

Modest upturn in manufacturing sector business conditions, but the speed of recovery slows during July

Key findings:

- RBC Canadian Manufacturing PMI remains above the crucial 50.0 no-change mark
- Output growth moderates from June's six-month high
- Renewed fall in employment levels

Canadian manufacturers highlighted a sustained expansion of production and new business volumes in July, which underpinned an improvement in operating conditions for the second month running. However, the overall speed of recovery slowed from the six-month high recorded in June. Increased export sales continued to support the manufacturing sector rebound.

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 50.8 in July, the seasonally adjusted RBC Canadian Manufacturing PMI dipped from June's six-month high of 51.3 but remained above the neutral 50.0 threshold. The latest reading was still stronger than the average for 2015 so far (49.9), and signalled a marginal upturn in manufacturing sector business conditions.

A modest increase in production volumes helped to keep the headline index above the critical 50.0 no-change mark in July. Manufacturing output has now expanded for three months running, which firms mainly linked to a slight rebound in client spending.

July data pointed to a marginal increase in overall new business volumes, but the rate of expansion was unmoved from the marginal pace recorded in June. A further modest upturn in new export work continued to boost manufacturers' order books. Anecdotal evidence mainly cited stronger demand from U.S. clients, helped in part by the

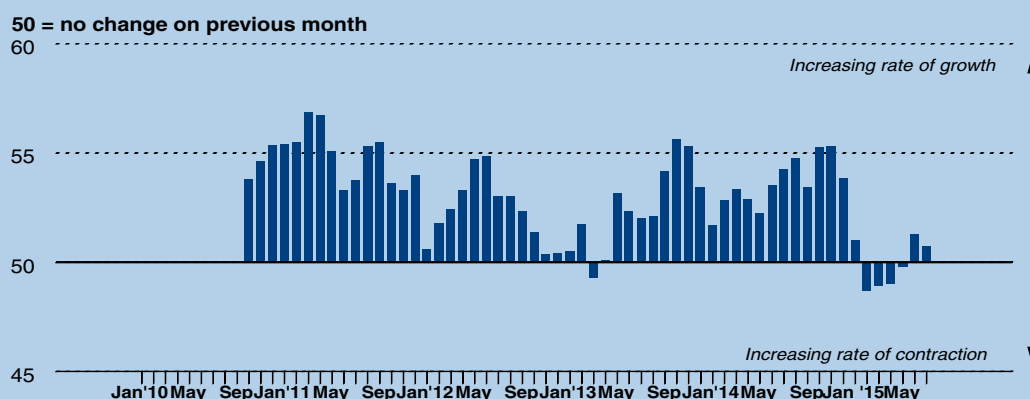
weaker exchange rate. Manufacturers of consumer goods, especially those in the automotive sector, generally pointed to improving inflows of new work. However, a number of manufacturers in the investment goods sector suggested that lower energy sector capital spending remained a drag on growth.

Despite rising levels of production and new work in July, the latest survey pointed to a renewed fall in staffing numbers across the manufacturing sector as a whole. Survey respondents that lowered their payroll numbers mostly pointed to the non-replacement of voluntary leavers in response to excess capacity. Backlogs of work meanwhile decreased for the eighth consecutive month in July, which is the longest continuous period since the survey began in October 2010.

Manufacturers in Canada remained cautious in terms of their inventory holdings in July, as highlighted by further slight falls in pre-production stocks and finished goods inventories. However, the latest reductions were slower than those recorded in June. Meanwhile, suppliers' lead-times continued to lengthen during July, which some manufacturers attributed to reduced stock holdings at vendors.

On the prices front, the latest survey highlighted a robust and accelerated increase in average cost burdens across the manufacturing sector. The rate of input price inflation was the fastest for three months, with a number of manufacturers noting higher prices for imported components and raw materials. Increased cost burdens in turn contributed to the most marked rate of factory gate price inflation since February.

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



Components of the RBC Canadian Manufacturing PMI™

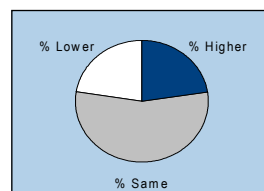
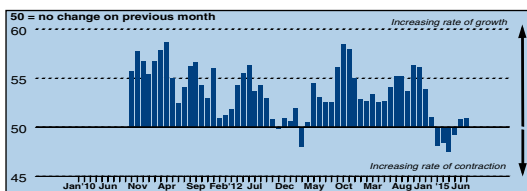
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

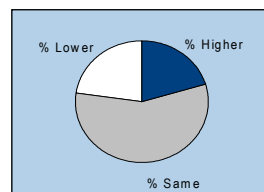
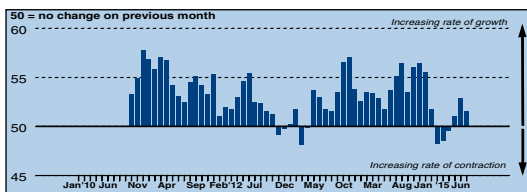
Q. Please compare the state of your new orders (in units) this month with one month ago.



The seasonally adjusted New Orders Index remained above the neutral 50.0 mark for the second month running in July, but the latest reading signalled that the rate of expansion was unmoved from the marginal pace recorded during June. Reports from survey respondents suggested that rising export sales had boosted overall new business volumes. Some manufacturers also noted a slight rebound in domestic demand patterns.

Output Index (0.25)

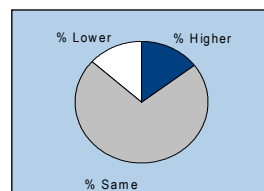
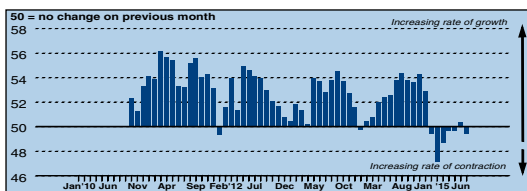
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production levels continued to recover in July, as highlighted by the seasonally adjusted Output Index posting above the 50.0 no-change value for the third consecutive month. The latest reading signalled a modest rate of output growth that was slightly less marked than that seen in June. Panel members linked the upturn in production volumes to stronger underlying demand in recent months.

Employment Index (0.20)

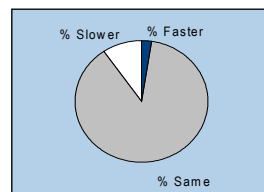
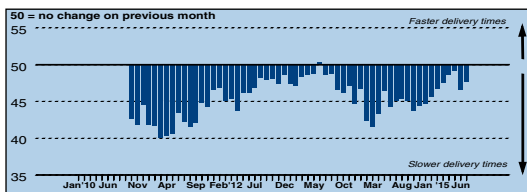
Q. Please compare the level of employment at your unit this month with the situation one month ago.



July data pointed to a renewed decline in staffing levels across the manufacturing sector. The seasonally adjusted Employment Index fell to its lowest level since March, but signalled only a marginal overall reduction in payroll numbers. Manufacturers that lowered their staffing levels generally cited the non-replacement of voluntary leavers in response to softer demand at their plants.

Suppliers' Delivery Times Index (0.15)

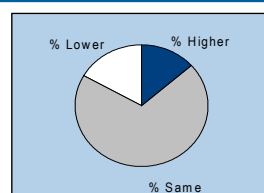
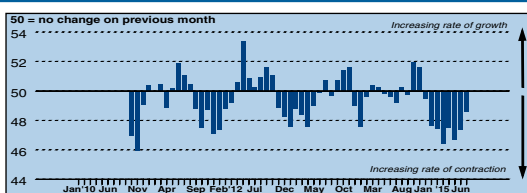
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Suppliers' lead-times continued to lengthen in July, as highlighted by the Suppliers' Delivery Times Index posting below the neutral 50.0 mark for the twenty-fifth successive month. A number of manufacturers noted that stock reduction policies at suppliers had contributed to longer lead-times.

Stocks of Purchases Index (0.10)

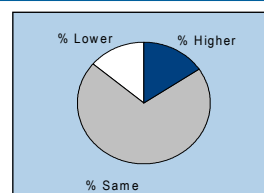
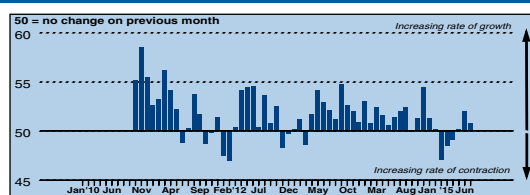
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Pre-production inventories were reduced again across the manufacturing sector in July. Adjusted for seasonal influences, the Stocks of Purchases Index has registered below the 50.0 no-change value in each month since December 2014. However, the degree of stock depletion in July was the least marked recorded so far this year.

New Export Orders Index

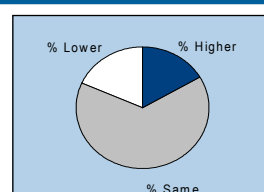
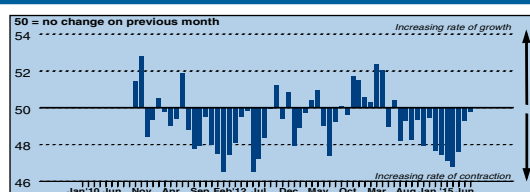
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Canadian manufacturers recorded another increase in new work received from abroad in July. The seasonally adjusted New Export Orders Index has now registered in positive territory for three months running, but the latest reading signalled only a marginal rate of expansion. Anecdotal evidence suggested that exchange rate depreciation against the U.S. dollar had helped to boost export sales in July.

Stocks of Finished Goods Index

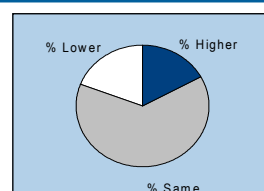
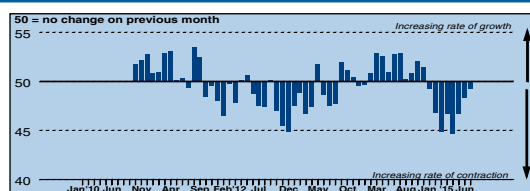
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



July data indicated a further slowdown in the rate of stock depletion across the manufacturing sector, with the latest survey highlighting only a fractional reduction in post-production inventories. Moreover, the seasonally adjusted Stocks of Finished Goods Index signalled that the rate of decline in July was the weakest in the current 13-month period of contraction.

Backlogs of Work Index

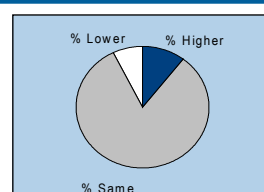
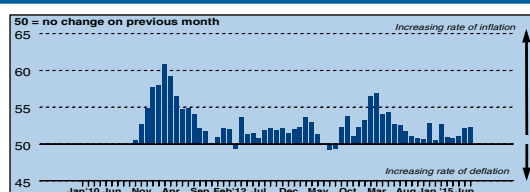
Q. Please compare the level of outstanding business in your company this month with one month ago.



The seasonally adjusted Backlogs of Work Index posted below the 50.0 no-change mark for the eighth month running in July, but the latest reading signalled only a marginal pace of decline that was the slowest since December 2014. Companies that reported lower volumes of work outstanding generally cited a lack of pressure on operating capacity at their plants.

Output Prices Index

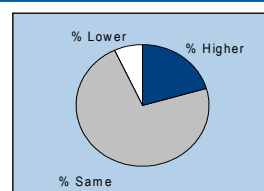
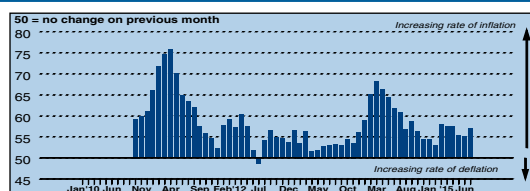
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Factory gate charges increased at a moderate pace in July. That said, the seasonally adjusted Output Prices Index signalled that the rate of inflation picked up for the third month running to its fastest since February. Manufacturers that raised their output charges generally cited the need to pass on a proportion of their higher imported raw material costs to clients.

Input Prices Index

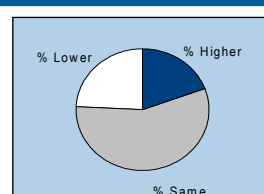
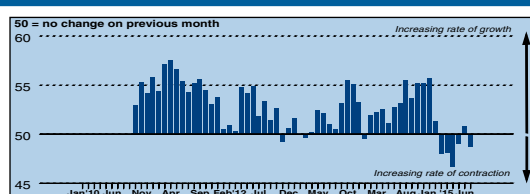
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Adjusted for seasonal influences, the Input Prices Index highlighted a robust and accelerated increase in cost burdens at manufacturing companies in July. The latest reading also pointed to the fastest rate of input price inflation since April. Survey respondents overwhelmingly linked higher overall input costs to exchange rate depreciation and a corresponding increase in prices for imported raw materials and manufacturing components.

Quantity of Purchases Index

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



July data signalled a renewed fall in purchasing activity across the manufacturing sector, following a slight upturn during the previous month. Adjusted for seasonal influences, the Quantity of Purchases Index pointed to the fastest rate of decline for three months. A number of firms noted efforts to realign pre-production inventories in the wake of reduced client spending earlier in the year.



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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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