

In association with the Purchasing Management Association of Canada

PMI signals weakest manufacturing expansion for six months in September

Key findings:

- Growth of output and new orders slows to eight- and six-month lows respectively
- Moderate rise in employment, but rate of job creation weakest since April
- Input prices increase strongly over the month

September data signalled a further loss of momentum in Canada's manufacturing sector, with the headline PMI falling to its lowest level since March. Although new orders increased over the month, partly reflecting greater client demand, the rate of growth was the weakest in six months. The rate of job creation also eased, slowing to a five-month low, while output growth was the second-weakest in the two-year survey history. Concurrently, inflationary pressures picked up in September, with input prices rising strongly since August.

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 registered 52.4 in September, and indicated a modest expansion in Canada's manufacturing sector. However, having fallen from 53.0 in August, the rate of growth signalled was the slowest for six months. The weaker performance of the sector was further highlighted by the quarterly average PMI reading falling from 54.3 in the three months to June, to 52.8 in the three months to September.

Incoming new work received by Canadian manufacturers rose further in September, with a number of monitored companies attributing this to greater client demand. The volume of new export orders also increased over the month, albeit only marginally. Overall, total new orders rose moderately since August, but the rate of growth was the

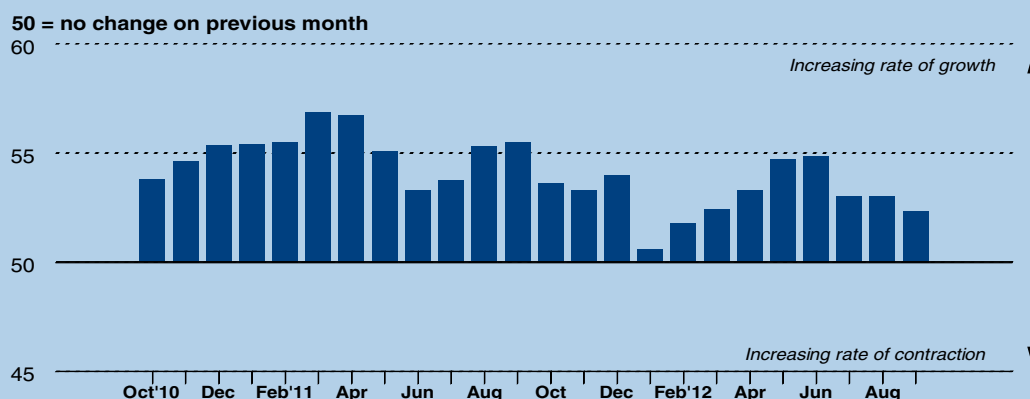
slowest in six months and weaker than the series average.

Manufacturing production rose in response to larger new order requirements. However, the latest increase in output levels was the second-weakest in two years of data collection. Backlogs of work and stocks of finished goods meanwhile were both broadly unchanged from one month previously.

The quantity of inputs bought by Canadian manufacturing firms rose further during September. Panellists commented on raising their purchases to meet the increase in output and also to rebuild stocks, which rose at the fastest rate for four months. Concurrently, suppliers' delivery times lengthened during the latest survey period. The latest increase in lead times on inputs was only modest, however.

Employment in Canada's manufacturing sector increased in September, with approximately 17% of firms hiring additional staff from August. Anecdotal evidence generally linked the increase in employee numbers to greater production requirements. That said, exactly 14% of companies reduced their workforces over the month. Overall, the rate of job creation slowed further to its weakest in five months.

Input costs rose further in September, with fuel and raw materials such as metals and plastics particularly mentioned as having increased in price. Moreover, the rate of inflation was strong and the fastest in four months. Firms passed on greater cost burdens to clients by raising their output charges. Average selling prices rose modestly over the month, with the latest increase the strongest since April.

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

Components of the RBC Canadian Manufacturing PMI™

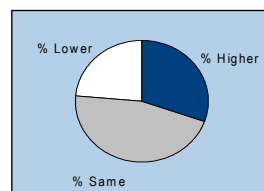
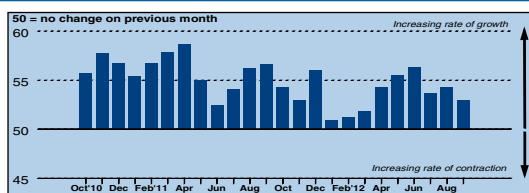
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

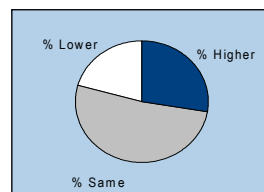
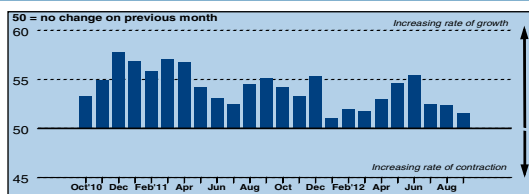
Q. Please compare the state of your new orders (in units) this month with one month ago.



Incoming new work at Canadian manufacturers increased in September, with over 30% of firms reporting larger new order volumes compared with August. Greater client demand was often cited by monitored companies. That said, approximately 24% of panellists recorded a reduction in new work intakes. Overall, the expansion in new orders was the slowest since March and weaker than the historic series average.

Output Index (0.25)

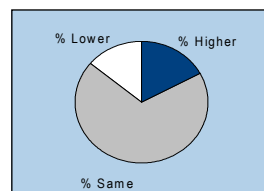
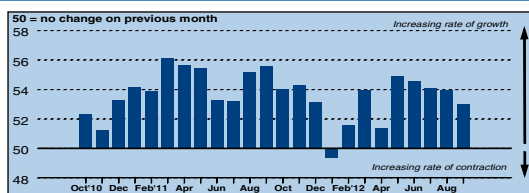
Q. Please compare your production/output this month with the situation one month ago.



After adjusting for seasonal variation, manufacturing production in Canada rose at the second-slowest rate in the two-year survey history during September, with only January 2012 seeing a weaker month-on-month increase. Firms that reported higher output levels generally attributed this to larger new order volumes, but production problems at other companies offset the overall increase in output during September.

Employment Index (0.20)

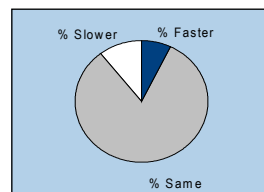
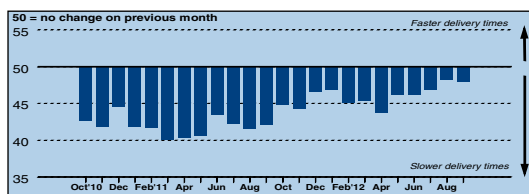
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Manufacturing employment increased for the eighth consecutive month in September, as indicated by the seasonally adjusted Employment Index remaining above the 50.0 no-change threshold. Anecdotal evidence from the latest survey linked the rise in employee numbers to greater production requirements. However, the index fell to a five-month low and was consistent with a moderate rate of job creation overall.

Suppliers' Delivery Times Index (0.15)

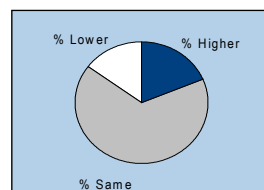
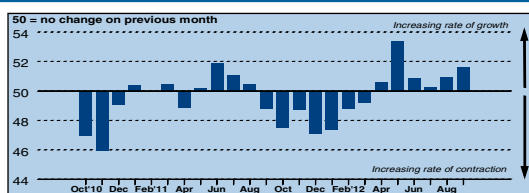
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index remained below the 50.0 no-change mark in September, signalling a further lengthening of lead times. Vendors were working close to full capacity and struggled with greater demand for inputs during the latest survey period. The index fell from the survey-high posted in August, but was still indicative of only a marginal deterioration in vendor performance in September.

Stocks of Purchases Index (0.10)

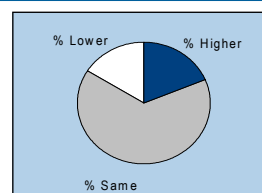
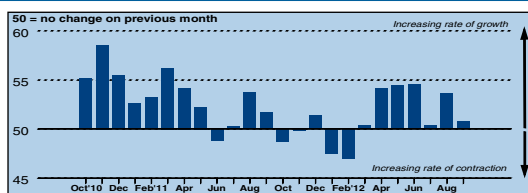
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Pre-production stocks increased in September, taking the current sequence of inventory accumulation to six months. Approximately 19% of surveyed firms reported higher stocks of purchases (while 15% recorded a decline), with a number of firms attributing this to recent production delays. Although the rate of growth was modest overall, it quickened over the month to the fastest since May.

New Export Orders Index

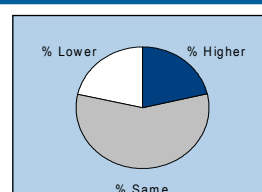
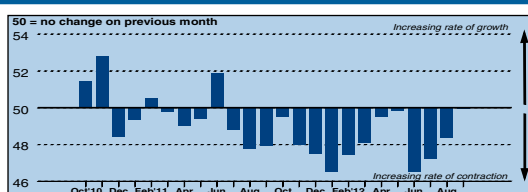
Q. Please compare the state of your new export orders (in units) this month with one month ago.



New export orders received by Canadian manufacturers increased for the seventh consecutive month in September. A number of monitored companies commented that new product launches helped boost new work intakes from key export markets. However, the seasonally adjusted New Export Orders Index fell sharply from August, and indicated only a marginal rise in new export orders.

Stocks of Finished Goods Index

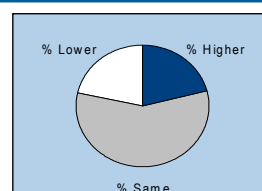
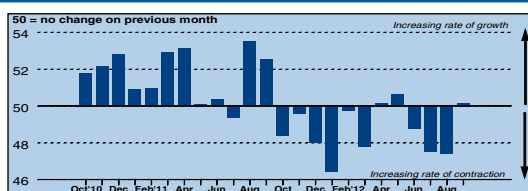
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



September data indicated broadly no change in the level of finished goods stock from August. Approximately the same percentage of respondents reported either an increase or reduction in post-production goods inventories from one month previously. The seasonally adjusted Stocks of Finished Goods Index rose to its highest level since June 2011 during the latest survey period.

Backlogs of Work Index

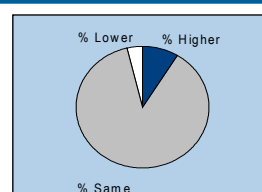
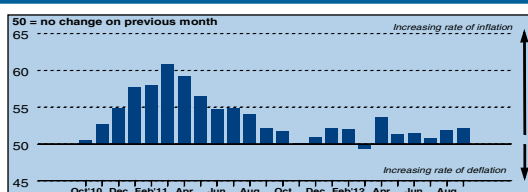
Q. Please compare the level of outstanding business in your company this month with one month ago.



After adjusting for seasonal variation, outstanding business at Canadian manufacturing companies was broadly unchanged from one month earlier in September. This was signalled by the Backlogs of Work Index posting generally at the 50.0 no-change level. Stable levels of work-in-hand (but not yet completed) was in contrast to the previous three months of backlog depletion.

Output Prices Index

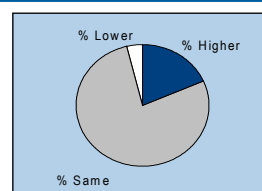
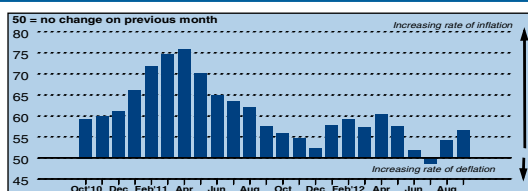
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Average prices charged by Canadian manufacturers increased in September, taking the current sequence of output price inflation to six months. Approximately 9% of monitored firms raised their selling prices over the month, as companies generally passed higher raw material costs on to clients. Overall, the latest rise in output charges was moderate and the fastest in five months.

Input Prices Index

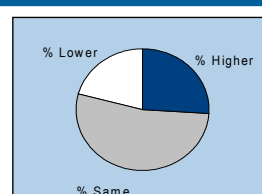
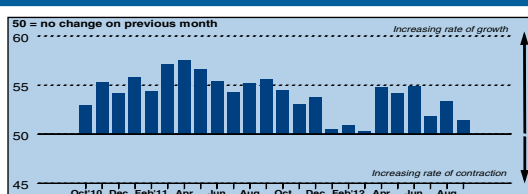
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input costs faced by manufacturing firms in Canada rose further during September, with approximately 18% of panellists reporting an increase since August. Fuel and raw materials such as plastics and metals were particularly mentioned as having increased in price over the month. The seasonally adjusted Input Prices Index rose to its highest level since May, and suggested a strong rate of inflation overall.

Quantity of Purchases Index

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



The amount of inputs bought by panellists increased further in September, as indicated by the seasonally adjusted Quantity of Purchases Index remaining above the 50.0 no-change mark. Firms linked the rise in purchasing activity to greater production requirements, although other companies also mentioned rebuilding inventories. Nonetheless, the rate of increase was only modest, with the index falling to a six-month low.



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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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