

News Release

RBC PMI™ at eight-month high in May with strong increases in both output and new orders

JUNE 1, 2012 – Canadian manufacturing business conditions improved to the greatest extent in eight months during May, according to the **RBC Canadian Manufacturing Purchasing Managers Index™ (RBC PMI™)**, a monthly survey, conducted in association with Markit, a leading global financial information services company, and the Purchasing Management Association of Canada (PMAC), which offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

The headline **RBC PMI** – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – signalled a strong improvement in Canadian manufacturing business conditions during May. At 54.7, up from 53.3 in April, the RBC PMI recorded the strongest monthly improvement since September 2011 and slightly above the historical average for the series (54.3).

The RBC PMI found that both output and new orders increased further in May, with firms generally citing greater client demand. Moreover, the rates of expansion were strong and the fastest in 2012 to date. Manufacturing employment increased for the fourth consecutive month in May, while the rates of input and output price inflation both slowed from those recorded in April.

“The Canadian manufacturing sector has proven to be quite resilient over the past several months against a backdrop of market uncertainty and softening conditions in many other parts of the world. Employment gains across the sector have been particularly strong since the beginning of the year, with the overall rate of job creation rising at the fastest pace since September 2011,” said **Craig Wright**, senior vice-president and chief economist, RBC. *“Manufacturing plays an important role in the country’s economic growth and we expect Canada’s GDP to grow by 2.6 per cent in 2012.”*

In addition to the [headline RBC PMI](#), the survey also tracks changes in output, new orders, employment, inventories, prices and supplier delivery times.

Key findings from the May survey include:

- RBC PMI signals strongest improvement in Canadian manufacturing business conditions since last September
- Greater demand supports robust rise in incoming new work
- Job creation sustained for fourth month running

Canadian manufacturers generally attributed the improvement in business conditions to greater client demand. **Incoming new work** rose further during May, with approximately 37 per cent of firms reporting an increase compared with April. **New export orders** also rose, with higher demand from the U.S. and Asia particularly mentioned by panellists. Overall, total new work intakes increased strongly in May, with the rate of growth the strongest in 2012 to date.

Reflective of the increase in new orders, firms stepped up **production** in May. Output rose solidly over the month, with the latest expansion stronger than the series average. **Stocks of finished goods** were depleted slightly to fulfill some new order requirements; however, **backlogs of work** increased in May, albeit only marginally.

The **quantity of inputs** bought by monitored companies increased further during the latest survey period. Panellists attributed the rise in purchases to greater production requirements. Firms held some of their purchases as stock, with **input inventories** rising solidly and at the strongest rate in the 20-month series history. Meanwhile, **suppliers' delivery times** lengthened further in May, but to a lesser extent than in April.

Manufacturing **employment** in Canada rose for the fourth consecutive month in May, with almost 27 per cent of firms hiring additional staff since April. Overall, the rate of job creation was strong and the fastest since September 2011.

Companies reported that higher raw material prices and unfavourable exchange rates both contributed to larger cost burdens in May. The rate of **input price** inflation remained marked, despite having eased since April. Panellists passed parts of the increase in costs to clients by raising their **selling prices**. However, output charges rose only modestly during the latest survey period, and at a rate weaker than the series average.

Regional highlights include:

- Manufacturing business conditions improved in all four Canadian regions in May. The strongest monthly improvement was reported in **Quebec**, as was the case in April.
- **Quebec** posted the fastest rate of new order growth, while the slowest expansion in new work intakes was recorded in **Alberta & British Columbia**.
- Job creation was registered in all four regions during May, with the strongest rise in staffing levels registered in **Quebec**.
- The fastest rate of input price inflation was recorded in **Ontario**.

“Canadian manufacturing business conditions improved to the greatest extent since September 2011, with growth of output and new orders both at five-month highs. Firms also reported a strong increase in new export orders, with the latest expansion the fastest since March 2011, as Canada benefitted somewhat from stronger demand in both the U.S. and Asia,” said Cheryl Paradowski, President and Chief Executive Officer, PMAC. “Input costs increased markedly in May, despite the rate of inflation having slowed from April. Panellists particularly mentioned metals, woods and fuel as having increased in price over the month.”

The report is available at www.rbc.com/newsroom/pmi

For further information, please contact:

Royal Bank of Canada

Elyse Lalonde, Communications Manager, Canada
RBC Capital Markets
Telephone +001-416-842-5635
Email elyse.lalonde@rbc.com

Purchasing Management Association of Canada

Cheryl Paradowski, President and CEO
Telephone +001-416-542-9120
Email cparadowski@pmac.ca

Cori Ferguson, Director, Public Affairs & Communications
Telephone +001-416-542-9129
Email cferguson@pmac.ca

Markit

Mark Wingham, Economist
Telephone +44-1491-461-004
Email mark.wingham@markit.com

Rachel Harling, Corporate Communications
Telephone +44-20-7264-6283 / +44-782-7891-072
Email rachel.harling@markit.com

Notes to Editors:

The RBC Canadian Manufacturing *PMI*TM Report 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 responses 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 responding '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 indicates an overall increase in that variable, below 50 an overall decrease.

The RBC Canadian Manufacturing *Purchasing Managers' Index*TM (RBC *PMI*TM) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

The *Purchasing Managers' Index* (*PMI*) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. *PMI* surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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About Purchasing Management Association of Canada

The Purchasing Management Association of Canada (PMAC) is the leading, and the largest, association in Canada for supply chain management professionals. With 7,000 members working across private and public sectors, PMAC is the principal source of supply chain training, education and professional development in the country, requiring all members to adhere to a Code of Ethics. Through its 10 Provincial and Territorial Institutes, PMAC grants the SCMP (Supply Chain Management Professional) designation, the highest achievement in the field and the mark of strategic leadership. For more information please see www.pmac.ca.

About Markit

Markit is a leading, global financial information services company with over 2,300 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial marketplace. For more information, see www.markit.com.

About PMIs

*Purchasing Managers' Index*TM (*PMI*TM) surveys are now available for 32 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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