

Manufacturing PMI slips to four-month low in May

Key findings:

- Weakest rise in output since August 2013
- New export order growth slows in May
- Input cost inflation eases to four-month low

Manufacturers in Canada signalled the slowest improvement in overall business conditions for four months in May, largely reflecting a further moderation in output growth. The latest survey also signalled a relatively subdued increase in new business volumes and renewed declines in inventory levels. Job creation nonetheless picked up in May and input cost inflation eased to a four-month low.

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 52.2 in May, down from 52.9 in April, the headline RBC PMI remained above the neutral 50.0 mark, but eased to its lowest level since January. The index was also weaker than the average since the survey began in late 2010 (53.3).

The decline in the headline PMI reading during May was driven by a moderation in output growth to its lowest since August 2013. Meanwhile, the rate of new order growth across the manufacturing sector was unchanged since April, but still the joint-weakest for 13 months. May data also indicated only a marginal pace of new export order growth. The latest increase in new business from abroad was the slowest since the current period of expansion began in April 2013.

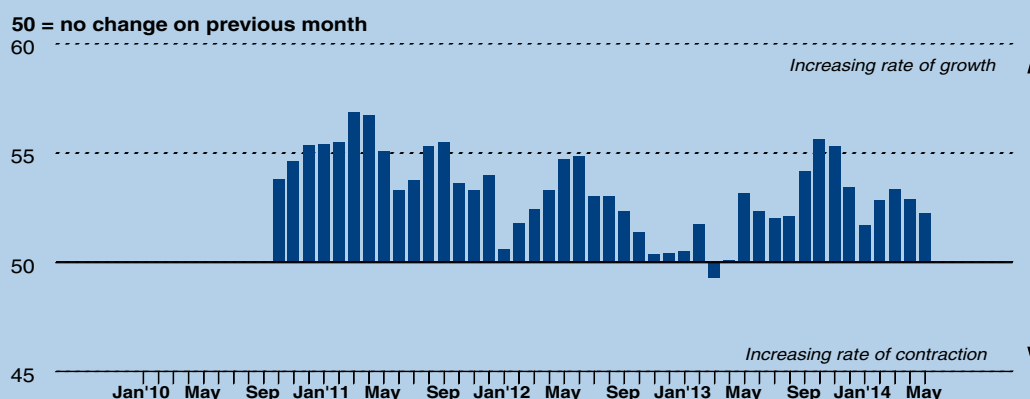
Relatively subdued gains in incoming new business resulted in a

moderation in capacity pressures across the manufacturing sector. This was highlighted by the rate of backlog accumulation easing to a three-month low in May. Slower rises in unfinished business also reflected ongoing employment growth during the latest survey period. The latest increase in staffing levels was the most marked since November 2013. Companies that boosted their staffing levels generally commented on the launch of new products and optimism about the wider economic outlook.

Slower output growth meanwhile contributed to a weaker increase in input buying during May. Latest data pointed to only a marginal rise in purchasing activity, with the pace of expansion easing from the four-month high registered in April. Manufacturers decreased their stocks of finished goods for the first time in seven months, while pre-production inventories also saw a renewed decline in May. Some companies cited inventory reduction policies in response to subdued new business growth at their plants.

Supplier lead-times lengthened again in May, but the latest deterioration in vendor performance was the least marked since January. Manufacturers that reported longer supplier delivery times generally cited low stocks at vendors.

May data signalled a further moderation in input cost inflation from the near-three year high recorded during March. Although still strong, the pace of input price inflation eased to its lowest for four months. Higher cost burdens again contributed to a robust increase in output charges across the manufacturing sector in May.

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

Components of the RBC Canadian Manufacturing PMI™

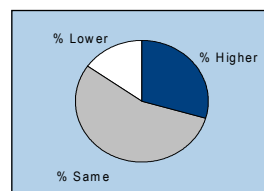
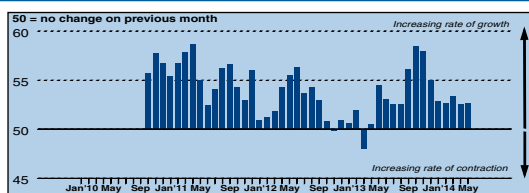
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

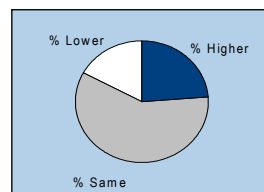
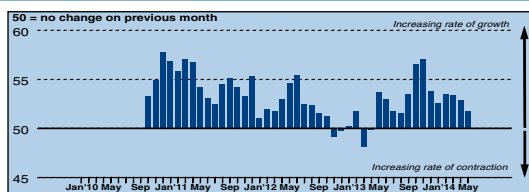
Q. Please compare the state of your new orders (in units) this month with one month ago.



Adjusted for seasonal influences, the New Orders Index registered above the 50.0 no-change level for the fourteenth successive month in May. The latest reading signalled a moderate increase in incoming new work and the pace of expansion was unchanged from that recorded during April.

Output Index (0.25)

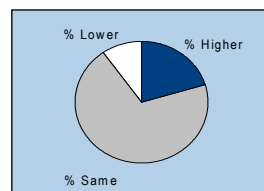
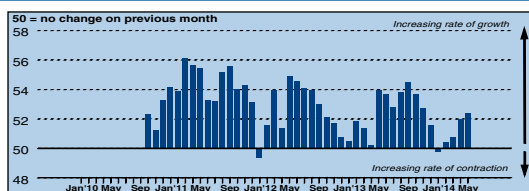
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index pointed to only a marginal rise in production levels during May. Moreover, the latest rise in output was the joint-second slowest in the current 13-month period of expansion. Some manufacturers commented on a gradual moderation in new business growth at their plants.

Employment Index (0.20)

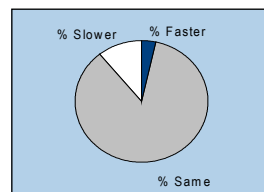
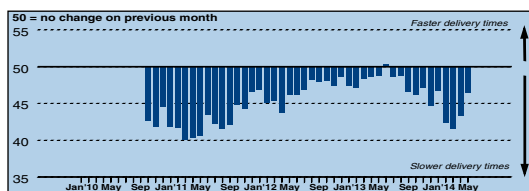
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Despite a slowdown in output growth during May, latest data signalled a slight acceleration in the rate of job creation across the manufacturing sector. The seasonally adjusted Employment Index was above the neutral 50.0 value for the fourth successive month and the latest reading was the highest since November 2013.

Suppliers' Delivery Times Index (0.15)

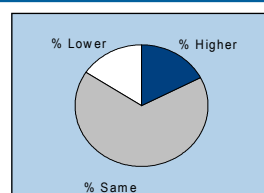
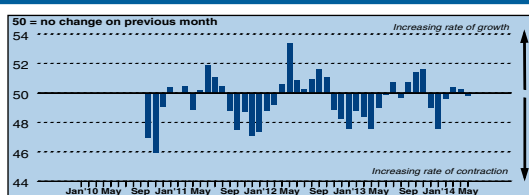
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



May data pointed to the least marked deterioration in vendor performance since January. The seasonally adjusted Suppliers' Delivery Times Index has now signalled lengthening supplier lead-times in each of the past 11 months. Survey respondents widely commented on low stocks at vendors.

Stocks of Purchases Index (0.10)

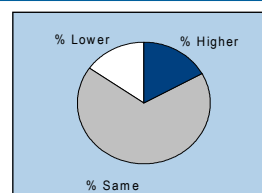
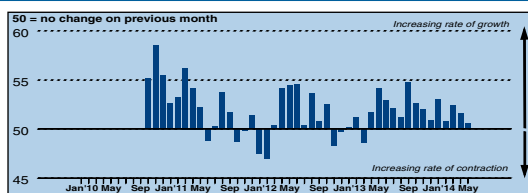
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Pre-production inventory levels stagnated in May, thereby ending a two-month period of stock accumulation. The seasonally adjusted Stocks of Purchases Index was still slightly above its average since the survey began in late 2010 (49.6). Some panellists noted that softer new business growth had resulted in efforts to reduce inventories.

New Export Orders Index

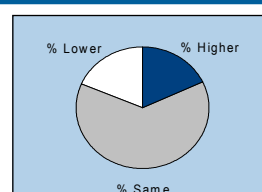
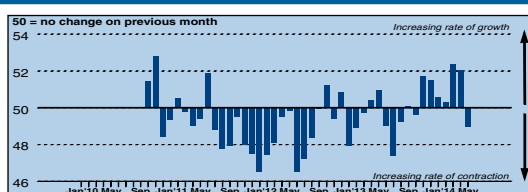
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Manufacturers indicated a further moderation in new export order growth in May. Adjusted for seasonal influences, the New Export Orders Index signalled the slowest rise in new business from abroad since the current period of expansion began in April 2013. Companies that reported a rise in new export work generally cited rising demand from the US.

Stocks of Finished Goods Index

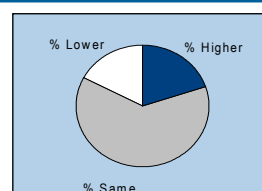
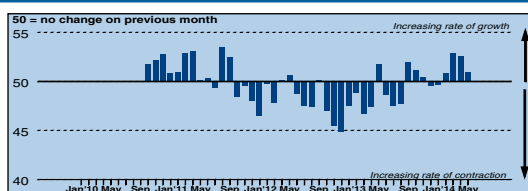
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index dipped below the neutral 50.0 value for the first time in seven months during May. Although only signalling a marginal rate of contraction, the latest reading was the lowest since July 2013. A number of panellists attributed lower post-production inventories to deliberate stock reduction policies.

Backlogs of Work Index

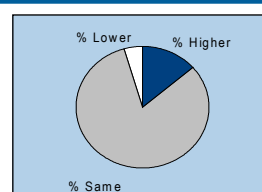
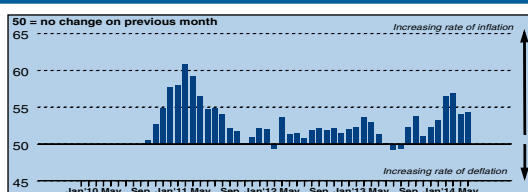
Q. Please compare the level of outstanding business in your company this month with one month ago.



Adjusted for seasonal factors, the Backlogs of Work Index registered above the 50.0 no-change mark for the fourth successive month in May. However, the latest rise in unfinished business in the manufacturing sector was only marginal and the slowest since February. Some survey respondents noted a moderation in pressures on operating capacity at their plants.

Output Prices Index

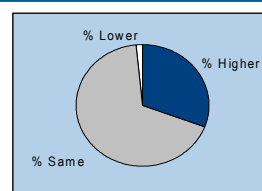
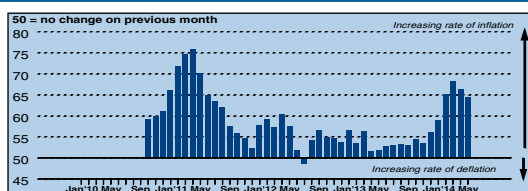
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Average prices charged by manufacturers in Canada increased for the ninth month running in May. The seasonally adjusted Output Prices Index picked up from April's three-month low and signalled a robust pace of inflation. Higher output charges were generally attributed to rising cost burdens.

Input Prices Index

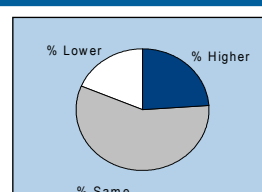
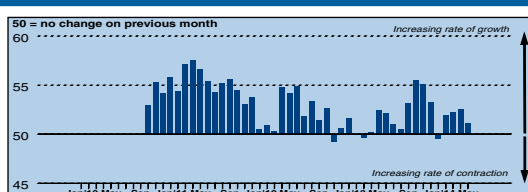
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



The seasonally adjusted Input Prices Index signalled a sharp rise in average cost burdens in May, although the rate of inflation eased further from the near-three year high recorded in March. Some firms commented on higher prices for imported raw materials, while others cited greater transportation and energy costs.

Quantity of Purchases Index

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



Input buying increased only marginally in May. The seasonally adjusted Quantity of Purchases Index signalled the slowest rise in purchasing activity in the current four-month period of expansion. Anecdotal evidence suggested that weaker growth of input buying reflected a moderation in new business gains at some manufacturing companies.



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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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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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