

In association with the Supply Chain Management Association

Canadian manufacturing PMI signals the sharpest deterioration in overall business conditions since the survey began five years ago

Key findings:

- Production volumes decline for the second month running
- Renewed fall in new business levels
- Survey-record reduction in input buying as manufacturers seek to streamline inventories

Canadian manufacturers indicated another deterioration in overall business conditions during September, with output, new business and employment levels all falling since the previous month. Weaker demand conditions also resulted in lower input buying and greater efforts to streamline inventories, while backlogs of work were reduced at the fastest pace since April. Moreover, the latest survey pointed to stagnating export sales, despite support from exchange rate depreciation against the U.S. dollar. At the same time, input prices increased at a robust pace amid widespread reports of rising costs for inputs purchased from abroad, but factory gate charges picked up only slightly over the month.

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 48.6 in September, down from 49.4 in August, the seasonally adjusted RBC Canadian Manufacturing PMI registered below the neutral 50.0 threshold for the second month running. Although the index only pointed to a moderate downturn in overall business conditions, the latest reading was the lowest recorded in the five-year survey history.

September data indicated a decline in production volumes for the second month running. The rate of contraction was moderate, but nonetheless the fastest since March as manufacturers cut back

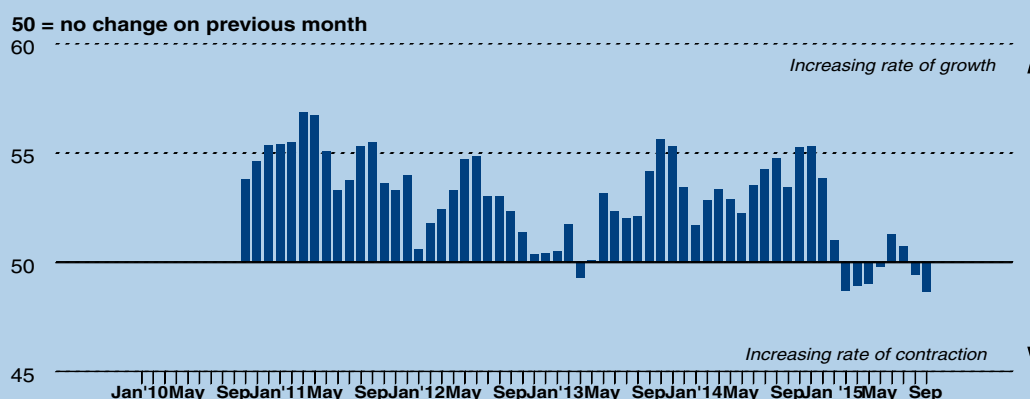
production schedules in response to lower levels of incoming new work. Manufacturers indicated a marginal fall in total new business during September, which ended a three-month period of expansion. Anecdotal evidence cited a combination of weak domestic demand, alongside stagnating export sales. Latest data indicated that new work from abroad was unchanged since August, which contrasted with modest growth during the previous four months.

A lack of pressure on operating capacity and subdued confidence regarding the global economic outlook continued to weigh on staffing levels in September. The latest fall in employment was slightly weaker than in August, with manufacturers mainly commenting on the non-replacement of voluntary departures.

Softer demand and efforts to alleviate cost pressures resulted in tighter inventory policies across the manufacturing sector in September. Reflecting this, stocks of finished goods were depleted for the fifteenth successive month and pre-production inventories fell at the steepest pace since the survey began in October 2010. At the same time, purchasing activity decreased for the seventh time in the past eight months, with the rate of decline the steepest seen during the five-year survey history. Despite lower levels of input buying, latest data signalled another deterioration in supplier performance, which some manufacturers linked to international shipping delays in September.

Average cost burdens meanwhile increased at a strong pace at manufacturing companies, although the rate of inflation eased slightly since August. Survey respondents commented on squeezed pricing power, which led to only a moderate rise in factory gate charges.

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



Components of the RBC Canadian Manufacturing PMI™

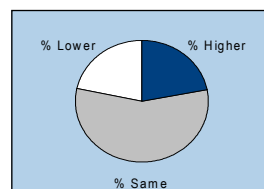
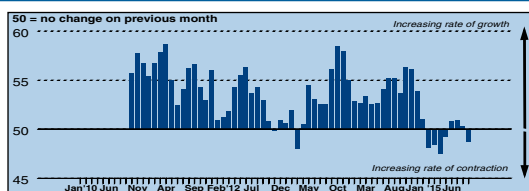
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

| | |
|--------------------------------------|------|
| 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)

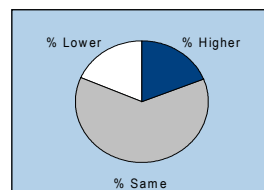
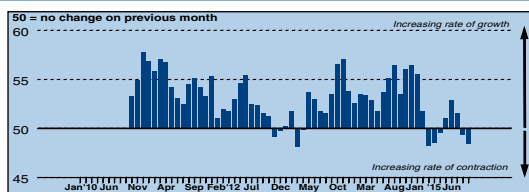
Q. Please compare the state of your new orders (in units) this month with one month ago.



September data indicated a renewed downturn in new work received by Canadian manufacturing companies, as highlighted by the seasonally adjusted New Orders Index positing below the neutral 50.0 mark for the first time in four months. Although the rate of decline was only modest, the latest reading was the lowest since April.

Output Index (0.25)

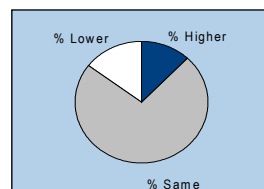
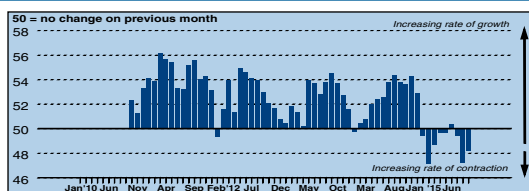
Q. Please compare your production/output this month with the situation one month ago.



Lower volumes of new work meant that manufacturers scaled back their production schedules for a second month running in September. The seasonally adjusted Output Index was only slightly below the neutral 50.0 threshold, but pointed to the sharpest rate of decline since March. Survey respondents mainly linked the fall in new work to weak domestic demand, alongside stagnating export sales at their plants.

Employment Index (0.20)

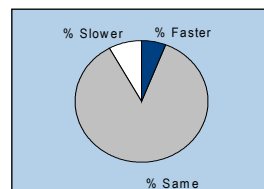
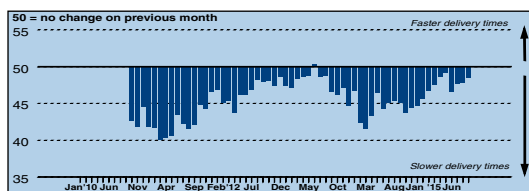
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Manufacturing staffing levels decreased for the third consecutive month in September. Adjusted for seasonal influences, the Employment Index pointed to a moderate rate of job cuts that was slightly less marked than one month previously. Reports from survey respondents suggested that lower workloads and the uncertain economic outlook had encouraged the non-replacement of voluntary leavers.

Suppliers' Delivery Times Index (0.15)

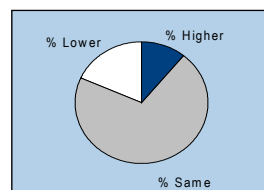
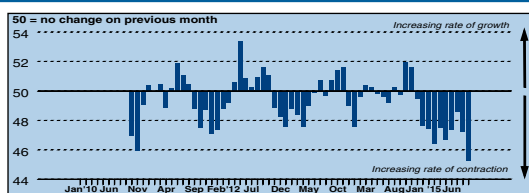
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index remained below the neutral 50.0 value in September, thereby signalling a further lengthening of average lead times from vendors. Worsening supplier performance has been recorded in each month since July 2013, but the latest downturn was one of the least marked over this period.

Stocks of Purchases Index (0.10)

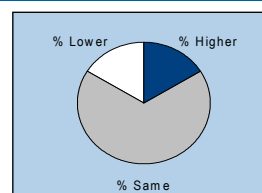
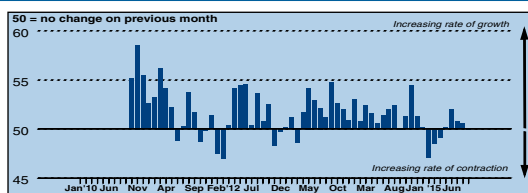
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



September data indicated that pre-production inventories decreased at the sharpest rate since the survey began five years ago. Moreover, the seasonally adjusted Stocks of Purchases Index has now registered in negative territory for ten months running, which is the longest continuous period in the survey history. Manufacturers mainly commented on efforts to improve cash flow and streamline stocks in response to lower demand.

New Export Orders Index

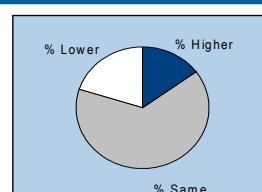
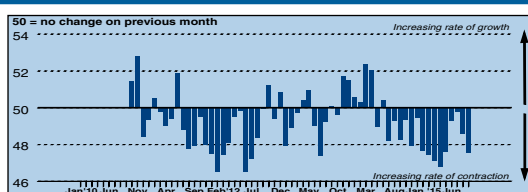
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Manufacturers indicated that the recent rebound in new export sales stagnated during September. This was highlighted by the seasonally adjusted New Export Orders Index posting at the 50.0 no-change mark, thereby ending a four-month period of expansion. Survey respondents suggested that weaker global economic conditions had placed downward pressure on sales, despite support from exchange rate depreciation.

Stocks of Finished Goods Index

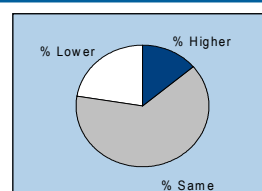
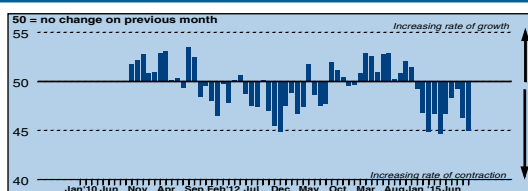
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



In line with the trend for pre-production inventories, manufacturers also sought to lower their holdings of finished goods during September. Adjusted for seasonal influences, the Stocks of Finished Goods Index pointed to the fastest pace of post-production inventory reduction since May. Panel members indicated that they had reduced their stock levels in response to cost pressures, as well as the weaker demand environment.

Backlogs of Work Index

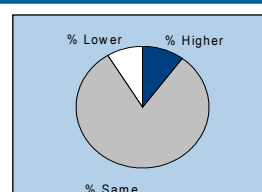
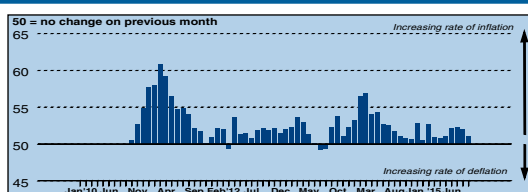
Q. Please compare the level of outstanding business in your company this month with one month ago.



The seasonally adjusted Backlogs of Work Index pointed to a sharp and accelerated reduction in unfinished work across the manufacturing sector in September. Moreover, the rate of decline was the fastest since April, which survey respondents mainly attributed to lower new orders and a corresponding lack of pressure on operating capacity at their plants.

Output Prices Index

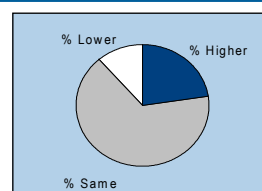
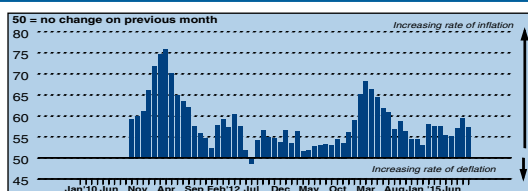
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Factory gate charges increased only marginally in September and the seasonally adjusted Output Prices Index indicated that the rate of inflation slowed to a four-month low. Manufacturers commented on softer input price inflation, although some noted that exchange rate depreciation had led to upward pressure on costs and a corresponding increase in output charges.

Input Prices Index

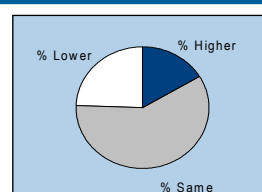
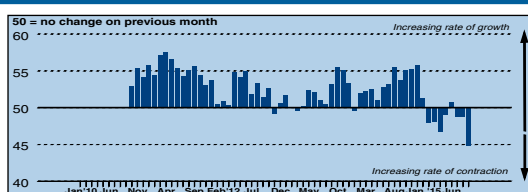
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



The seasonally adjusted Input Prices Index dipped slightly from August's 13-month high, but remained well above the 50.0 no-change mark to signal a robust overall increase in average cost burdens during September. Anecdotal evidence overwhelmingly linked the increase in input prices to supplier surcharges in response to exchange rate depreciation against the U.S. dollar.

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 for the third month running in September. Moreover, the seasonally adjusted Quantity of Purchases Index signalled that the rate of contraction accelerated to its fastest since the survey began in October 2010. Lower levels of purchasing activity were linked to a combination of weaker client demand and efforts to streamline inventories.



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As the leading and largest association in Canada for supply chain management professionals, the Supply Chain Management Association (SCMA) is the national voice for advancing and promoting the profession. SCMA sets the standard of excellence for professional skills, knowledge and integrity and was the first supply chain association in the world to require that all members adhere to a Code of Ethics.

With nearly 8000 members working across the private and public sectors, SCMA is the principal source of supply chain training, education and professional development in the country. Through its 10 Provincial and Territorial Institutes, SCMA grants the Supply Chain Management Professional (SCMP) designation, the highest achievement in the field and the mark of strategic supply chain leadership.

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.

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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 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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