

In association with the Purchasing Management Association of Canada

Output growth unchanged in August, despite solid rise in new orders

Key findings:

- Growth of output unchanged from July's four-month low
- New orders increase solidly, partly reflecting an uptick in new export work
- Input prices increase in August, reversing the decline during July

August data indicated a further improvement in Canadian manufacturing business conditions, with both production and new orders increasing over the month. That said, the rate of output growth was unchanged from July's four-month low, while the expansion for new orders remained below the series average. Meanwhile, input prices increased at the strongest pace since May, reversing the marginal decline recorded one month previously.

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.

The RBC PMI posted above the 50.0 no-change mark in August, indicating a further improvement in Canadian manufacturing business conditions. However, having fallen slightly from 53.1 in July to 53.0, the PMI remained below the series average of 54.2 and signalled the weakest manufacturing expansion for five months.

The volume of new orders received by Canadian manufacturers increased in August, with firms generally linking this to greater client demand. New export orders also rose over the month, with an increase in new work from the U.S. particularly mentioned by panellists. Overall, total new orders rose solidly from July, although the rate of growth remained slower than the series average.

Reflective of the rise in new work intakes, manufacturers across

Canada raised their production levels in August. Output has risen in each month since data collection began in October 2010, but the rate of increase was unchanged from the four-month low recorded in July. Firms also depleted stocks of finished goods, albeit to a lesser extent than one month previously, and reduced the level of outstanding business for the third month running.

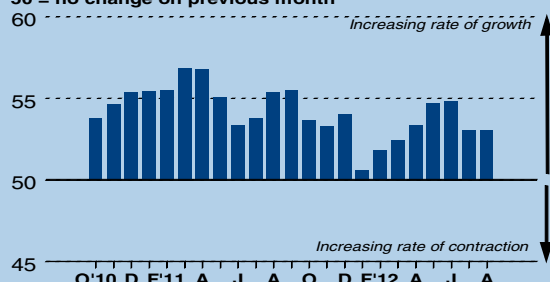
The amount of inputs bought by surveyed companies increased in August, with firms largely linking the rise in purchases to greater output requirements. Input inventories also rose over the month, but the rate of stock accumulation was only slight overall. Concurrently, suppliers' delivery times lengthened further during the latest survey period. However, the increase in input lead times was only marginal and the weakest in the 23-month series history.

Manufacturing employment in Canada increased for the seventh consecutive month in August, with approximately 18% of firms hiring additional staff from July. Panellists generally attributed this to recent increases in new orders. Although remaining solid overall, the rate of job creation nonetheless slowed to its weakest since April.

In contrast to the marginal reduction recorded in July, input costs faced by Canadian manufacturers increased in August. Increased prices for fuel, wood and steel were all particularly mentioned by respondents. Overall, the rate of inflation was the strongest in three months. Firms partially passed on greater cost burdens to clients by raising their output charges. However, selling prices rose only modestly, despite the rate of increase hitting a four-month high.

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

50 = no change on previous month



Purchasing Managers' Index

		Unadj.	Seas. Adj.
'12	Apr	54.5	53.3
	May	57.0	54.7
	Jun	57.3	54.8
	Jul	52.4	53.1
	Aug	53.9	53.0

Index Summary

(seasonally adjusted, 50 = no change on previous month)

	PMI	New Orders	Output	Employment	Delivery Times	Stocks of Purchases	Export Orders	Finished Goods Stock	Backlogs of Work	Output Prices	Input Prices	Quantity of Purchases
Jun '12	54.8	56.4	55.4	54.6	46.2	50.9	54.6	46.5	48.8	51.5	51.8	54.9
Jul	53.1	53.7	52.5	54.1	46.9	50.3	50.4	47.2	47.5	50.8	48.8	51.9
Aug	53.0	54.3	52.5	54.0	48.3	50.9	53.6	48.4	47.4	51.8	54.1	53.3

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:

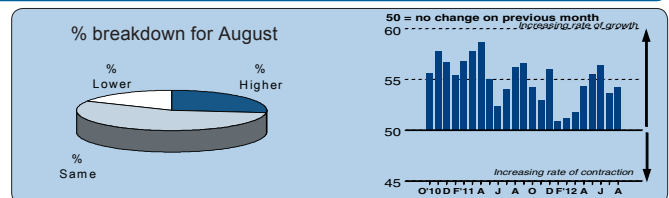
New Orders	0.30
Output	0.25
Employment	0.20
Suppliers' Delivery Times (inverted)	0.15
Stocks of Purchases	0.10

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.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Mar	29.5	50.1	20.5	9.0	54.5	51.9
	Apr	34.7	44.8	20.4	14.3	57.2	54.3
	May	36.5	44.2	19.3	17.2	58.6	55.5
	Jun	37.1	45.0	17.9	19.1	59.6	56.4
	Jul	31.8	42.3	25.9	5.9	53.0	53.7
	Aug	26.6	55.9	17.6	9.0	54.5	54.3

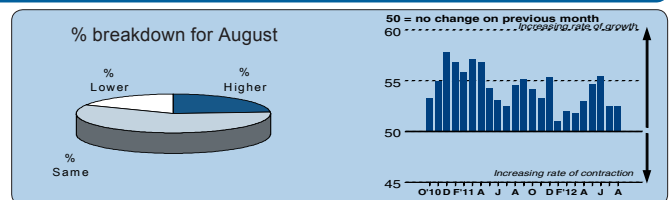


The volume of new orders received by Canadian manufacturers increased in August, continuing the trend that has been registered in each month since data collection began in October 2010. Greater demand from both domestic and export markets was generally cited by a number of respondents. That said, the rate of growth was weaker than the series average, despite having quickened from July's four-month low.

Output Index (0.25)

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Mar	25.8	54.6	19.6	6.1	53.1	51.8
	Apr	27.3	53.7	19.0	8.4	54.2	53.0
	May	30.9	52.1	16.9	14.0	57.0	54.7
	Jun	32.3	50.4	17.3	15.0	57.5	55.4
	Jul	24.2	50.0	25.8	-1.6	49.2	52.5
	Aug	23.8	58.5	17.7	6.1	53.1	52.5

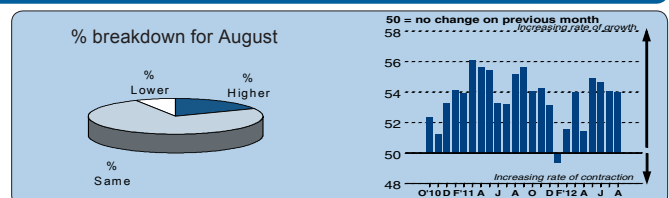


Manufacturing production in Canada increased in August, as signalled by the seasonally adjusted Output Index posting above the 50.0 no-change level. Firms that reported higher production compared with one month previously (approximately 24%) largely linked expansion to the rise in new work. Output rose moderately over the month, but the index was nonetheless unchanged from July's four-month low.

Employment Index (0.20)

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Mar	20.3	68.5	11.2	9.0	54.5	54.0
	Apr	20.7	62.3	17.0	3.7	51.8	51.4
	May	26.8	64.4	8.9	17.9	58.9	54.9
	Jun	25.3	66.8	7.9	17.3	58.7	54.6
	Jul	20.9	69.1	10.0	10.9	55.4	54.1
	Aug	17.9	74.5	7.6	10.3	55.2	54.0

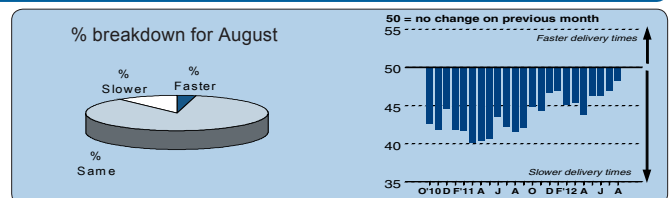


Manufacturing employment increased for the seventh consecutive month in August, with approximately 18% of firms hiring additional staff since July. Where staff headcounts rose, panellists generally commented on recent increases in new orders. Although job creation was solid overall, the rate of growth slowed for the third month running and was the weakest since April.

Suppliers' Delivery Times Index (0.15)

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

		Faster %	Same %	Slower %	Net +/-	Index	S.Adj. Index
2012	Mar	6.6	78.9	14.5	-7.8	46.1	45.4
	Apr	5.5	77.9	16.6	-11.1	44.4	43.8
	May	4.6	83.4	12.1	-7.5	46.3	46.2
	Jun	6.2	79.4	14.4	-8.2	45.9	46.2
	Jul	5.7	79.3	15.0	-9.3	45.4	46.9
	Aug	3.3	85.9	10.9	-7.6	46.2	48.3

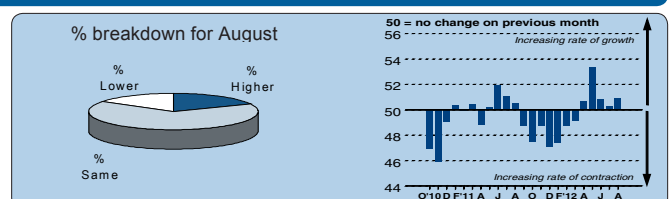


The seasonally adjusted Suppliers' Delivery Times Index remained below the 50.0 no-change mark in August, signalling a further lengthening of input lead times. The index has posted below the neutral threshold in each month since data collection began in October 2010. However, having increased to its highest reading in the survey history, the index suggested only a marginal increase in suppliers' delivery times.

Stocks of Purchases Index (0.10)

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Mar	17.1	63.7	19.2	-2.1	49.0	49.2
	Apr	15.7	71.0	13.3	2.5	51.2	50.6
	May	20.2	66.6	13.3	6.9	53.4	53.3
	Jun	20.6	63.1	16.3	4.3	52.2	50.9
	Jul	15.9	66.8	17.3	-1.4	49.3	50.3
	Aug	18.4	65.6	15.9	2.5	51.2	50.9



After adjusting for seasonal factors, input inventories at monitored companies rose for the fifth successive month in August. Approximately 18% of firms reported an increase in purchases stock (compared with 16% that registered a reduction), and attributed inventory accumulation to larger new order requirements. Overall, stocks of purchases rose only marginally in August, albeit to a greater extent than in July.

New Export Orders Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Mar	16.8	70.0	13.2	3.7	51.8	50.3
	Apr	18.4	70.5	11.1	7.3	53.7	54.1
	May	22.0	65.7	12.3	9.7	54.9	54.5
	Jun	24.0	61.7	14.3	9.7	54.8	54.6
	Jul	15.3	70.9	13.9	1.4	50.7	50.4
	Aug	16.6	74.2	9.2	7.4	53.7	53.6

The amount of new export orders placed at Canadian manufacturers increased for the sixth consecutive month in August. Firms linked the increase in new export work to greater demand, particularly from U.S. clients. Notably, the rate of growth accelerated from that recorded one month previously, and was solid overall.

Stocks of Finished Goods Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Mar	15.1	65.3	19.7	-4.6	47.7	48.1
	Apr	16.8	67.3	15.9	0.9	50.4	49.5
	May	22.3	57.9	19.7	2.6	51.3	49.8
	Jun	14.5	66.8	18.8	-4.3	47.8	46.5
	Jul	16.9	63.1	19.9	-3.0	48.5	47.2
	Aug	15.1	65.5	19.4	-4.3	47.9	48.4

Continuing the trend that has been recorded in each month since July 2011, stocks of finished goods fell further in August. A number of firms commented that inventories were depleted to reduce backlogs of work, although other companies also reported leaner stock holding policies. Overall, the latest reduction in stocks of finished goods was moderate and the weakest in three months.

Backlogs of Work Index

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

		Faster %	Same %	Slower %	Net +/-	Index	S.Adj. Index
2012	Mar	17.0	61.5	21.5	-4.4	47.8	47.8
	Apr	19.1	63.3	17.7	1.4	50.7	50.2
	May	22.3	57.5	20.2	2.1	51.0	50.7
	Jun	21.6	55.6	22.9	-1.3	49.3	48.8
	Jul	19.1	54.8	26.0	-6.9	46.5	47.5
	Aug	20.2	57.7	22.1	-1.9	49.1	47.4

The seasonally adjusted Backlogs of Work Index remained below the 50.0 no-change mark in August, suggesting a further reduction in the level of work-in-hand at Canadian manufacturing firms. Companies generally cited attempts to actively reduce outstanding business in August. Moreover, the index fell to its lowest level since January, signalling a faster rate of backlog depletion overall.

Output Prices Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Mar	7.1	85.2	7.7	-0.6	49.7	49.4
	Apr	12.1	84.7	3.2	8.9	54.5	53.7
	May	7.4	88.2	4.3	3.1	51.5	51.3
	Jun	8.5	86.9	4.6	3.9	52.0	51.5
	Jul	8.8	84.0	7.2	1.6	50.8	50.8
	Aug	7.7	88.2	4.1	3.7	51.8	51.8

Canadian manufacturers raised their output charges for the fifth successive month in August. Firms that recorded an increase in average selling prices (approximately 8%) generally reported that higher raw material prices were passed on to clients during the latest survey period. Despite the rate of inflation being the fastest in four months, output prices rose only modestly in August.

Input Prices Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Mar	20.2	74.9	5.0	15.2	57.6	57.4
	Apr	28.2	66.2	5.6	22.5	61.3	60.4
	May	19.3	76.2	4.5	14.8	57.4	57.6
	Jun	16.9	70.3	12.8	4.1	52.1	51.8
	Jul	12.4	72.7	14.9	-2.5	48.8	48.8
	Aug	14.8	78.1	7.1	7.7	53.9	54.1

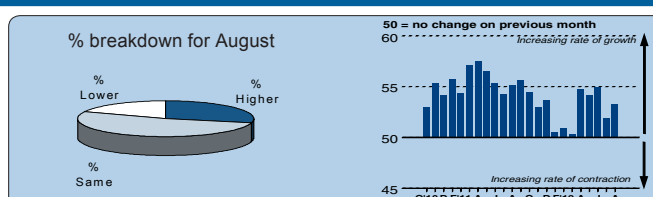
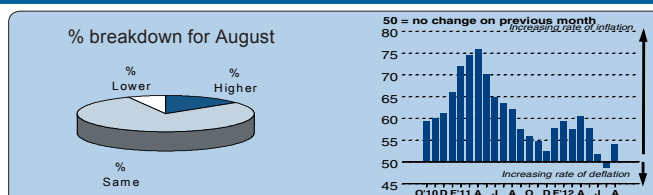
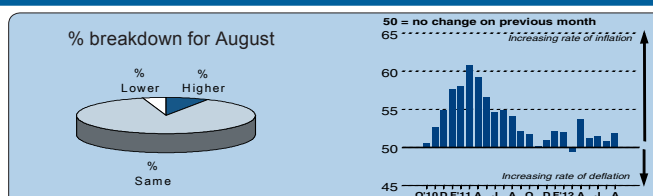
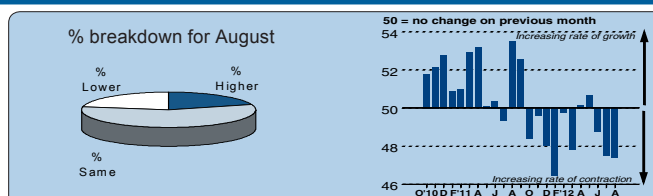
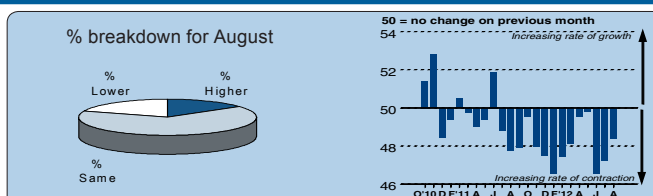
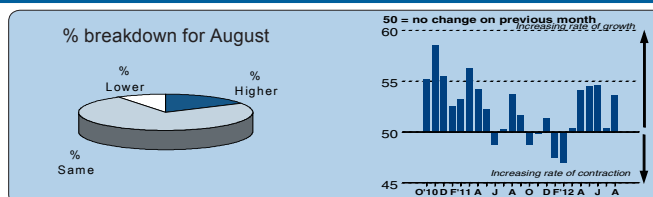
In contrast to the marginal reduction reported in July, input costs faced by manufacturers increased in August. Fuel and raw materials such as wood and steel were particularly mentioned by panellists as having increased in price over the month. Notably, the seasonally adjusted Input Prices Index rose over five points in the latest survey period, and suggested that input costs increased at the strongest rate since May.

Quantity of Purchases Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Mar	26.4	50.3	23.3	3.0	51.5	50.3
	Apr	30.6	52.5	16.9	13.7	56.9	54.8
	May	29.8	52.0	18.2	11.6	55.8	54.2
	Jun	32.7	48.4	18.9	13.7	56.9	54.9
	Jul	27.3	48.7	23.9	3.4	51.7	51.9
	Aug	28.5	53.0	18.5	10.0	55.0	53.3

The quantity of inputs bought by manufacturers increased in August, with approximately 29% of respondents raising their purchases over the month. The increase in buying activity generally reflected larger production requirements during the latest survey period. Overall, purchases rose solidly in August, with the rate of growth strengthening from that registered in July.





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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.

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