

## Canadian manufacturing sector gains momentum in August

### Key findings:

- RBC Manufacturing PMI hits nine-month high
- Sharpest rises in output and new orders since November 2013
- Job creation strongest for almost a year

August data pointed to a robust upturn in the performance of the Canadian manufacturing sector, with overall business conditions improving at the fastest pace since November 2013. Output and new business growth both accelerated during August, while job creation picked up markedly to its strongest for 11 months. Meanwhile, cost pressures subsided to their weakest so far this year, which contributed to a further moderation in factory gate price inflation during the latest survey period.

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 headline RBC Canadian Manufacturing PMI registered 54.8 in August, up from 54.3 in July and comfortably above the neutral 50.0 value. The latest reading was the highest for nine months and indicated a robust improvement in overall operating conditions across the manufacturing sector.

Canadian manufacturers signalled a robust and accelerated expansion of production levels in August, thereby extending the current period of growth to 16 consecutive months. Moreover, the latest increase in output levels was the fastest since last November.

A strong pace of new order growth helped support rising production

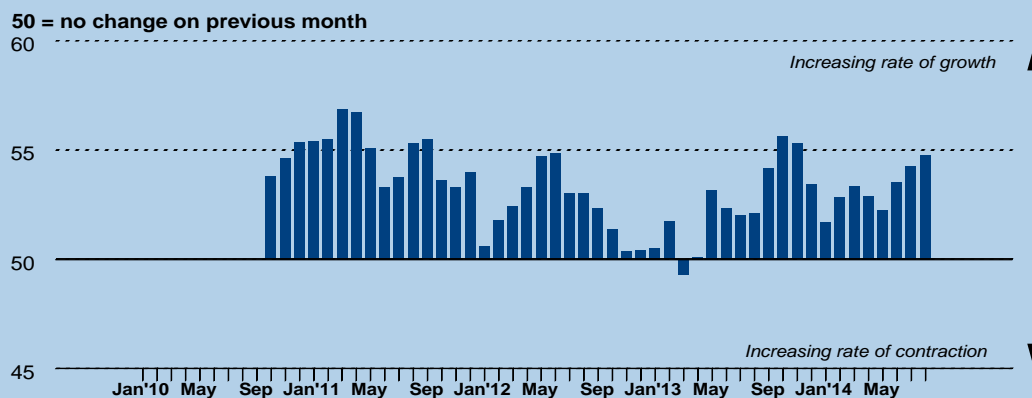
volumes during August, with the latest increase in new work the steepest since November 2013. Anecdotal evidence cited stronger domestic spending patterns during the latest survey period, alongside a boost to order books from higher export sales. August data pointed to the most marked increase in new work from abroad since March, with a number of manufacturers attributing the rise to greater spending among clients in the U.S.

A sustained improvement in new business infows continued to encourage job creation across the manufacturing sector in August. The latest survey highlighted that employment numbers rose for the seventh month in a row, and at the strongest rate since September 2013. Increased staffing levels in turn helped slow the pace of backlog accumulation at manufacturing companies in August. The latest rise in unfinished work was the seventh in successive months, but the weakest over this period.

Greater production schedules resulted in a robust expansion of input buying within the manufacturing sector during August. Pre-production stocks were accumulated for the first time in four months, while finished goods inventories were depleted at a marginal pace. Strong demand for raw materials contributed to a further lengthening of suppliers' delivery times in August.

August data provided positive news on the inflation front, with average input prices increasing at the slowest pace since December 2013. Reduced cost pressures in turn contributed to the weakest rise in factory gate charges for nine months.

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



**Components of the RBC Canadian Manufacturing PMI™**

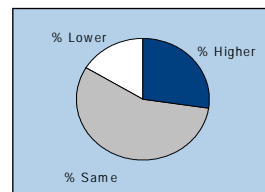
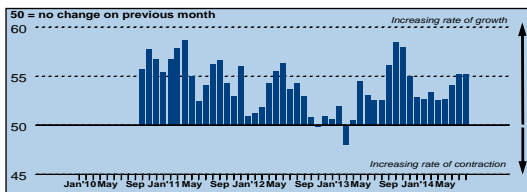
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)**

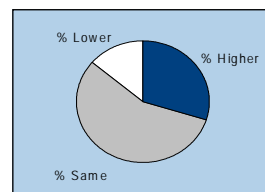
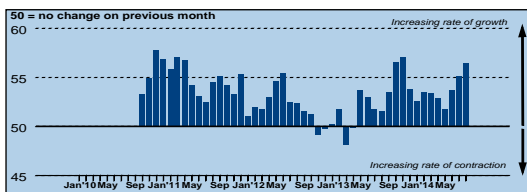
Q. Please compare the state of your new orders (in units) this month with one month ago.



August data signalled a further robust increase in new business received by manufacturers in Canada. Moreover, the seasonally adjusted New Orders Index pointed to the fastest pace of expansion since November 2013. Strong new business growth reflected a combination of rising domestic spending and greater sales to export clients during the latest survey period.

**Output Index (0.25)**

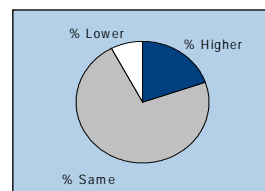
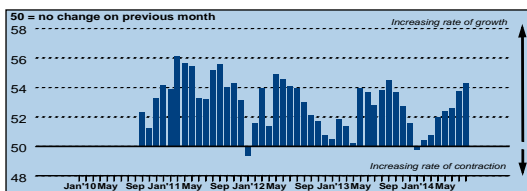
Q. Please compare your production/output this month with the situation one month ago.



Adjusted for seasonal influences, the Output Index registered above the neutral 50.0 value for the sixteenth successive month in August. Moreover, the latest reading signalled that manufacturing production growth picked up for the third month running to its steepest since last November.

**Employment Index (0.20)**

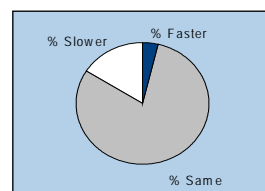
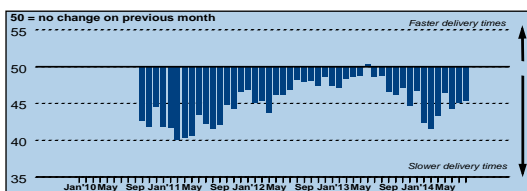
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Canadian manufacturers indicated that a solid pace of job creation was maintained across the sector in August. The seasonally adjusted Employment Index registered above the 50.0 no-change value for the seventh consecutive month and the latest reading pointed to the steepest rise in staffing levels since September 2013.

**Suppliers' Delivery Times Index (0.15)**

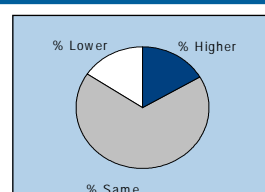
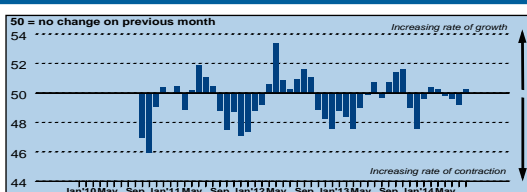
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Average lead-times from vendors continued to lengthen in August, as highlighted by the seasonally adjusted Suppliers' Delivery Times Index remaining well below the neutral 50.0 value. That said, the latest deterioration in supplier performance was the least marked for three months. Manufacturers noted that strong demand for raw materials had contributed to delays in the receipt of inputs in August.

**Stocks of Purchases Index (0.10)**

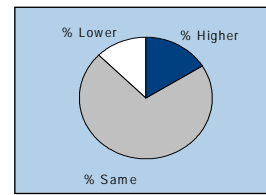
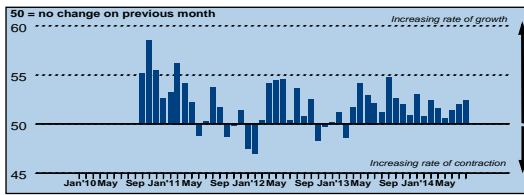
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



The latest survey signalled a renewed rise in pre-production inventories across the Canadian manufacturing sector, thereby ending a three-month period of moderate decline. However, the seasonally adjusted Stocks of Purchases Index signalled only a marginal pace of expansion. Increased stocks of purchases were generally linked to greater new business intakes in August.

**New Export Orders Index**

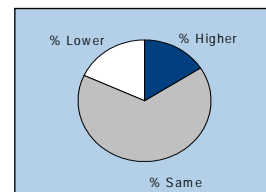
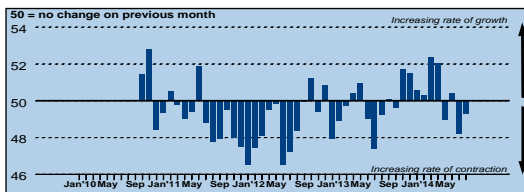
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Canadian manufacturers received a boost to their order books from an upturn in new export sales in August. Moreover, the seasonally adjusted New Export Orders Index signalled the most marked rise in new work from abroad since March. A number of panel members cited stronger demand from clients in the U.S.

**Stocks of Finished Goods Index**

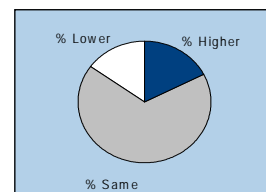
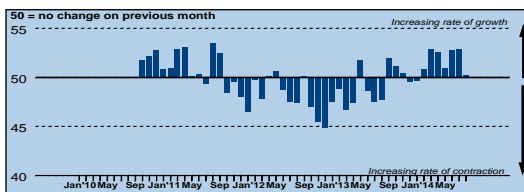
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventory levels dipped for the second month in a row during August. However, adjusted for seasonal influences, the Stocks of Finished Goods Index indicated that the rate of inventory depletion was only marginal and slower than that seen in July. Some survey respondents attributed reduced stocks of finished goods to stronger than expected sales volumes in August.

**Backlogs of Work Index**

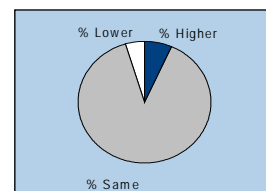
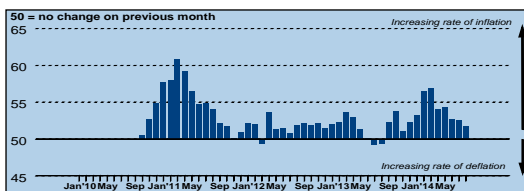
Q. Please compare the level of outstanding business in your company this month with one month ago.



Volumes of work outstanding broadly stabilised across the manufacturing sector in August. Although the seasonally adjusted Backlogs of Work Index remained above the 50.0 no-change mark, the latest reading was the lowest for seven months and signalled only a fractional rise in unfinished work. Anecdotal evidence suggested that ongoing staff recruitment had helped slow the pace of backlog accumulation in August.

**Output Prices Index**

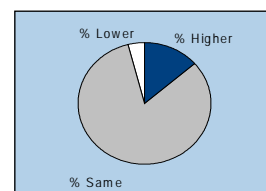
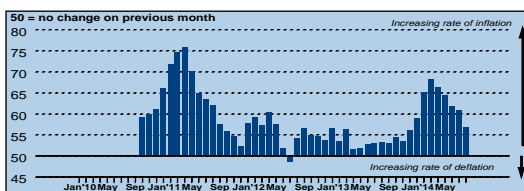
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



August data pointed to only a moderate rise in prices charged by manufacturers in Canada. Adjusted for seasonal influences, the Output Prices Index signalled that the pace of factory gate price inflation eased to its weakest since November 2013. Reports from survey respondents suggested that softer cost pressures had contributed to a moderation in output charge inflation.

**Input Prices Index**

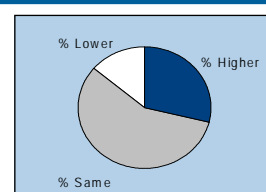
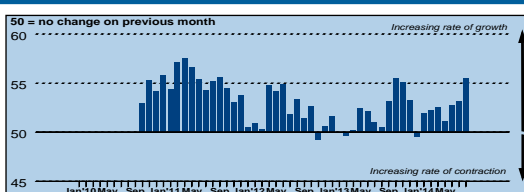
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



The seasonally adjusted Input Prices Index dipped for the fifth month running in August, thereby signalling a further slowdown in cost inflation across the manufacturing sector. Although the index remained well above the neutral 50.0 value, the latest reading indicated the weakest rise in cost burdens so far this year.

**Quantity of Purchases Index**

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



Growth of input buying accelerated for the third successive month in August, reflecting strong new business gains and greater production schedules. Adjusted for seasonal influences, the Quantity of Purchases Index pointed to the fastest increase in purchasing activity since October 2013.

