

RBC Canadian Manufacturing *Purchasing Managers' Index*™ finds output and new order growth weakened further in June

JULY 4, 2011 - The Canadian manufacturing sector's output and new order growth weakened further in June, according to the **RBC Canadian Manufacturing *Purchasing Managers Index*™ (RBC PMI™)**, a newly launched 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 RBC PMI found that business conditions within the Canadian manufacturing sector improved only modestly in June, which partly reflected further new order and output growth, although both have slowed since May. Notably, new export business fell during the latest survey period, with firms attributing the decrease to weak global demand and unfavourable exchange rates.

At 52.8, the headline **RBC PMI** – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – remained above the 50.0 no-change level that separates growth from contraction for the ninth month running in June. That said, the PMI fell sharply from 54.8 in May, and signalled only a modest improvement in the Canadian manufacturing sector's operating conditions.

*"The overall index moderated once again in June, with weakness in the Canadian manufacturing sector spread broadly across all of the survey components and across the Canadian regions," said **Craig Wright**, Senior Vice President and Chief Economist, RBC. "The moderation is consistent with the trends we are seeing around the globe pointing to a temporary soft patch in the economic recovery."*

In addition to the [headline RBC PMI](#), the survey also tracks changes in output, new orders, employment, inventories, prices and supplier delivery times. Index readings above 50.0 signal expansion from the previous month, readings below 50.0 indicate contraction.

Key findings from this month's survey include:

- Modest increase in new business volumes, but export orders fell slightly.
- Job creation at seven-month low.
- Rate of input price inflation eased since May.

The volume of new work received by Canadian manufacturers increased for the ninth consecutive month in June. Out of the 31 per cent of monitored companies that reported higher **new order** levels, a number of firms commented on new client wins. However, the rate of new order growth eased since May, as panellists received a lower amount of **new export business**. In particular, survey respondents commented on a slowdown in demand from U.S. clients.

Reflective of larger new work intakes, surveyed companies stepped up **production** in June. The rise in output remained modest, however, leading to a marginal accumulation of **outstanding work** during the latest survey period.

The amount of **inputs purchased** by Canadian manufacturing companies increased in June. Latest data signalled that purchases were raised both to fulfil higher production requirements and rebuild **inventories**. Meanwhile, **suppliers' delivery times** lengthened further during the latest survey period. Anecdotal evidence suggested that vendors struggled to cope with greater input demand, especially as limited spare capacity made it difficult to increase production.

In contrast to the depletion registered in May, firms accumulated **stocks of finished goods** during the latest survey period. The rise was modest, and the first in four months.

Employment in the Canadian manufacturing sector increased for the ninth successive month in June. However, job creation slowed since the previous survey period to a seven-month low.

Input prices faced by Canadian manufacturers increased markedly during the latest survey period. Survey respondents particularly mentioned fuel and other oil-related products as rising in cost. Monitored companies passed part of their greater cost burdens on to clients by raising their factory gate prices in June. The latest increase in **output charges** was solid, but remained weaker than the rise in input costs.

Regional highlights include:

- Regional PMI data signalled that business conditions improved across all four monitored broad regions in June. The expansion continued to be led by **Alberta and British Columbia**.
- Meanwhile, territories in the '**Rest of Canada**' category posted the strongest expansion in new order volumes.
- Manufacturers based in **Alberta and British Columbia** registered the fastest rate of employment growth in June. In contrast, **Quebec** registered job losses, although this was only marginal.
- The fastest rate of input price inflation was recorded in **Ontario**, where prices charged were also raised to the greatest extent in June.

*"Growth in the Canadian manufacturing sector eased further during June, with slowdowns evident in both production and new order volumes," said **Cheryl Paradowski**, President and Chief Executive Officer, PMAC. "In particular, new work intakes from abroad fell during the latest survey period, as the global economy showed further signs of weakness. Canadian manufacturers, however, can take some comfort in the rate of input price inflation slowing to a six-month low in June."*

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

For further information, please contact:

Royal Bank of Canada

Rina Cortese, Director, Media Relations
RBC
Telephone +001-416-974-5506
Email rina.cortese@rbc.com

Gillian McArdle, Head of Communications, Canada
RBC Capital Markets
Telephone +001-416-842-4231
Email gillian.mcardle@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

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047 / +44-781-581-2162
Email caroline.lumley@markit.com

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 by Standard Industrial Classification (SIC) group, based on the industry contribution to 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 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 2,200 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™ (*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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