

Manufacturing PMI hits eight-month high in July

Key findings:

- Sharpest improvement in business conditions since November 2013
- Output and new orders growth both pick up in July
- Staffing levels rise for the sixth successive month

Canadian manufacturers experienced a further improvement in overall business conditions during July, driven by faster rises in output, new orders and employment at the start of the third quarter. Meanwhile, input cost inflation continued to moderate, which in turn contributed to the slowest rise in manufacturers' output charges so far this year. The latest survey pointed to strengthening demand for raw materials within the manufacturing sector, as signalled by the steepest expansion of input buying since December 2013, and this led to another lengthening of suppliers' delivery times in July.

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 54.3 in July, up from 53.5 in June, the headline seasonally adjusted RBC Canadian Manufacturing PMI posted above the neutral 50.0 value for the sixteenth consecutive month. The latest reading was the highest since November 2013 and signalled a robust overall improvement in manufacturing sector business conditions.

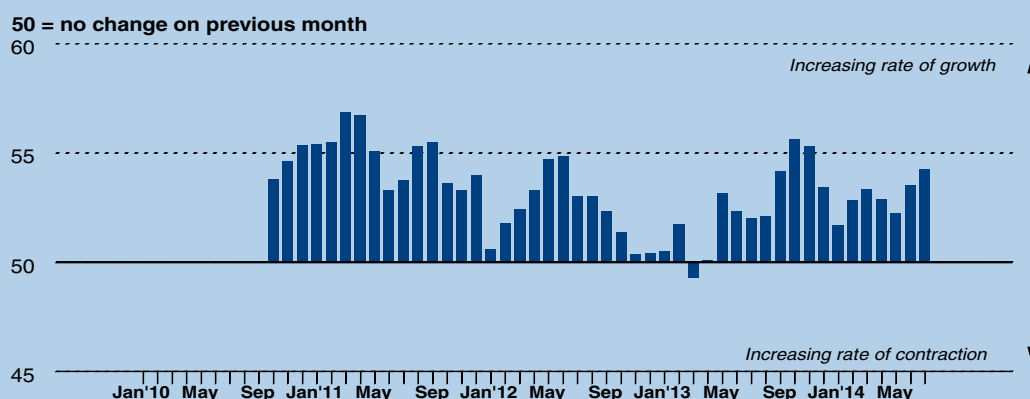
Stronger rates of output and new business growth were the key positive influences on the headline index in July. Latest data signalled that production growth across the manufacturing sector accelerated for the second month running and was the fastest since November 2013. New business growth has also regained momentum so far this summer,

with the latest rise in incoming new work the steepest for eight months. Reports from survey respondents cited improving underlying demand and greater confidence among clients. Moreover, new business intakes were also supported by stronger export sales during July, with the rate of new export order growth the most marked since March.

Stronger demand patterns contributed to an increase in backlogs of work across the manufacturing sector for the sixth consecutive month in July. The current period of rising volumes of unfinished work is the longest recorded by the survey for three years, which in turn supported a further upturn in manufacturing job creation. Latest data pointed to a solid rise in payroll numbers, with the rate of employment growth reaching its strongest since September 2013.

July data indicated that manufacturers continued to boost their volumes of input buying during July, and the latest expansion of purchasing activity was the steepest recorded in 2014 to date. Despite a solid increase in input buying, pre-production inventory volumes dipped for the third month running. Meanwhile, stocks of finished goods also decreased in July. The latest reduction in post-production inventories was the sharpest for 12 months, with some firms citing stronger than expected sales at their plants.

Meanwhile, input cost inflation eased further from the near-three year high seen during March. Although still sharp, the latest rise in average cost burdens was the least marked since January. A softer rise in input prices during July contributed to the weakest increase in manufacturers' output charges since December 2013.

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

Components of the RBC Canadian Manufacturing PMI™

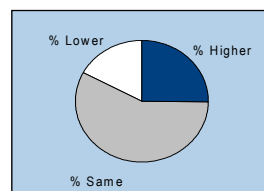
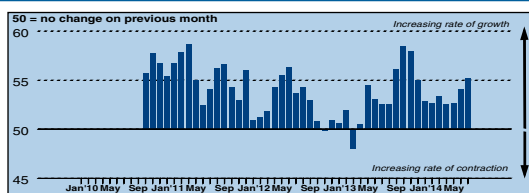
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

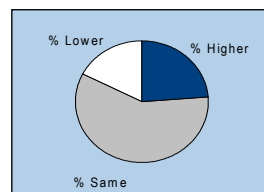
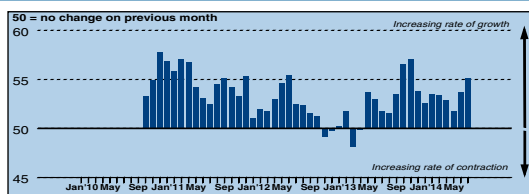
Q. Please compare the state of your new orders (in units) this month with one month ago.



The seasonally adjusted New Orders Index picked up for the second month running in July, to signal a further acceleration of new business growth across the Canadian manufacturing sector. Higher levels of incoming new work have now been recorded for 16 successive months and the latest rise was the fastest since November 2013.

Output Index (0.25)

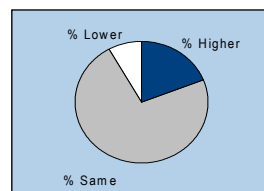
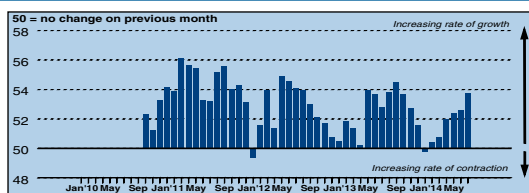
Q. Please compare your production/output this month with the situation one month ago.



In line with the trend for new orders, latest data pointed to a robust and accelerated expansion of manufacturing production levels. Adjusted for seasonal influences, the Output Index indicated the steepest increase in production for eight months. Anecdotal evidence from survey respondents cited improving business conditions and stronger underlying client demand.

Employment Index (0.20)

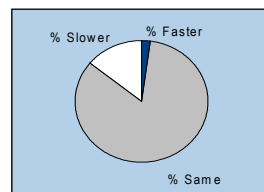
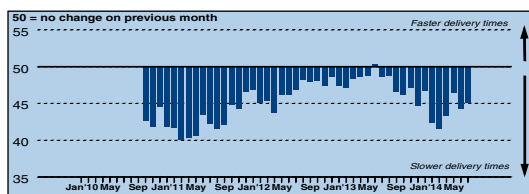
Q. Please compare the level of employment at your unit this month with the situation one month ago.



July data signalled a solid increase in staffing levels across the Canadian manufacturing sector. The seasonally adjusted Employment Index has now posted above the neutral 50.0 value for six months running and the latest reading signalled the fastest rise in payroll numbers since September 2013. Increased workforce numbers were linked to rising demand and greater optimism about the economic outlook.

Suppliers' Delivery Times Index (0.15)

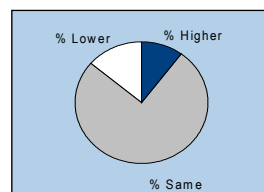
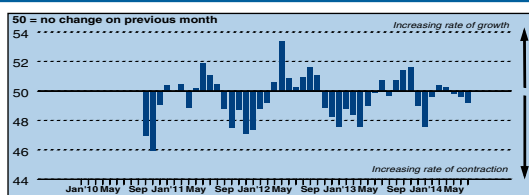
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index registered below the neutral 50.0 value for the thirteenth successive month in July, to signal a further deterioration of vendor performance. Longer delivery times from suppliers were generally attributed to higher levels of purchasing activity in July.

Stocks of Purchases Index (0.10)

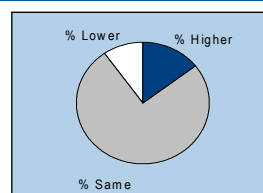
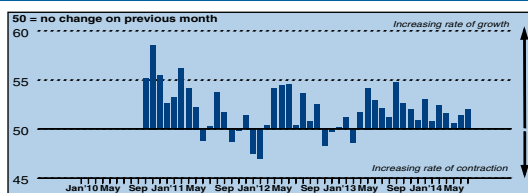
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Pre-production inventory volumes decreased for the third month running in July. However, the seasonally adjusted Stocks of Purchases Index still signalled only a marginal pace of inventory reduction in the manufacturing sector. Companies that reduced their input stocks generally cited higher production requirements in July.

New Export Orders Index

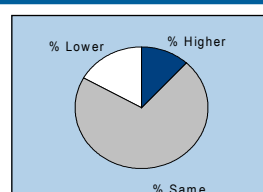
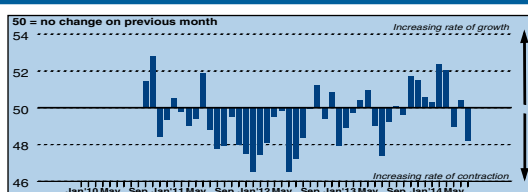
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Volumes of new work received from abroad increased moderately across the manufacturing sector in July, thereby extending the current period of expansion to 16 months. Adjusted for seasonal influences, the New Export Orders Index signalled the most marked rise in new business from abroad since March.

Stocks of Finished Goods Index

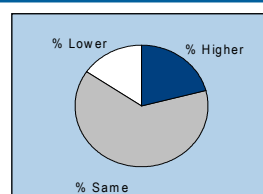
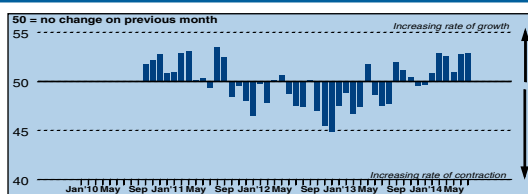
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



July data indicated a renewed reduction in post-production inventory volumes at Canadian manufacturing firms. Adjusted for seasonal influences, the Stocks of Finished Goods Index registered below the 50.0 no-change mark for the second time in the past three months. The latest reading was the lowest for 12 months, but still only signalled a modest pace of decline.

Backlogs of Work Index

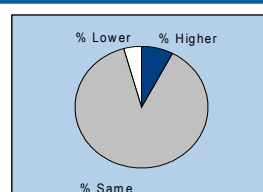
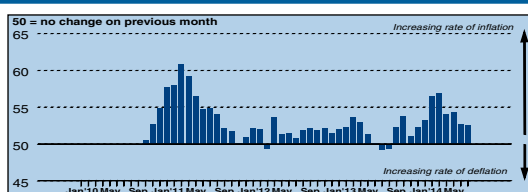
Q. Please compare the level of outstanding business in your company this month with one month ago.



Manufacturers in Canada pointed to a solid rise in outstanding business volumes in July. Adjusted for seasonal factors, the Backlogs of Work Index picked up to a four-month high. Reports from survey respondents suggested that stronger new business growth was the main factor leading to rising levels of unfinished work in July.

Output Prices Index

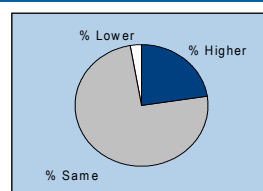
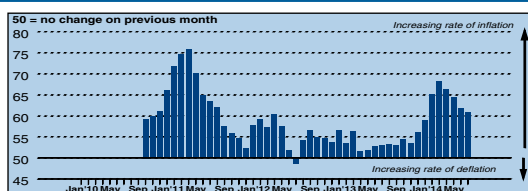
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Factory gate price inflation continued to moderate in July, as highlighted by the seasonally adjusted Output Prices Index easing to a seven-month low. Anecdotal evidence suggested that the slowdown in output charge inflation reflected a moderation in input cost pressures across the manufacturing sector.

Input Prices Index

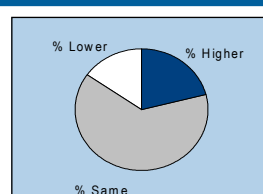
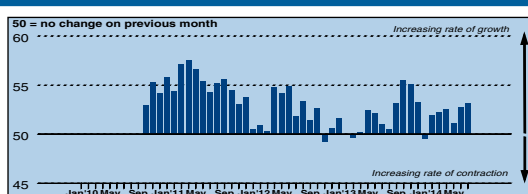
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



The seasonally adjusted Input Prices Index remained well above the 50.0 no-change mark in July, which extended the current period of cost inflation to two years. However, the index dipped for the fourth consecutive month and signalled the least marked pace of cost inflation since January.

Quantity of Purchases Index

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



Adjusted for seasonal influences, the Quantity of Purchases Index pointed to a solid increase in input buying within the Canadian manufacturing sector during July. Moreover, the latest expansion of purchasing activity was the fastest so far in 2014, which survey respondents linked to a combination of rising output levels and improved confidence about the business outlook.



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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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