RBC Canadian Manufacturing PMI™

compiled by markit

In association with the Supply Chain Management Association

Manufacturing PMI signals strongest improvement in business conditions since December 2014

Key findings:

- Sustained rebound in output and new business volumes in April
- Manufacturing employment rises for the second month running
- Input cost inflation eases to its lowest so far in 2016

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.

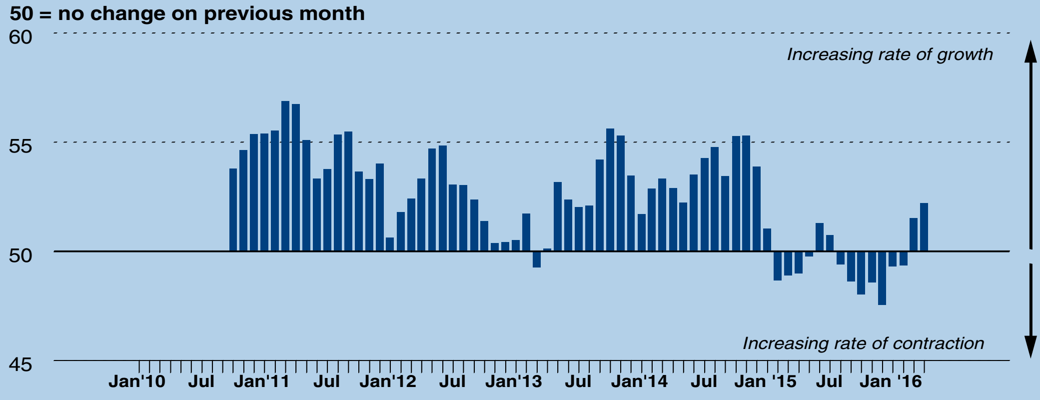
Adjusted for seasonal influences, the RBC Canadian Manufacturing PMI registered 52.2 in April, up slightly from 51.5 in March and above the neutral 50.0 threshold for the second month running. Although indicative of a moderate improvement in business conditions, the latest reading was the strongest since 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.

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



In association with

Components of the RBC Canadian Manufacturing PMI™

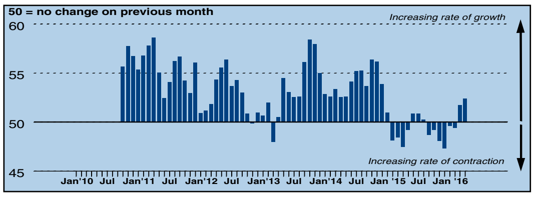
The RBC Canadian Manufacturing *Purchasing Managers' Index™ (PMI™)* is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

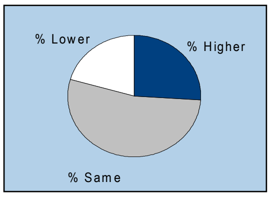
New Orders	0.30
Output	0.25
Employment	0.20
Suppliers' Delivery Times (inverted)	0.15
Stocks of Purchases	0.10

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.

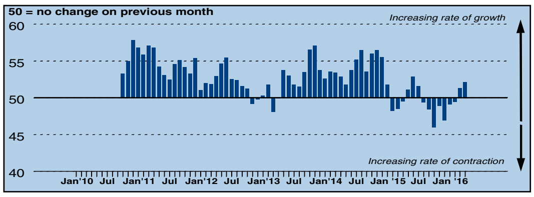


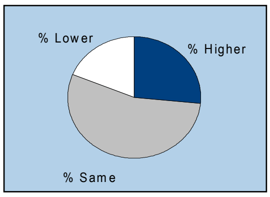


Companies in the Canadian manufacturing sector recorded a second successive increase in order book volumes in April. Furthermore, the latest increase was the most marked since December 2014. According to anecdotal evidence, this was partly driven by greater demand from U.S. clients. Approximately 26% of survey respondents recorded a rise in new work, while just over one-fifth reported a fall.

Output Index (0.25)

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

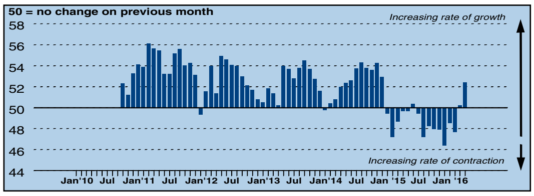


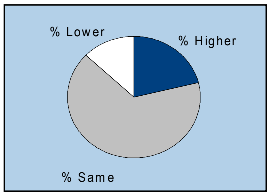


In line with the trend for new work, production at Canadian manufacturing companies increased for the second consecutive month during April. Furthermore, the seasonally adjusted Output Index indicated that the rate of expansion was the most marked in ten months. Survey respondents linked the rise in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

Employment Index (0.20)

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

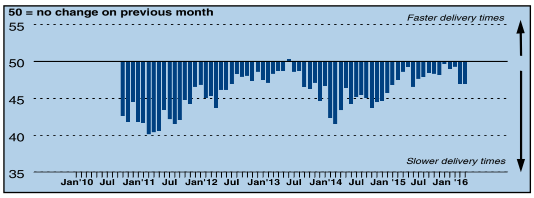


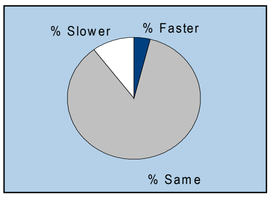


Staffing numbers in the manufacturing sector continued to strengthen in April, as highlighted by the seasonally adjusted Employment Index posting above the 50.0 no-change mark for the second successive month. Moreover, the rate of increase was solid, and the most marked since December 2014. Panel members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

Suppliers' Delivery Times Index (0.15)

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

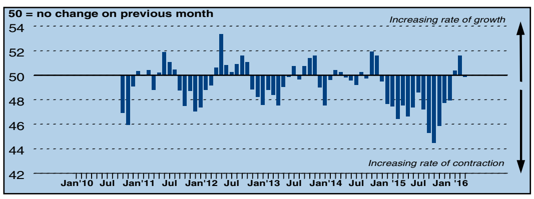


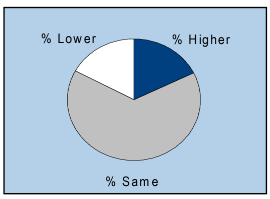


Average lead-times slowed further in April, extending the current sequence of decline to 34 months. The rate of deterioration in vendor performance was unchanged from March and remained less marked than seen on average since the survey began in 2010. Anecdotal evidence suggested that some suppliers had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

Stocks of Purchases Index (0.10)

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

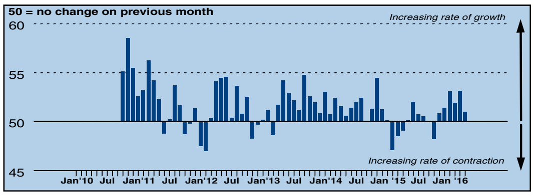


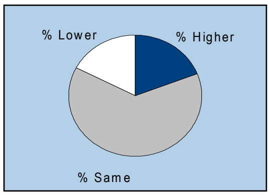


Stocks of raw materials and other pre-production inventories slipped back into contraction territory in April. This was highlighted by the respective seasonally adjusted index registering below the 50.0 no-change threshold. That said, the rate of decline was only fractional. Some panellists commented on tighter inventory management strategies as a reason for the reduction in stocks of purchases.

New Export Orders Index

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

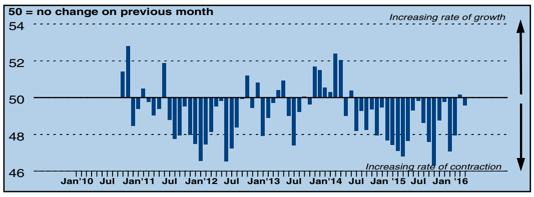


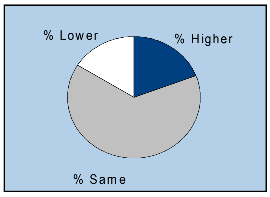


The upturn in foreign demand for Canadian manufactured goods continued for the sixth consecutive month in April. That said, the rate of growth was below the average for this sequence, and only modest overall. Panel members reported that the increase in demand from abroad had been supported by the relatively weak exchange rate and rising demand from U.S. clients.

Stocks of Finished Goods Index

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

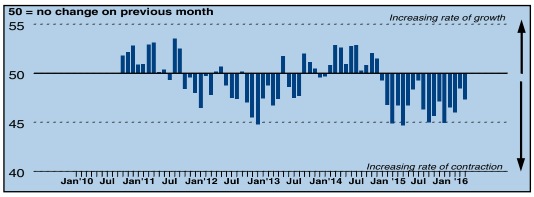


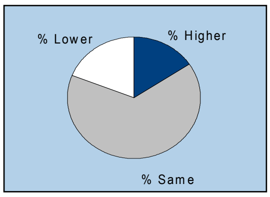


Adjusted for seasonal influences, the Stocks of Finished Goods Index registered below the 50.0 no-change benchmark, thereby signalling that the level of post-production inventories at manufacturing companies slipped back into contraction during April. That said, the rate of decline was marginal. Anecdotal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

Backlogs of Work Index

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

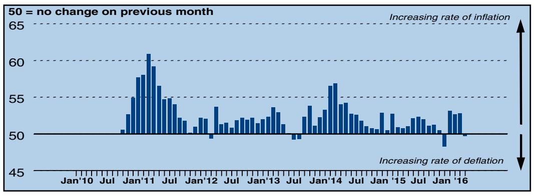


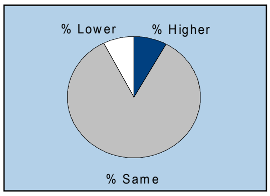


Volumes of unfinished orders at Canadian manufacturing companies were depleted further during April, signalling an ongoing lack of pressure on operating capacity. The latest decrease extended the current sequence of decline to 17 months, and was moderate overall. Approximately 16% of survey respondents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

Output Prices Index

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

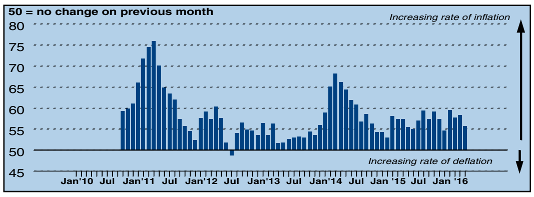


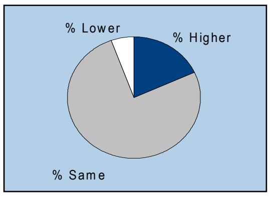


Output charges at manufacturing companies decreased for the first time in four months during April. There was some evidence that suggested this decline in output tariffs reflected competitive pricing strategies in response to subdued client demand. While the pace of contraction was fractional, it contrasted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

Input Prices Index

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

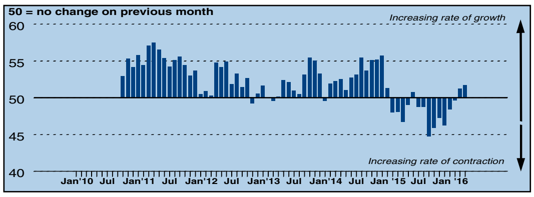


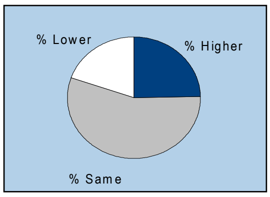


Input price inflation at Canadian manufacturing companies remained robust during April. The respective seasonally adjusted index posted above the 50.0 neutral threshold, continuing a trend that has been observed throughout most of the survey history. Where an increase in input costs was reported, survey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

Quantity of Purchases Index

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





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.

Royal Bank of Canada is Canada's largest bank, and one of the largest banks in the world, based on market capitalization. We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management, insurance, investor services and capital markets products and services on a global basis. We have over 80,000 full- and part-time employees who serve more than 16 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 37 other countries. For more information, please visit rbc.com

RBC helps communities prosper, supporting a broad range of community initiatives through donations, community investments, sponsorships and employee volunteer activities. In 2015, we contributed more than $100 million to causes around the world.

As the leading and largest association in Canada for supply chain management professionals, the Supply Chain Management Association (SCMA) is the national voice for advancing and promoting the profession. SCMA sets the standard of excellence for professional skills, knowledge and integrity and was the first supply chain association in the world to require that all members adhere to a Code of Ethics.

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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Purchasing Managers' Index™ (*PMI™*) surveys are now available for over 30 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

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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.