
orders from the US particularly mentioned by survey respondents.

Reflective of the increase in new orders, Canadian manufacturers raised production and depleted stocks of finished goods in April. Output has increased in each month since data collection began in October 2010, with the latest rise the strongest since last December, while inventories of post-production goods declined for the tenth month running. Concurrently, backlogs of work were broadly unchanged since March.

The amount of inputs bought by Canadian manufacturing companies increased solidly during the latest survey period. Inventory holdings of pre-production materials also rose, increasing for the first time since August 2011. Suppliers' delivery times meanwhile lengthened further in April, with the latest deterioration in vendor performance the greatest in seven months.

Employment in Canada's manufacturing sector rose for the third consecutive month in April. Firms that hired additional staff generally commented on larger production requirements. That said, the rate of job creation eased since March, was slower than the series average, and the weakest in the current sequence of growth.

Input costs rose further in April, with panellists particularly mentioning fuel and raw materials as having increased in price. The rate of input price inflation was marked and the strongest in eight months. Firms passed parts of their greater cost burdens on to clients by raising their selling prices. Output charges rose solidly over the month, in contrast to a slight reduction reported in March.

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

Components of the RBC Canadian Manufacturing PMI™

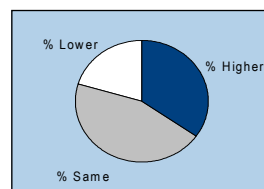
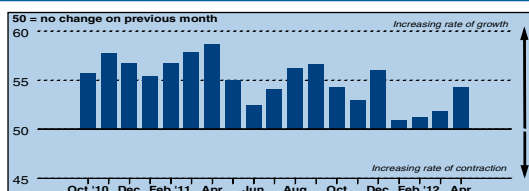
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

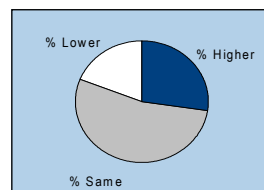
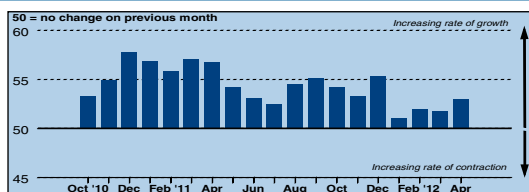
Q. Please compare the state of your new orders (in units) this month with one month ago.



After adjusting for seasonal variation, Canadian manufacturers received a larger volume of new orders in April. Approximately 35% of surveyed firms reported an increase in new work since March, with a number of panellists attributing this to greater demand and new client wins. Notably, the latest rise in new orders was the strongest in 2012 so far, with the New Orders Index rising over two points during the latest survey period.

Output Index (0.25)

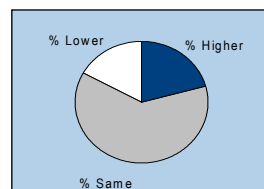
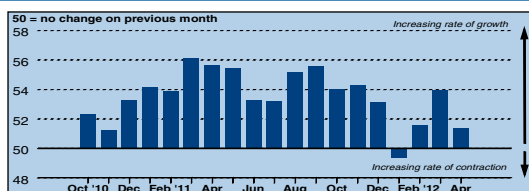
Q. Please compare your production/output this month with the situation one month ago.



Continuing the trend that has been registered in each month since data collection began in October 2010, Canadian manufacturing companies increased production in April. Output rose solidly over the month, with the rate of growth the strongest since last December, but slower than the series trend. Firms that reported an increase in output (approximately 27%), generally cited larger new order requirements in April.

Employment Index (0.20)

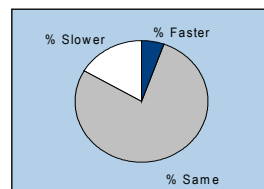
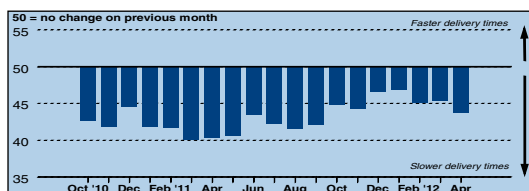
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in Canada's manufacturing sector increased for the third consecutive month in April. Panellists generally linked the latest rise in staff headcounts to the increase in production. That said, the rate of job creation was slower than the series average and the weakest in the current sequence of growth. A number of respondents commented that leavers were not replaced during April.

Suppliers' Delivery Times Index (0.15)

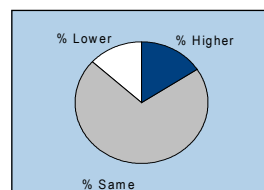
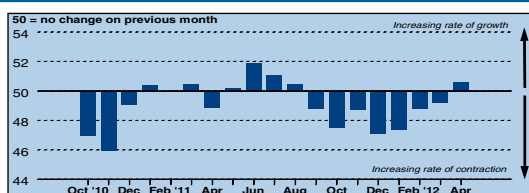
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Lead times on inputs lengthened further in April, as signalled by the seasonally adjusted Suppliers' Delivery Times Index remaining below the 50.0 no-change mark. Anecdotal evidence suggested that suppliers were under pressure as they struggled with greater demand for inputs. The index fell to a seven-month low in April, and indicated a strong deterioration in overall vendor performance.

Stocks of Purchases Index (0.10)

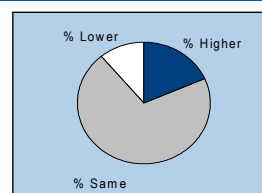
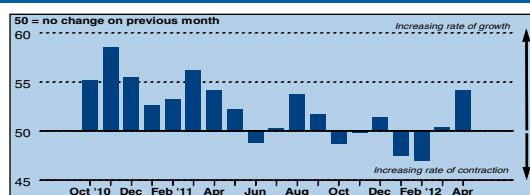
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



April data signalled the first rise in input inventories since August 2011. Although only marginal, the rate of stock accumulation was the third-strongest in the 19-month series history, with almost 16% of surveyed firms raising their holdings of pre-production materials. Where stocks of purchases increased, monitored companies generally commented on recent increases in new orders.

New Export Orders Index

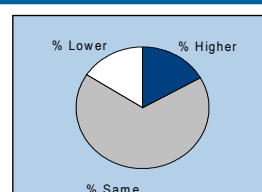
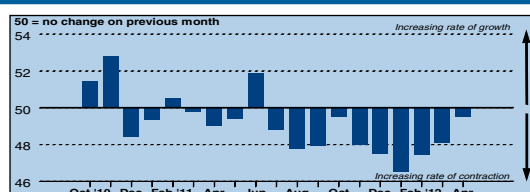
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Canadian manufacturers reported a solid rise in new export work in April. This was signalled by the seasonally adjusted New Export Orders Index rising approximately four points since March to its highest reading in a year. Canadian manufacturers generally attributed the increase in new work intakes from abroad to recent new contract wins, particularly from the US.

Stocks of Finished Goods Index

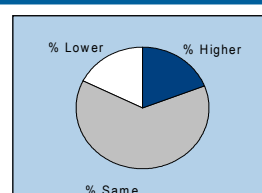
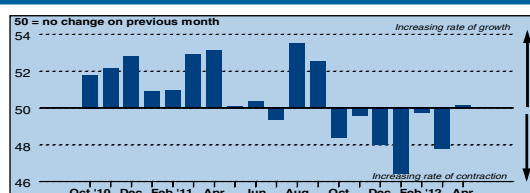
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Firms working in Canada's manufacturing sector reduced their holdings of finished goods for the tenth month running in April. Panellists commented that some new order obligations were fulfilled through the depletion of inventories of post-production goods during the latest survey period. That said, the latest reduction of stocks of finished goods was only marginal and the weakest since last October.

Backlogs of Work Index

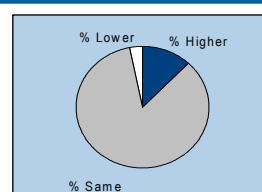
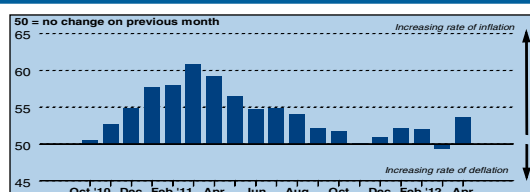
Q. Please compare the level of outstanding business in your company this month with one month ago.



Outstanding business at Canadian manufacturers was broadly unchanged in April, as indicated by the seasonally adjusted Backlogs of Work Index posting only slightly above the neutral 50.0 mark. Respondents that reported an increase in work-in-hand generally cited a larger volume of new orders, while panellists that registered a reduction in backlogs attributed this to recent improvements to the production process.

Output Prices Index

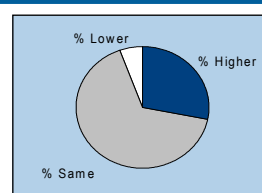
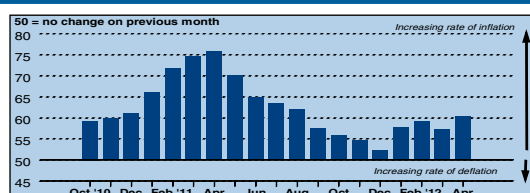
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



In contrast to the slight reduction reported in March, the average price charged by Canadian manufacturing firms increased in April. Output prices rose solidly over the month, with the rate of inflation the strongest since August 2011. Approximately 12% of surveyed firms raised their selling prices in April, with a number of respondents reporting that higher raw material costs were passed on to clients.

Input Prices Index

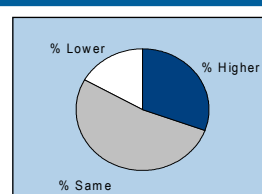
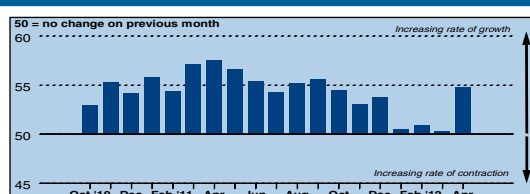
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input costs faced by Canadian manufacturers rose further in April, as has been the case in each month since data collection began in October 2010. Fuel and raw materials such as resin and metals were particularly mentioned by panellists as having increased in price during the latest survey period. Notably, cost burdens rose markedly in April, with the rate of input price inflation strengthening to an eight-month high.

Quantity of Purchases Index

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



Reflective of the increase in output, surveyed firms bought a larger amount of pre-production materials in April. Around 31% of respondents raised their purchasing activity compared with one month earlier. The seasonally adjusted Quantity of Purchases Index rose sharply since March to reach its highest reading in seven months, and signalled a solid increase in the amount of inputs purchased in April.



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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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