

Canadian manufacturing PMI falls to four-month low in August

Key findings:

- Business conditions deteriorated for the first time since May
- Output and employment both decreased in August
- Strongest rate of input cost inflation since July 2014

August data pointed to a renewed downturn in the Canadian manufacturing sector, although the overall deterioration in business conditions was only marginal. The latest survey indicated a decline in output levels for the first time in four months, while payroll numbers decreased at the joint-fastest rate since the survey began in October 2010. Meanwhile, the weaker exchange rate contributed to a further modest rise in new export work, but manufacturers also reported a marked increase in imported raw material costs. This contributed to the fastest rate of cost inflation for just over a year and placed additional pressure on operating margins during August, according to survey respondents.

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 RBC Canadian Manufacturing PMI registered 49.4 in August, down from 50.8 in July and the lowest reading since May. Moreover, the headline index was below the neutral 50.0 mark for the first time in three months.

Canadian manufacturers signalled a marginal reduction in output levels at their plants in August, which ended a three-month period of expansion. Lower production volumes were linked to subdued demand patterns and efforts to reduce inventories in August. Reflecting this, the latest survey pointed to the fastest decline in stocks of finished

goods since May. A number of manufacturers noted that concerns regarding the global economic outlook and falling levels of work-in-hand had contributed to inventory reduction policies at their plants.

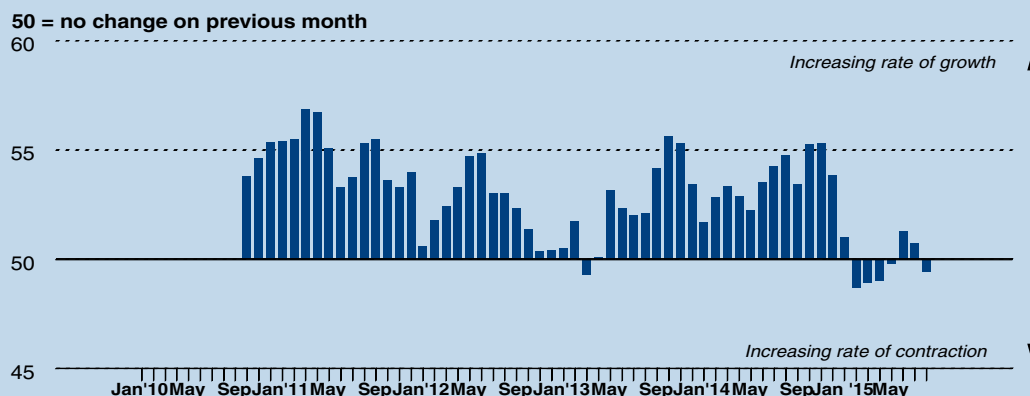
New business volumes continued to rise in August, supported by another modest upturn in export sales. However, the latest improvement in overall new order levels was only marginal and the weakest since the upturn began in June. Anecdotal evidence suggested that sharp falls in capital spending among energy sector clients had dampened demand during August, especially for manufacturers of investment goods.

Ongoing pressures on operating margins, alongside expectations of subdued client spending patterns, contributed to a decline in manufacturing employment for the seventh time in the past eight months. Survey respondents mainly noted that payroll numbers had been lowered through the non-replacement of voluntary leavers.

Manufacturers also lowered their purchasing activity in August, reflecting reduced production requirements and efforts to rein in stocks of inputs. Latest data indicated a decline in pre-production inventories for the ninth successive month, with the rate of contraction the fastest since May.

Average cost burdens increased across the manufacturing sector in August, which extended the current period of rising input prices to 37 months. Moreover, the rate of cost inflation picked up to its fastest since July 2014. However, factory gate charges rose only moderately and the pace of inflation eased from July's five-month high, with pressure on margins linked to intense competition for new work.

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



Components of the RBC Canadian Manufacturing PMI™

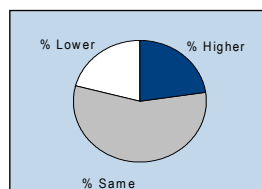
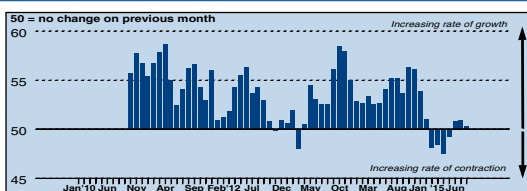
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

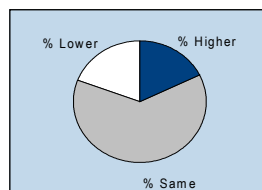
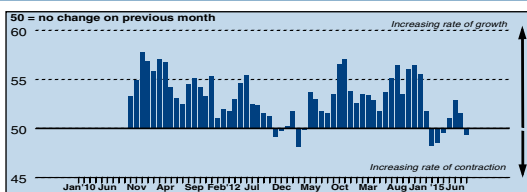
Q. Please compare the state of your new orders (in units) this month with one month ago.



New business volumes increased again during August. However, the seasonally adjusted New Orders Index signalled that the rate of growth was only marginal and eased to its weakest in the current three-month period of expansion. Consumer goods producers continued to report stronger sales volumes in August, while manufacturers of investment goods indicated another marked fall in demand from energy sector clients.

Output Index (0.25)

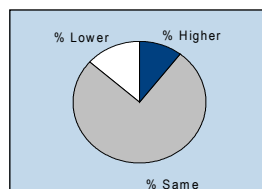
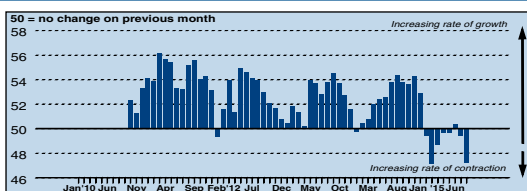
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index dipped back below the neutral 50.0 mark in August, thereby signalling a decrease in manufacturing production for the first time in four months. Although only marginal, the rate of decline was the fastest since March. Panel members noted that worries about the global economic outlook had weighed on output levels.

Employment Index (0.20)

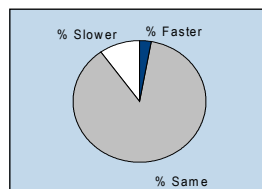
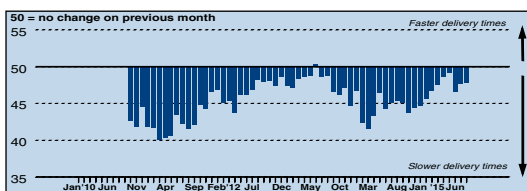
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Manufacturers reduced their staffing levels for the second month running in August. Adjusted for seasonal influences, the Employment Index fell back to the level seen in February and therefore pointed to the joint-fastest rate of decline since the survey began in October 2010. Companies that lowered their payroll number mainly commented on the non-replacement of voluntary leavers amid concerns about demand outlook.

Suppliers' Delivery Times Index (0.15)

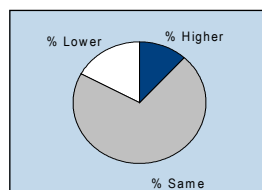
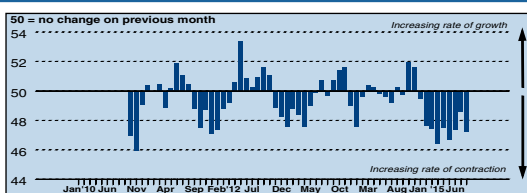
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Supplier performance continued to worsen in August, as highlighted by the seasonally adjusted Suppliers' Delivery Times Index posting below the neutral 50.0 threshold for the twenty-sixth successive month during August. That said, the latest lengthening of vendor lead-times was only moderate and the least marked since May.

Stocks of Purchases Index (0.10)

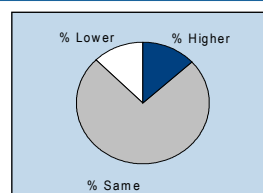
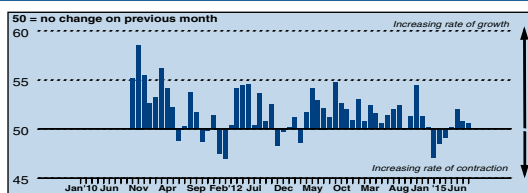
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Canadian manufacturers lowered their pre-production inventories again in August, thereby extending the current period of decline to nine months. Adjusted for seasonal influences, the Stocks of Purchases Index pointed to the fastest drop in inventories since May, which manufacturers linked to deliberate stock reduction policies in response to concerns about client spending patterns.

New Export Orders Index

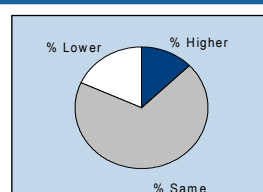
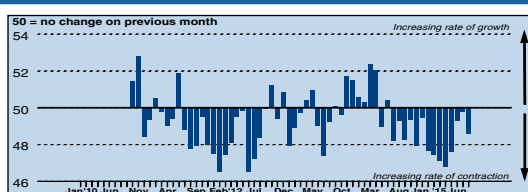
Q. Please compare the state of your new export orders (in units) this month with one month ago.



The seasonally adjusted New Export Orders Index posted above the 50.0 no-change threshold for the fourth month running in August, but the latest reading signalled only a marginal rate of expansion that was the slowest since May. Manufacturers noted that the weaker exchange rate and improving U.S. economic conditions remained the key factors boosting new export sales at their plants.

Stocks of Finished Goods Index

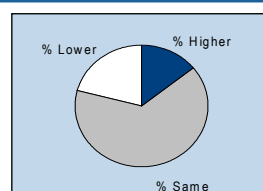
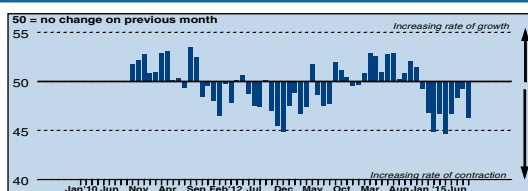
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Manufacturers continued to deplete their post-production inventories in August, which marked 14 months of sustained stock depletion across the Canadian manufacturing sector. Adjusted for seasonal influences, the Stocks of Finished Goods Index pointed to the sharpest drop in inventories since May. Lower stocks of finished goods were widely linked to weak client spending patterns.

Backlogs of Work Index

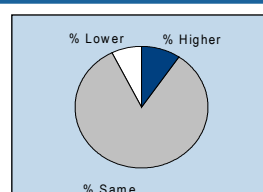
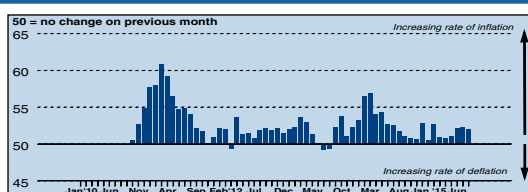
Q. Please compare the level of outstanding business in your company this month with one month ago.



Volumes of work outstanding decreased at an accelerated pace at manufacturing companies in August. The seasonally adjusted Backlogs of Work Index dropped sharply since July and signalled the steepest rate of decline for four months. Panel members widely commented on a lack of pressure on operating capacity.

Output Prices Index

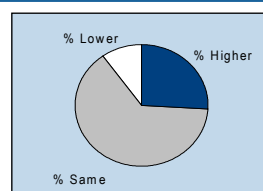
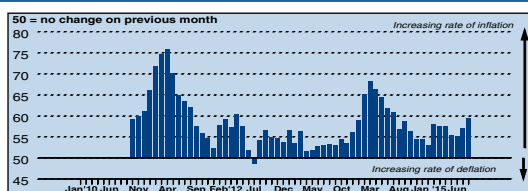
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



The seasonally adjusted Output Prices Index pointed to another moderate rise in factory gate charges in August, with the rate of inflation easing from July's five-month high. Increased output prices were widely linked to higher imported raw material costs. However, a number of manufacturers noted that intense competitive pressures and weak demand had weighed on their pricing power.

Input Prices Index

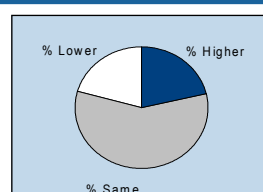
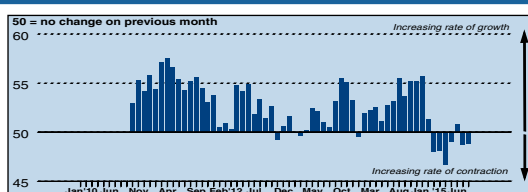
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input cost inflation accelerated for the second month running in August. Adjusted for seasonal influences, the Input Prices Index reached its highest level since July 2014 and signalled a steep rate of inflation. Manufacturers linked the latest rise in average cost burdens to exchange rate depreciation and a corresponding increase in imported raw material prices.

Quantity of Purchases Index

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



Input buying decreased again in August, although the rate of decline was only marginal. Moreover, the seasonally adjusted Quantity of Purchases Index remained comfortably above the survey-record low seen in April. Reduced input buying was linked by manufacturers to a combination of weak demand patterns and efforts to lower inventory volumes during the latest survey period.



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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.

For more information, please contact:

Amanda Cormier

416 542-3860

acormier@scmanational.ca

www.scmanational.ca



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Markit Economics

Henley on Thames

Oxon RG9 1HG, UK

Tel: +44 1491 461000

Fax: +44 1491 461001

e-mail: economics@markit.com

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 by company workforce size 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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