

## Manufacturing business conditions continue to improve in September, albeit at slowest pace for three months

### Key findings:

- Slowdown in both output and new order growth
- New export work stagnates in September
- Solid pace of job creation maintained

Canadian manufacturers indicated a further improvement in overall business conditions in September, reflecting higher levels of output, new orders and employment across the sector. However, the strength of the upturn moderated during the latest survey period, partly reflecting a stagnation in new export business. Meanwhile, input cost inflation remained subdued in comparison to that seen during the first half of the year, which contributed to the slowest rise in output charges since November 2013.

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.

At 53.5 in September, the seasonally adjusted RBC Canadian Manufacturing PMI eased from the nine-month high registered during August (54.8). The latest reading was the lowest since June, but remained well above the neutral 50.0 value and signalled a solid overall improvement in business conditions. On average over the third quarter (54.2), the headline index was the highest since the final quarter of 2013.

September data indicated a moderation in output growth from the nine-month high registered in August. Survey respondents suggested that softer increases in production reflected a slowdown in new business gains. The latest rise in incoming new work was the

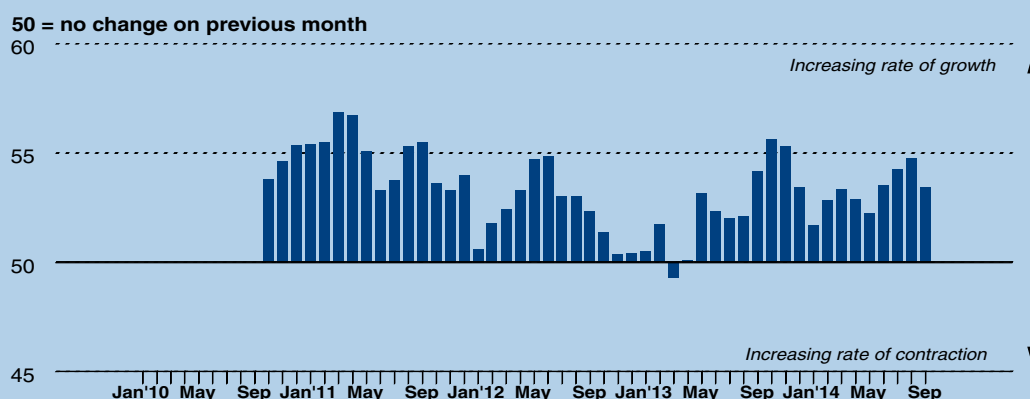
weakest since May. This partly reflected a stagnation of new export orders in September, which ended a 17-month period of expansion. Anecdotal evidence suggested that increased demand from clients in the U.S. had been offset by subdued business conditions in other markets (especially the euro area).

A solid rate of job creation was maintained in September, with employment growth easing only slightly from August's 11-month high. Increased staffing levels were attributed to rising volumes of new work in recent months and corresponding investments in additional capacity. Backlogs of work nonetheless increased for the eighth month running, albeit at only a marginal pace.

In line with rising new business volumes and greater production schedules, the latest survey pointed to a solid upturn in purchasing activity across the manufacturing sector. However, stocks of purchases and inventories of finished goods were reduced in September. The latest survey also pointed to longer delivery times from suppliers, as has now been the case for 15 consecutive months. Some manufacturers commented that low stocks and delays in raw material shipments had resulted in longer lead-times from vendors.

Manufacturers pointed to a further robust rise in their average cost burdens, which was generally attributed to greater raw material prices and transportation costs. Although the rate of cost inflation accelerated since August, the latest rise was still much weaker than those seen in the first half of 2014. Meanwhile, factory gate price inflation eased for the fourth month running to only a marginal pace.

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



## Components of the RBC Canadian Manufacturing PMI™

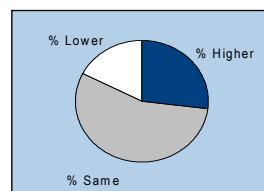
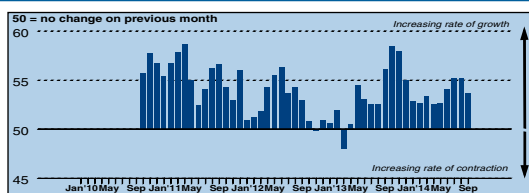
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

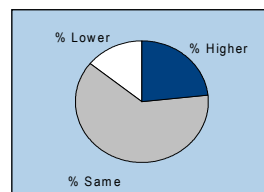
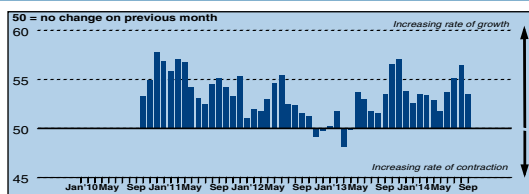
Q. Please compare the state of your new orders (in units) this month with one month ago.



The seasonally adjusted New Orders Index indicated a solid increase in new work received by Canadian manufacturing firms in September, but the rate of expansion eased to a four-month low. Survey respondents generally pointed to improving business conditions and greater client demand, although some cited weaker export sales at their plants.

## Output Index (0.25)

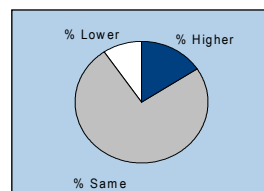
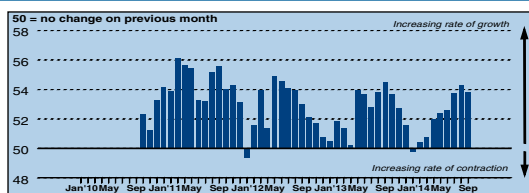
Q. Please compare your production/output this month with the situation one month ago.



September data pointed to a moderation in output growth across the manufacturing sector, following the nine-month high registered in August. Adjusted for seasonal influences, the Output Index signalled the slowest rise in production volumes since May. Anecdotal evidence suggested that softer output growth reflected slower increases in new business during the latest survey period.

## Employment Index (0.20)

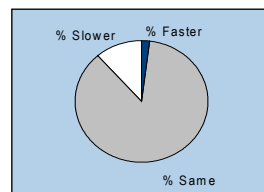
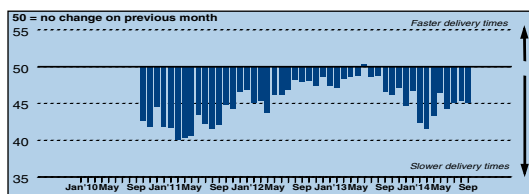
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Job creation was maintained for the eighth consecutive month in September. The seasonally adjusted Employment Index eased only slightly from August's 11-month high and the latest reading pointed to a solid overall increase in payroll numbers. Companies mainly attributed staff recruitment to rising volumes of new work and associated investments in additional capacity.

## Suppliers' Delivery Times Index (0.15)

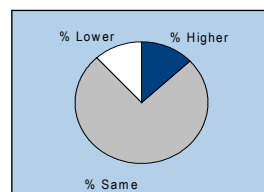
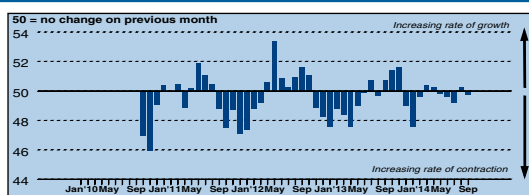
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Vendor performance continued to worsen in September, as highlighted by the seasonally adjusted Suppliers' Delivery Times Index registering below the neutral 50.0 threshold for the fifteenth consecutive month. Longer delivery times were linked to low stocks at suppliers and increased levels of input buying across the manufacturing sector.

## Stocks of Purchases Index (0.10)

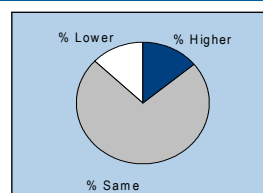
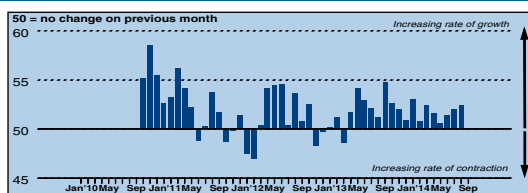
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Canadian manufacturers signalled a renewed reduction in pre-production inventories at their plants in September. The seasonally adjusted Stocks of Purchases Index has now posted below the 50.0 no-change mark in four of the past five months, although the latest reading pointed to only a fractional rate of inventory depletion.

## New Export Orders Index

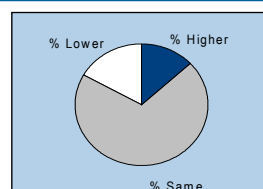
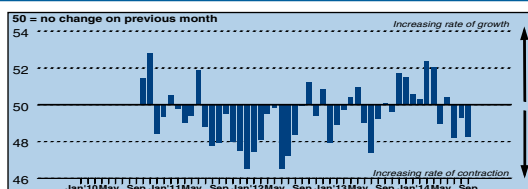
Q. Please compare the state of your new export orders (in units) this month with one month ago.



September data indicated a stagnation of new export orders, which ended a 17-month period of expansion. The seasonally adjusted New Export Orders Index was also below the average recorded since the survey began in October 2010 (51.9). Reports from panel members suggested that rising sales to clients in the U.S. were broadly offset by subdued conditions in other export markets (especially the euro area).

## Stocks of Finished Goods Index

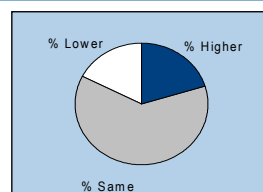
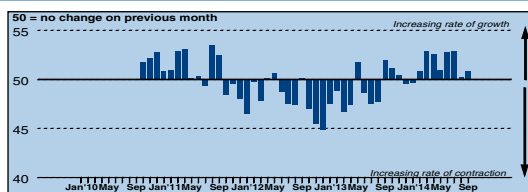
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Adjusted for seasonal influences, the Stocks of Finished Goods Index registered below the 50.0 no-change level for the third month running in September. The latest reading pointed to a moderate fall in post-production inventories, which survey respondents mainly attributed to deliberate stock reduction policies at their plants.

## Backlogs of Work Index

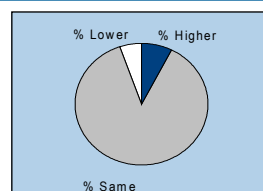
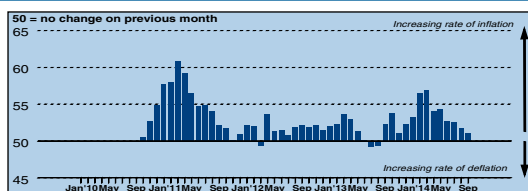
Q. Please compare the level of outstanding business in your company this month with one month ago.



Work-in-hand (but not yet completed) at Canadian manufacturing firms increased only marginally in September. The seasonally adjusted Backlogs of Work Index has now posted above the 50.0 no-change level for eight months in a row. Increased volumes of outstanding business were linked to solid gains in incoming new work in recent months.

## Output Prices Index

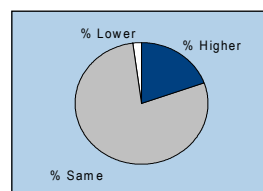
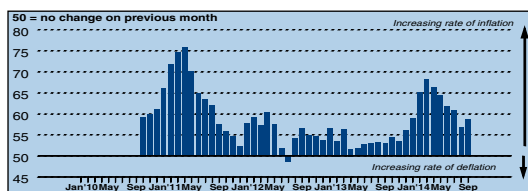
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Factory gate price inflation eased for the fourth consecutive month in September. Moreover, the seasonally adjusted Output Prices Index eased to its lowest level since November 2013 and signalled only a marginal increase in output charges at manufacturing firms. Softer factory gate price inflation was partly attributed to strong competition for new work.

## Input Prices Index

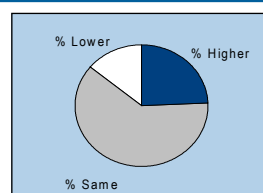
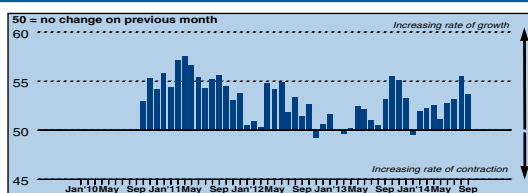
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



The seasonally adjusted Input Prices Index signalled a robust and accelerated increase in average cost burdens across the Canadian manufacturing sector in September. Although the index picked up from August's eight-month low, the latest reading was still well below the average for 2014 to date (62.4). Higher input prices were generally linked to rising raw material and transportation costs in September.

## Quantity of Purchases Index

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



Input buying increased at a solid pace during September, with the seasonally adjusted Quantity of Purchases Index registering above the neutral 50.0 value for the eighth consecutive month. That said, the rate of expansion eased from the 10-month high recorded in August. Companies that reported a rise in purchasing activity mainly cited stronger new order volumes and greater production requirements at their plants.



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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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