

Sharpest improvement in manufacturing business conditions for six months in June

Key findings:

- Sharpest rises in output and new orders so far in 2014
- Job creation strengthens in June
- Input cost inflation eases for the third month running

June data pointed to a solid rebound in the performance of the Canadian manufacturing sector, as output and new business growth picked up to the strongest recorded so far in 2014. The rate of manufacturing job creation reached a seven-month high, with survey respondents citing increased production schedules and greater confidence about the economic outlook. Average cost burdens continued to rise sharply, which manufacturers mainly linked to imported raw material costs, but the overall rate of input price inflation was the weakest since January.

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 headline RBC Canadian Manufacturing PMI registered 53.5 in June, up from 52.2 in May, to signal the sharpest overall improvement in business conditions since December 2013. The rise in the headline index was mainly driven by stronger rates of output and new business expansion.

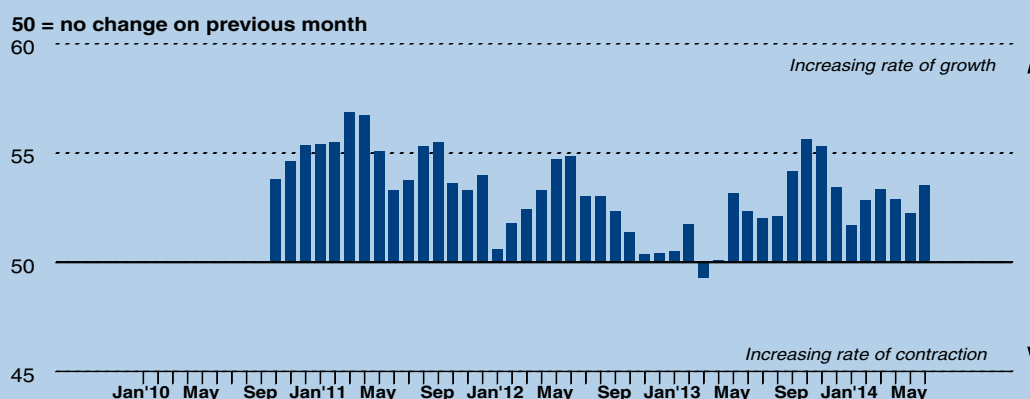
Manufacturing output growth picked up markedly from the nine-month low registered in May. The current period of rising production volumes stretches back to May 2013, with survey respondents attributing the latest expansion to greater client spending and new product launches.

In line with the trend for output, new business growth rebounded in June and reached a six-month high. Manufacturers mainly cited stronger domestic demand, as new export order growth remained only marginal, despite accelerating from the 14-month low registered in May. Where a rise in new work from abroad was reported, survey respondents generally pointed to improved demand from clients in the United States.

Staffing levels increased at a solid pace in June, thereby extending the current period of manufacturing job creation to five months. Despite an upturn in payroll numbers, stronger demand resulted in the fastest rise in backlogs of work since March.

Greater production requirements boosted input buying across the manufacturing sector in June, with the latest expansion of purchasing activity the fastest seen in 2014 to date. Stocks of purchases nonetheless dipped slightly in June, which contrasted with a marginal rise in post-production inventory levels.

Canadian manufacturers indicated that input prices increased for the twenty-third consecutive month in June. The latest survey pointed to a sharp rise in average cost burdens, but the rate of inflation was the lowest since the start of the year. A number of firms cited exchange rate depreciation against the U.S. dollar as having pushed up prices for imported raw materials. There were also reports of rising oil-related costs in June. Meanwhile, factory gate price inflation eased for the second time in the past three months and was the lowest since December 2013.

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

Components of the RBC Canadian Manufacturing PMI™

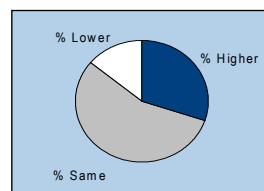
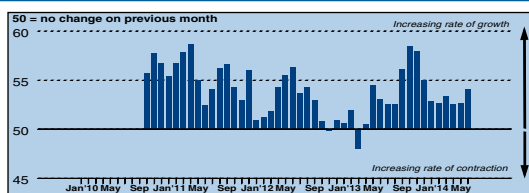
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

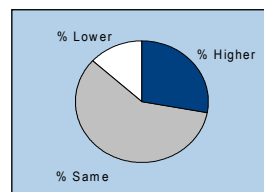
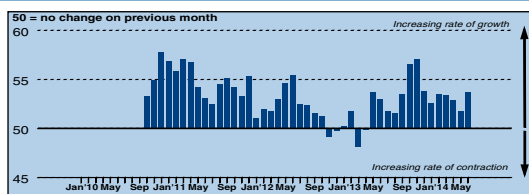
Q. Please compare the state of your new orders (in units) this month with one month ago.



June data signalled a robust and accelerated rise in new work received by manufacturers in Canada. Adjusted for seasonal influences, the New Orders Index has now posted above the neutral 50.0 value for the fifteenth successive month, with the latest reading the highest since December 2013.

Output Index (0.25)

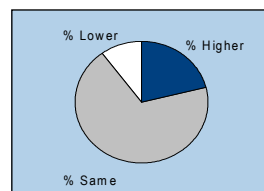
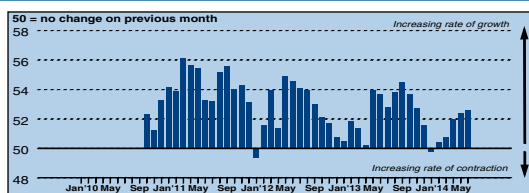
Q. Please compare your production/output this month with the situation one month ago.



Production volumes increased in June, with the pace of expansion accelerating from the nine-month low registered in May. The seasonally adjusted Output Index signalled a solid pace of output growth that was the fastest seen so far in 2014. Survey respondents noted that improving economic conditions and rising client spending had boosted production in June.

Employment Index (0.20)

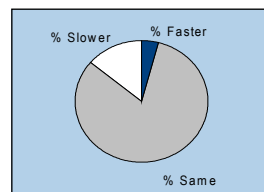
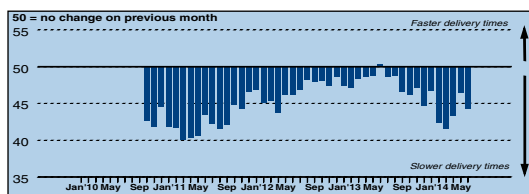
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Canadian manufacturers continued to hire additional staff in June, thereby extending the current period of job creation to five months. The seasonally adjusted Employment Index rose for the fifth straight month and signalled the fastest expansion of payroll numbers since November 2013.

Suppliers' Delivery Times Index (0.15)

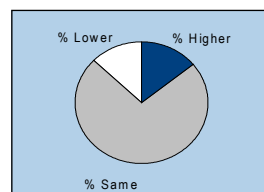
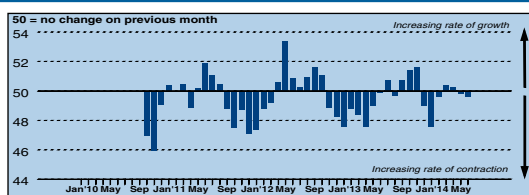
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Average vendor performance deteriorated in June. The seasonally adjusted Suppliers' Delivery Times Index dipped from the four-month high registered in May. Survey respondents noted that strong demand for raw materials and pressures on stocks at suppliers had contributed to longer delivery times.

Stocks of Purchases Index (0.10)

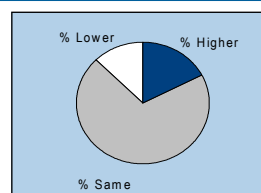
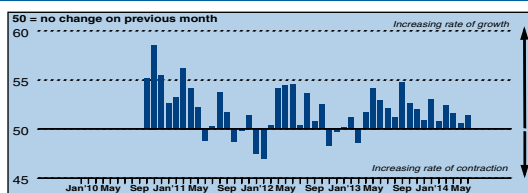
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Purchases Index dropped to a four-month low in June and remained below the neutral 50.0 value. However, the latest reading still signalled only a marginal reduction in stocks of purchases within the Canadian manufacturing sector. Companies that decreased their pre-production inventories generally commented on stronger-than-expected production requirements in June.

New Export Orders Index

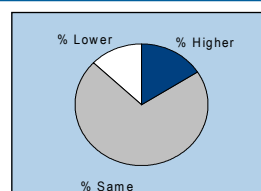
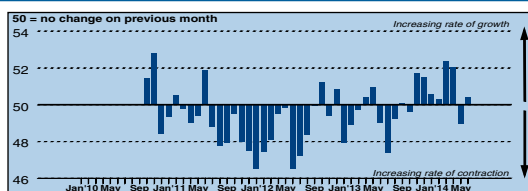
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Adjusted for seasonal influences, the New Export Orders Index picked up from the 14-month low registered in May. However, the latest reading indicated only a marginal improvement in the volume of new work received from abroad and the rate of expansion remained weaker than seen on average since the survey began in October 2010.

Stocks of Finished Goods Index

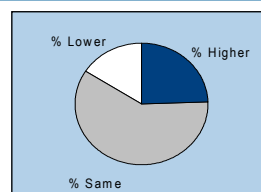
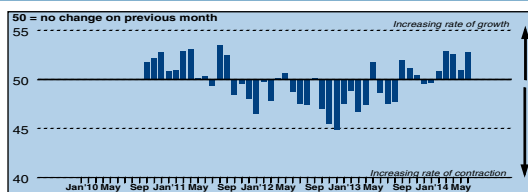
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



June data pointed to a renewed rise in post-production inventory levels across the Canadian manufacturing sector. The seasonally adjusted Stocks of Finished Goods Index signalled a marginal pace of expansion. Companies that reported a rise in stocks of finished goods generally commented on deliberate efforts to increase inventories at their plants.

Backlogs of Work Index

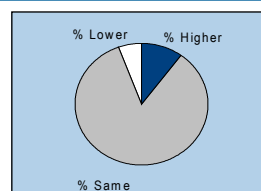
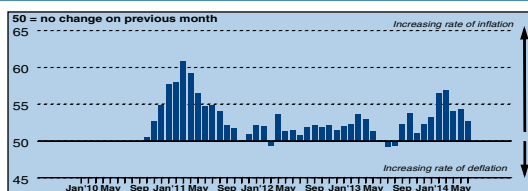
Q. Please compare the level of outstanding business in your company this month with one month ago.



Adjusted for seasonal factors, the Backlogs of Work Index pointed to a rise in outstanding business for the fifth successive month in June. Anecdotal evidence suggested that stronger new business inflows had contributed to an accumulation of unfinished work in the manufacturing sector.

Output Prices Index

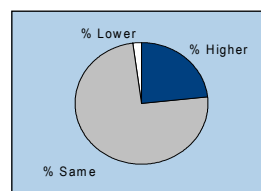
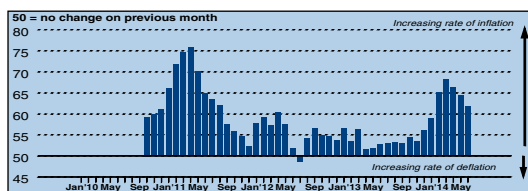
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Canadian manufacturers signalled a moderation in output charge inflation in June. The seasonally adjusted Output Prices Index eased to a six-month low and indicated only a relatively modest pace of factory gate price inflation. Survey respondents commented on strong competitive pressures and softer cost inflation.

Input Prices Index

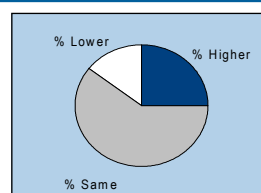
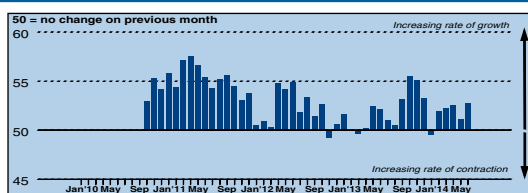
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



The seasonally adjusted Input Prices Index registered above the neutral 50.0 value for the twenty-third successive month in June. Although the latest reading pointed to a sharp rise in average cost burdens, the rate of inflation eased further to its slowest since January. Manufacturers commented on greater oil-related costs and higher prices for 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 increased for the fifth successive month in June. The seasonally adjusted Quantity of Purchases Index was the highest since December 2013, but still indicated only a moderate pace of expansion. A number of panel members attributed rising purchasing activity to greater production requirements during the latest survey period.



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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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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 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 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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