

News Release

RBC Canadian Manufacturing PMI™ slips to four-month low in May

JUNE 2, 2014 – Manufacturers in Canada signalled the slowest improvement in overall business conditions in four months during May, largely reflecting a further moderation in output growth, 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 Supply Chain Management Association (SCMA), the **RBC PMI** offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

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 53.3 average since the survey began in late 2010.

*"May's reading at 52.2 indicates that Canada's manufacturing sector is still being held back by sluggish global growth," said **Craig Wright, senior vice-president and chief economist, RBC.** "As we move forward, support for the sector is expected given easing economic uncertainty, improving growth prospects in the U.S. and a more competitive currency."*

The [headline RBC PMI](#) reflects changes in output, new orders, employment, inventories, prices and supplier delivery times.

Key findings from the May survey include:

- Output experienced weakest gain since August 2013
- New export order growth slowed
- Input cost inflation eased to four-month low

The decline in the headline PMI reading during May was driven by a moderation in output growth to the slowest pace since August 2013. Meanwhile, the rate of new order growth across the manufacturing sector was unchanged from April, but was 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. A slower rise 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 in four months. Higher cost burdens again contributed to a robust increase in output charges across the manufacturing sector in May.

[Regional highlights](#) include:

- All four regions recorded an overall improvement in business conditions...
- ...but Quebec was the only region to register faster **output growth** than in April
- **Job creation** was also strongest in Quebec
- **Input cost inflation** slowed in May across all four regions monitored by the survey

*“The manufacturing sector lost some momentum during May, as a moderation in new export growth contributed to the slowest rise in output since last August,” said **Cheryl Paradowski, president and chief executive officer, SCMA.** “That said, the latest survey pointed to resilient job creation at manufacturing companies, suggesting optimism about the longer-term business outlook. Manufacturers also indicated an easing of both supply chain pressures and input cost inflation in May.”*

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

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Notes to Editors:

The RBC Canadian Manufacturing *PMI™* 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™* (RBC *PMI™*) 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 does 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.

ABOUT RBC

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 services, insurance, investor services and capital markets products and services on a global basis. We employ approximately 79,000 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 42 other countries. For more information, please visit rbc.com.

RBC supports a broad range of community initiatives through donations, sponsorships and employee volunteer activities. In 2013, we contributed more than \$104 million to causes worldwide, including donations and community investments of more than \$69 million and \$35 million in sponsorships. Learn more at www.rbc.com/community-sustainability.

About Supply Chain Management Association

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 visit scmanational.ca.

About Markit

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 3,000 people in 11 countries. For more information, please see www.markit.com

About PMI

Purchasing Managers' Index™ (*PMI™*) 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 markit.com/economics.

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