April data highlighted a sustained recovery in business conditions across the Canadian manufacturing sector, with growth of output, new orders and employment all accelerating since the previous month. At the same time, manufacturers pointed to the weakest rate of input price inflation so far in 2016, despite rising demand for raw materials and some reports of renewed stock shortages among suppliers. Reduced cost pressures and efforts to stimulate client demand in turn contributed to a decline in factory gate charges for the first time in three months.

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 52.2 in April, up slightly from 51.5 in March and above the neutral 50.0 threshold for the second month running. Although indicative of a moderate improvement in business conditions, the latest reading was the strongest since December 2014. This was mainly driven by a rebound in output, new business and employment growth. Meanwhile, the only negative influence on the headline PMI was a fractional reduction in stocks of purchases during April, which reflected ongoing caution among manufacturers in relation to their inventory management.

Canadian manufacturers experienced a moderate expansion of production volumes during April, with the latest upturn the fastest since June 2015. Survey respondents cited greater new order levels and, in some cases, renewed efforts to boost operating capacity at their plants. After a return to growth in March, the latest survey pointed to the fastest improvement in incoming new work for almost a year-and-a-half in April. This partly reflected another increase in new export sales, which manufacturers linked to exchange rate factors and rising demand from U.S. clients. That said, the latest rise in overall new work from abroad was only modest and the softest since November 2015.

Job creation gathered pace across the manufacturing sector in April, as highlighted by the strongest upturn in payroll numbers since December 2014. Input buying also expanded at the fastest pace for almost a year-and-a-half, which contributed to pressures on supply chains and another deterioration in vendor performance. However, manufacturers remained cautious about their inventory holdings in April, with firms reporting slight reductions in both their stocks of inputs and finished goods.

Meanwhile, average cost burdens continued to rise at manufacturing firms in April, but the rate of inflation eased markedly since March and was the weakest so far in 2016. While most survey respondents cited elevated imported raw material costs, some firms commented on successful price negotiations following the recent strengthening of the loonie. In contrast to the trend for input costs, latest data highlighted a slight reduction in factory gate charges across the manufacturing sector, which was attributed to squeezed pricing power and efforts to stimulate client demand.
Companies in the Canadian manufacturing sector recorded a second successive increase in order book volumes in April. Furthermore, the latest increase was the most marked since December 2014. According to anecdotal evidence, this was partly driven by greater demand from U.S. clients. Approximately 26% of survey respondents recorded a rise in new work, while just over one-fifth reported a fall.

In line with the trend for new work, production at Canadian manufacturing companies increased for the second consecutive month during April. Furthermore, the seasonally adjusted Output Index indicated that the rate of expansion was the most marked in ten months. Survey respondents linked the rise in production to an increase in operating capacity and improved demand patterns.

Staffing numbers in the manufacturing sector continued to strengthen in April, as highlighted by the seasonally adjusted Employment Index posting above the 50.0 no-change mark for the second successive month. Moreover, the rate of increase was solid, and the most marked since December 2014. Panel members commented on the need to support increased sales volumes as a key reason behind the expansion.

Average lead-times slowed further in April, extending the current sequence of decline to 34 months. The rate of deterioration in vendor performance was unchanged from March and remained less marked than seen on average since the survey began in 2010. Anecdotal evidence suggested that some suppliers had cut operating capacity and were struggling to meet increased demand.

Stocks of raw materials and other pre-production inventories slipped back into contraction territory in April. This was highlighted by the respective seasonally adjusted index registering below the 50.0 no-change threshold. That said, the rate of decline was only fractional. Some panellists commented on tighter inventory management strategies as a reason for the reduction in stocks of purchases.
The upturn in foreign demand for Canadian manufactured goods continued for the sixth consecutive month in April. That said, the rate of growth was below the average for this sequence, and only modest overall. Panel members reported that the increase in demand from abroad had been supported by the relatively weak exchange rate and rising demand from U.S. clients.

Adjusted for seasonal influences, the Stocks of Finished Goods Index registered below the 50.0 no-change benchmark, thereby signalling that the level of post-production inventories at manufacturing companies slipped back into contraction during April. That said, the rate of decline was marginal. Anecdotal evidence suggested that efforts to improve cash flow was a driver behind this reduction.

Volumes of unfinished orders at Canadian manufacturing companies were depleted further during April, signalling an ongoing lack of pressure on operating capacity. The latest decrease extended the current sequence of decline to 17 months, and was moderate overall. Approximately 16% of survey respondents reported higher levels of work-in-hand, whilst exactly 19% recorded lower levels.

Output charges at manufacturing companies decreased for the first time in four months during April. There was some evidence that suggested this decline in output tariffs reflected competitive pricing strategies in response to subdued client demand. While the pace of contraction was fractional, it contrasted with sustained output charge inflation during much of the survey’s six-and-a-half year history.

Input price inflation at Canadian manufacturing companies remained robust during April. The respective seasonally adjusted index posted above the 50.0 neutral threshold, continuing a trend that has been observed throughout most of the survey history. Where an increase in input costs was reported, survey panellists generally linked this to exchange rate depreciation.

The seasonally adjusted Quantity of Purchases Index pointed to a further modest increase in input buying across the manufacturing sector in April. Although only marginal, the latest increase in input buying was nonetheless the fastest since December 2014. An increase in sales volumes was commented on by companies that reported higher purchasing activity.
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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.

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