

## Canadian manufacturing output rises for the first time in four months

### Key findings:

- May data highlights a modest rebound in production volumes
- Export sales stabilize, but overall new orders decrease at modest pace
- Slight drop in manufacturing employment numbers

Canadian manufacturing production returned to growth in May, thereby ending a three-month period of decline. A stabilization in export orders provided support to the manufacturing sector during the latest survey period, although overall volumes of new work continued to decrease. Meanwhile, input cost inflation eased to its lowest since January, despite widespread reports of exchange rate depreciation contributing to upward pressure on imported raw material prices.

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.

At 49.8 in May, up slightly from 49.0 in April, the RBC Canadian Manufacturing PMI reached its highest level since January, but still signalled a fractional deterioration in overall business conditions. A modest increase in production levels was the main positive influence on the headline index in May.

Anecdotal evidence suggested that signs of a stabilization in client spending patterns, especially in export markets, had encouraged manufacturers to boost their output levels. Although total new work dropped in May, the rate of decline moderated from the survey-record pace seen in April. Survey respondents noted that exchange rate depreciation had helped support export order wins at their plants. However, a number of firms continued to report that falling

capital spending among clients in the energy sector had weighed on overall demand conditions in May.

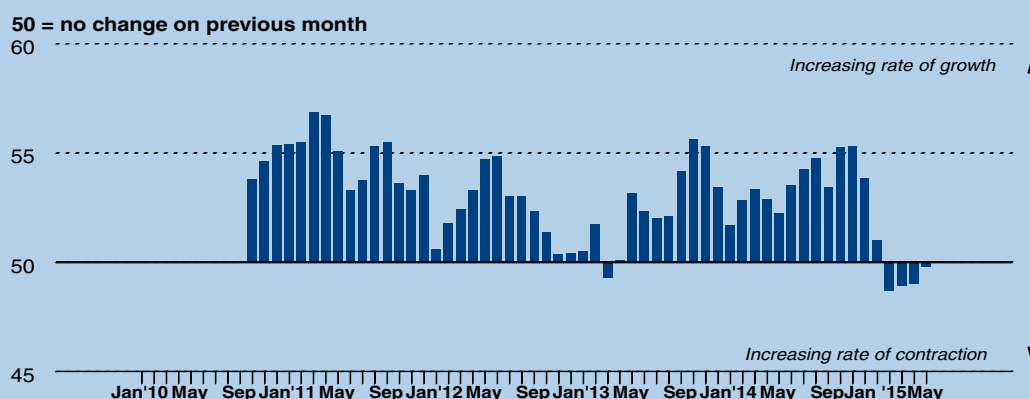
Latest data indicated a further slight reduction in manufacturing payroll numbers, which extended the current period of net job shedding to five months. Companies that lowered their staffing levels generally cited restructuring efforts in response to reduced workloads. May data indicated a fall in backlogs of work across the manufacturing sector for the sixth month running.

Softer underlying demand contributed to cautious inventory policies at manufacturing firms in May. Stocks of finished goods and pre-production inventories both continued to decrease during the latest survey period. Moreover, the rate of decline in input stocks was the second-fastest since November 2010.

Average lead times from suppliers lengthened again in May, despite a further reduction in input buying across the manufacturing sector. That said, the latest deterioration in vendor performance was the least marked in nearly two years.

On the prices front, average cost burdens increased for the thirty-fourth month running in May. Manufacturers commented on higher prices for a range of raw materials, especially steel. However, the overall rate of input cost inflation moderated to its least marked since January. Factory gate charges rose at a marginal pace in May, with a number of firms commenting that strong competitive pressures had contributed to an erosion of operating margins. Nonetheless, the overall rate of output charge inflation across the manufacturing sector edged up to a three-month high in May.

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



## Components of the RBC Canadian Manufacturing PMI™

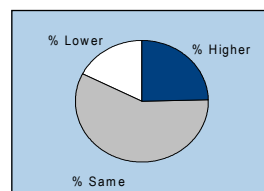
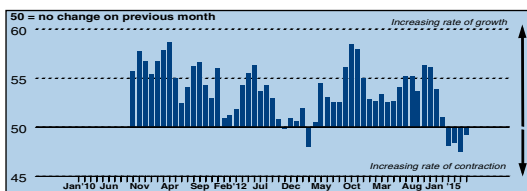
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

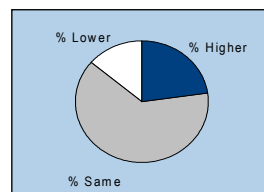
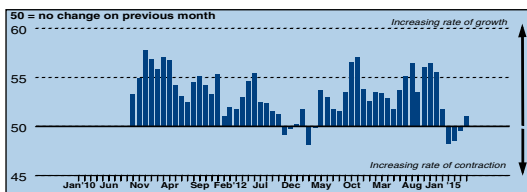
Q. Please compare the state of your new orders (in units) this month with one month ago.



May data signalled only a marginal reduction in new work received by Canadian manufacturing companies. The seasonally adjusted New Orders Index has now posted below the 50.0 no-change value for four months running, but the latest reduction in new business was the least marked seen over this period. Some firms noted that rising export demand had helped offset reduced sales to domestic clients.

### Output Index (0.25)

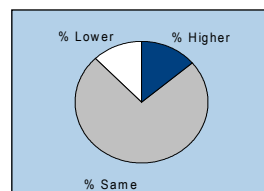
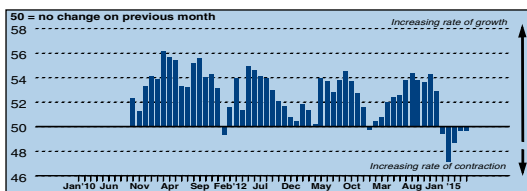
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production volumes returned to growth in May, thereby ending a three-month period of contraction. That said, the seasonally adjusted Output Index pointed to only a marginal pace of expansion that was weaker than the average since the survey began in late-2010. A number of panel members suggested that signs of a stabilization in demand patterns had encouraged them to boost their output levels.

### Employment Index (0.20)

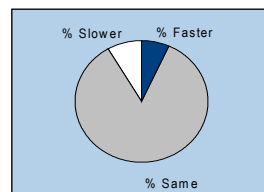
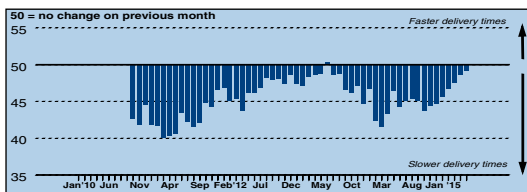
Q. Please compare the level of employment at your unit this month with the situation one month ago.



The seasonally adjusted Employment Index registered below the 50.0 no-change value for the fifth month running in May, to signal a further marginal reduction in manufacturing payroll numbers. Companies that lowered their staffing levels generally cited restructuring efforts in response to weaker client spending patterns.

### Suppliers' Delivery Times Index (0.15)

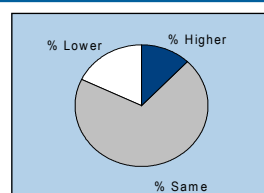
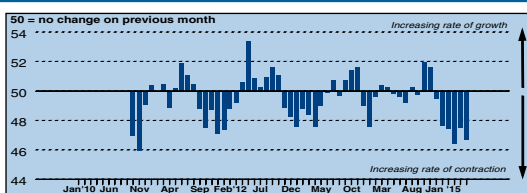
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Average lead times from suppliers lengthened again in May. Adjusted for seasonal influences, the Suppliers' Delivery Times Index posted below the neutral 50.0 threshold for the twenty-third successive month, but the rate of deterioration in vendor performance eased to its least marked over this period. Some manufacturers noted that lower input buying had helped alleviate the squeeze on supplier capacity.

### Stocks of Purchases Index (0.10)

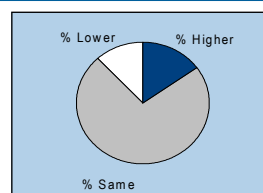
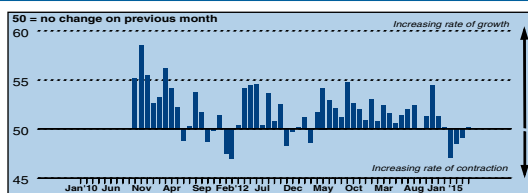
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Pre-production inventory levels decreased for the sixth month in a row during May. Moreover, the seasonally adjusted Stocks of Purchases Index dipped to its second-lowest level since November 2010. Anecdotal evidence from survey respondents indicated that recent declines in new orders and improved raw material availability had contributed to deliberate stock reduction efforts at their plants.

## New Export Orders Index

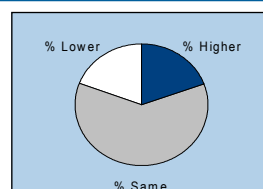
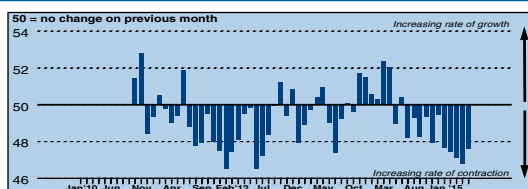
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Adjusted for seasonal influences, the New Export Orders Index was fractionally above the 50.0 no-change mark in May, to signal a stabilization of export sales after a three-month period of decline. Some manufacturers noted that exchange rate depreciation had helped boost external demand. However, a number of firms reported that lower investment spending across the energy sector had continued to weigh on new order intakes.

## Stocks of Finished Goods Index

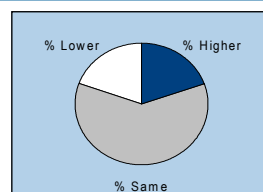
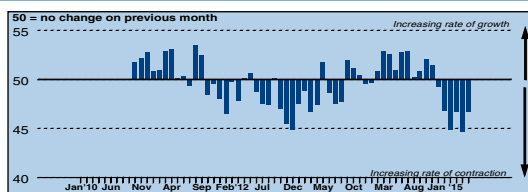
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Canadian manufacturing companies recorded a sustained reduction in post-production inventories during May. That said, the seasonally adjusted Stocks of Finished Goods Index signalled that the rate of inventory depletion eased to its slowest since January. Anecdotal evidence suggested that falling sales volumes had contributed to cautious inventory policies across the manufacturing sector.

## Backlogs of Work Index

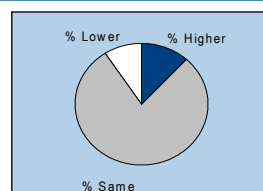
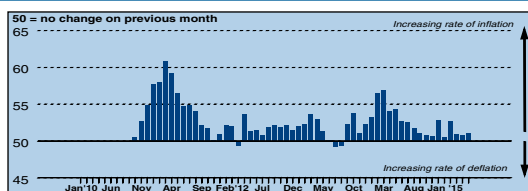
Q. Please compare the level of outstanding business in your company this month with one month ago.



The seasonally adjusted Backlogs of Work Index pointed to a decline in unfinished business for the sixth consecutive month in May, but the rate of contraction eased from the survey-record pace seen during April. Manufacturers that reduced their backlogs of work mainly cited lower pressure on operating capacity at their plants.

## Output Prices Index

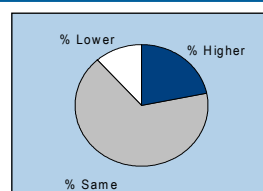
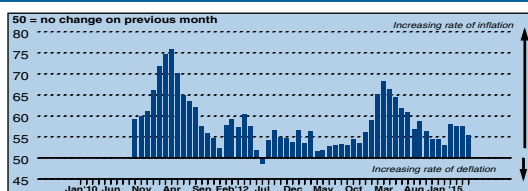
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Factory gate charges increased only moderately in May, but the rate of inflation edged up to its highest for three months. The seasonally adjusted Output Prices Index has posted above the 50.0 no-change mark in each month since September 2013. Rising output charges were linked by panel members to higher cost burdens at their plants, although some also noted that competitive pressures had eroded margins.

## Input Prices Index

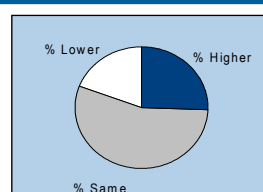
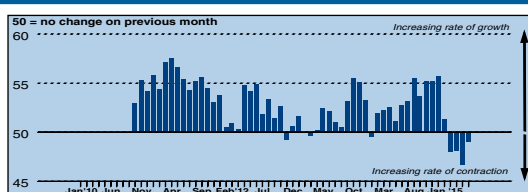
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Robust input cost inflation persisted in May, although the seasonally Input Prices Index signalled that the latest rise in costs was the least marked since January. Manufacturers mostly noted that exchange rate depreciation in recent months had pushed up the price of imported raw materials.

## Quantity of Purchases Index

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



Input buying dropped for the fourth consecutive month in May. However, the seasonally adjusted Quantity of Purchases Index indicated that the latest reduction in purchasing activity was only marginal and the slowest recorded over this period. Survey respondents commented that lower input buying reflected reduced workloads and efforts to streamline inventories.



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 employ approximately 78,000 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 39 other countries. For more information, please visit [rbc.com](http://rbc.com).

RBC supports a broad range of community initiatives through donations, sponsorships and employee volunteer activities. In 2014, we contributed more than \$111 million to causes worldwide, including donations and community investments of more than \$76 million and \$35 million in sponsorships.



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.

For more information, please contact:

Amanda Cormier

416 542-3860

[acormier@scmanational.ca](mailto:acormier@scmanational.ca)

[www.scmanational.ca](http://www.scmanational.ca)



Markit is a leading global diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ over 3,500 people in 10 countries. Markit shares are listed on NASDAQ under the symbol MRKT. For more information, please see [www.markit.com](http://www.markit.com)

*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](http://www.markit.com/economics)

Markit Economics

Henley on Thames

Oxon RG9 1HG, UK

Tel: +44 1491 461000

Fax: +44 1491 461001

e-mail: [economics@markit.com](mailto:economics@markit.com)

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.

The intellectual property rights to the RBC Canadian Manufacturing PMI provided herein are either owned by or licensed to Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™* and *PMI™* are either registered trade marks of Markit Economics Limited or are licensed to Markit Economics Limited. RBC use the above marks under licence. Markit is a registered trade mark of Markit Group Limited.