

News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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RBC Canadian Manufacturing *Purchasing Managers' Index*™ finds new order growth strengthens in August, leading to faster rise in output

SEPTEMBER 1, 2011 – Incoming new work at Canadian manufacturers increased at a marked pace during August, 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 in the Canadian manufacturing sector improved further in August. This was supported by stronger increases in both output and new orders. Panellists attributed growth of new work to greater demand and new client wins. Subsequently, firms employed additional staff to cope with the increase in workloads. Meanwhile, price pressures eased in August, with both input costs and output charges rising at slower rates.

At 54.9, up from 53.1 in July, the headline **RBC PMI** – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – signalled a solid improvement in overall business conditions within the Canadian manufacturing sector in August. The index reading was the highest in four months, as both output and new order levels grew at sharper rates during the latest survey period.

*“The Canadian manufacturing sector is showing renewed strength in August, as increases in new work and production levels also boosted employment,” said **Paul Ferley**, Assistant Chief Economist, RBC. “Today’s report supports the view that the supply chain problems in manufacturing which arose from the natural disasters that hit Japan in March have started to reverse. This augurs well for a rebound in manufacturing activity over the second half of this year.”*

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 the August survey include:

- Incoming new work increases at fastest rate since April
- Firms further boost production levels
- Rate of input price inflation eases to eight-month low

The latest expansion in the Canadian manufacturing sector partly reflected firms receiving a larger volume of **new orders** in August. Firms cited greater demand for their goods, as well as new client wins. Notably, the rate of expansion was the fastest in four months. Incoming new orders from abroad also increased, with a number of monitored companies highlighting the US as a key source of **new export order** growth.

In light of higher new order requirements, firms stepped up **production** in August. Moreover, survey respondents also fulfilled some new orders by depleting their **stocks of finished goods** for the second consecutive month.



The amount of **inputs bought** by firms increased during the latest survey period. **Stocks of purchases** also rose, albeit only marginally. Meanwhile, the average time it took for suppliers to deliver inputs to Canadian manufacturers lengthened further in August. The latest deterioration in vendor performance was marked and the strongest since May. Anecdotal evidence provided by respondents suggested that **delivery delays** were frequently the result of backlogs at suppliers.

Employment in the Canadian manufacturing sector increased during August. Notably, the rate of growth was the fastest in three months. Almost 22 per cent of surveyed firms hired additional staff, while 9 per cent reported job losses. Job creation was generally linked to greater production requirements.

Manufacturing companies based in Canada recorded higher **input costs** in August. Raw materials such as metals and petroleum-based items were particularly mentioned by respondents as increasing in price. Nevertheless, the rate of input cost inflation eased since the previous survey period, and was the weakest in 2011 so far. Panellists passed on greater cost burdens to clients by raising their **output charges** in August. Factory gate prices rose solidly, albeit at the slowest rate since November 2010 and at a weaker pace than that registered for input costs.

Regional highlights include:

- Regional PMI data signalled that all four broad Canadian regions registered an improvement in overall manufacturing conditions in August. The expansions were stronger than those recorded in July.
- Similarly, all four broad regions reported new order growth. **Quebec**, however, posted the weakest rise in new work intakes.
- **Quebec** was the only region to register job losses in August.
- The fastest rate of input cost inflation was recorded in **Ontario**. Subsequently, manufacturing companies based in that region raised their factory gate prices to the greatest extent.

“Canadian manufacturers received a larger volume of new work in August, with export orders recovering further from the dip recorded in June,” said Cheryl Paradowski, President and Chief Executive Officer, PMAC. “The overall increase in new orders largely reflected greater demand and new client wins, and contributed to faster production growth. Meanwhile, panellists also recorded higher input prices, driven by increased costs for certain raw materials. That said, the rate of input price inflation has eased since July to the weakest in 2011 so far.”

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 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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