

Canadian manufacturing PMI dips to a new survey-record low in October

Key findings:

- Sharpest deterioration in business conditions since the survey began in October 2010
- Production levels fall at a steeper rate in October, despite softer decline in new orders
- Manufacturing employment numbers decrease for the fourth consecutive month

October data pointed to another downturn in overall business conditions across the Canadian manufacturing sector, with output, new orders and employment all declining since the previous month. Moreover, the latest survey highlighted a drop in new export sales for the first time since April, with survey respondents noting that weaker global economic conditions had acted as a drag on new business volumes. Meanwhile, input costs rose at a sharp and accelerated pace in October, which placed pressure on operating margins and contributed to a further slight increase in factory gate charges.

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 RBC Canadian Manufacturing PMI posted 48.0 in October, down from 48.6 in September and below the neutral 50.0 threshold for the third month in a row. Moreover, the latest reading signalled the sharpest rate of deterioration since the survey began in October 2010.

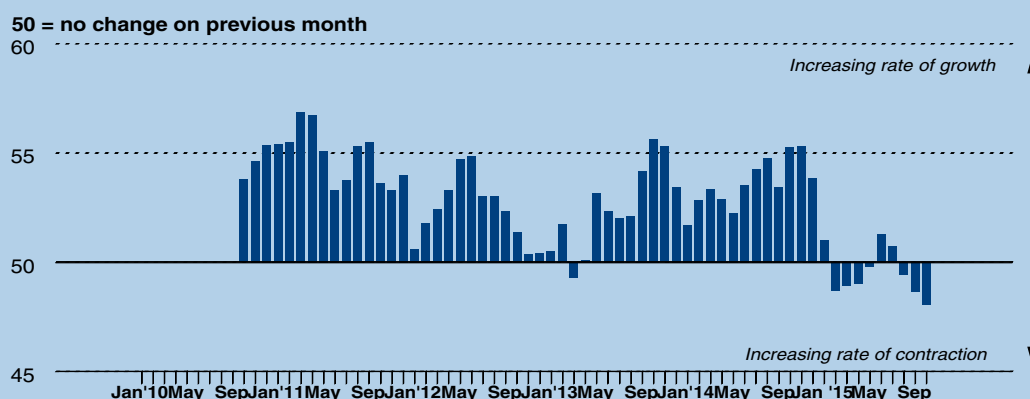
A faster reduction in manufacturing output levels was the main factor contributing to a drop in the headline index during October, as new business volumes decreased at a slightly slower pace than one month previously. Manufacturers linked the survey-record fall in production levels to a combination of weaker underlying demand and efforts to reduce their stocks of finished goods. Reflecting this, latest data

indicated the sharpest decline in post-production inventories since the survey began five years ago. At the same time, manufacturers pared back their input buying for the fourth month running in October, which contributed to the fastest fall in stocks of purchases in the survey history.

Overall volumes of new work decreased slightly in October, but the rate of decline eased since September and was broadly in line with the average so far in 2015. That said, for the first time in six months, manufacturers reported a decrease in export sales. Meanwhile, backlogs of work were lowered again during October, reflecting a general lack of pressure on operating capacity.

Canadian manufacturers indicated a modest reduction in their payroll numbers during the latest survey period, thereby continuing the trend seen throughout much of the year to date. Anecdotal evidence suggested that staffing levels were mainly reduced through the non-replacement of voluntary leavers. Some firms also commented on additional measures to avoid forced job cuts at their plants, including work-share arrangements and greater efforts to boost productivity.

Suppliers' delivery times lengthened across the manufacturing sector in October, as has now been the case for almost two-and-a-half years. Survey respondents suggested that international shipping delays, alongside capacity cuts among local suppliers, had led to longer lead times for inputs. The latest survey also pointed to upward pressure on input prices, with overall cost burdens rising at the second-fastest pace since July 2014. Manufacturers overwhelmingly linked higher input costs to exchange rate depreciation against the U.S. dollar.

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

Components of the RBC Canadian Manufacturing PMI™

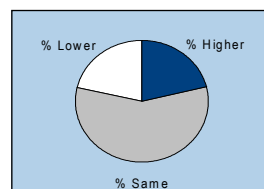
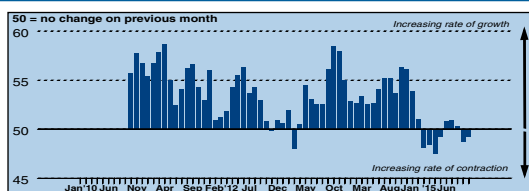
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

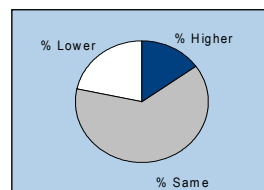
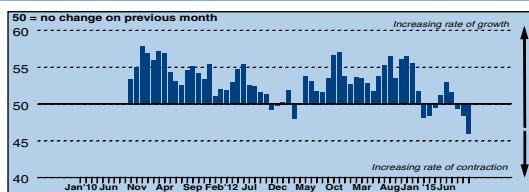
Q. Please compare the state of your new orders (in units) this month with one month ago.



The seasonally adjusted New Orders Index registered below the neutral 50.0 threshold for the second month running in October, but the latest reading signalled only a marginal rate of decline in new work received by Canadian manufacturers. Anecdotal evidence from survey respondents suggested that heightened uncertainty about the global economic outlook had weighed on new business volumes in October.

Output Index (0.25)

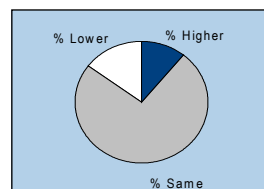
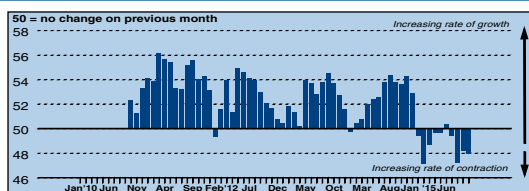
Q. Please compare your production/output this month with the situation one month ago.



October data indicated a marked reduction in manufacturing output levels, thereby extending the current period of decline to three consecutive months. Moreover, the seasonally adjusted Output Index pointed to the sharpest rate of contraction since the survey began five years ago. Reduced production volumes were attributed to a combination of weaker demand and efforts to reduce finished goods inventories.

Employment Index (0.20)

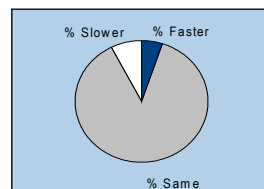
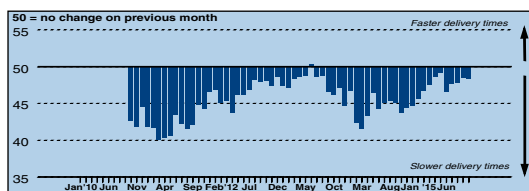
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Adjusted for seasonal influences, the Employment Index registered below the 50.0 no-change value for the fourth month running in October. The latest reading pointed to a moderate reduction in workforce numbers, with the pace of decline slightly sharper than that recorded in September. Manufacturers mostly commented on the non-replacement of voluntary leavers and other measures to avoid forced job losses.

Suppliers' Delivery Times Index (0.15)

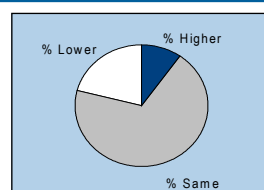
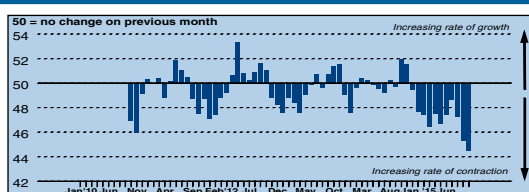
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index registered below the neutral 50.0 value in October, to indicate a further moderate downturn in vendor performance. Reports from survey respondents suggested that international shipping delays and, in some cases, capacity cutbacks among suppliers had contributed to longer lead times from vendors.

Stocks of Purchases Index (0.10)

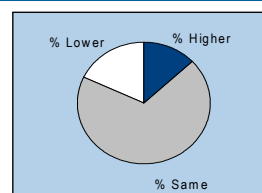
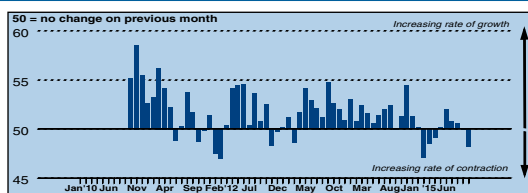
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Canadian manufacturers highlighted a sharp and accelerated reduction in their pre-production inventories during October. Around twice as many survey respondents (21%) reported a decline as those that indicated a rise (10%). Adjusted for seasonal influences, the Stocks of Purchases Index signalled the steepest pace of contraction since the survey began in October 2010.

New Export Orders Index

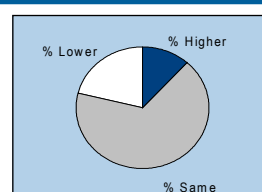
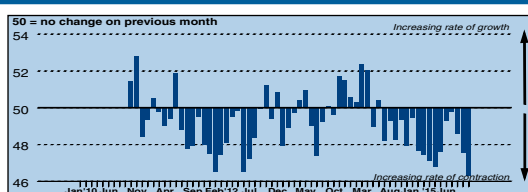
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Volumes of new work received from abroad decreased for the first time in six months during October. Although the seasonally adjusted New Export Orders Index pointed to only a modest pace of decline, the latest reading was the second-lowest recorded since February 2012. Survey respondents suggested that weaker global economic conditions had acted as a drag on overall export sales, despite robust spending among U.S. clients.

Stocks of Finished Goods Index

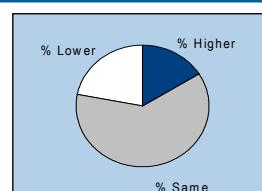
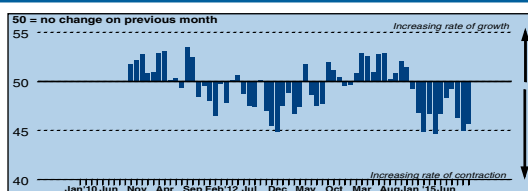
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Adjusted for seasonal influences, the Stocks of Finished Goods Index registered below the neutral 50.0 threshold for the sixteenth month running in October. Moreover, the latest reading highlighted the fastest reduction in post-production inventories since the survey began in October 2010.

Backlogs of Work Index

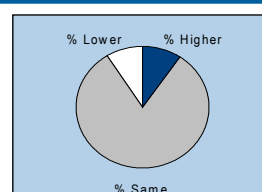
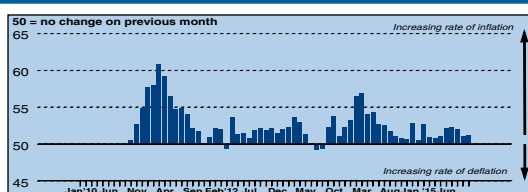
Q. Please compare the level of outstanding business in your company this month with one month ago.



Manufacturers in Canada indicated another solid reduction in their volumes of work outstanding in October. The seasonally adjusted Backlogs of Work Index has now posted below the 50.0 no-change mark for 11 months in a row, which represents the longest period of continuous decline since the survey began. Anecdotal evidence linked the latest fall in backlogs of work to a further decrease in new business volumes.

Output Prices Index

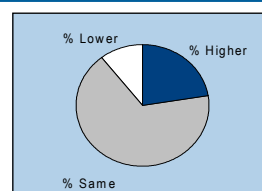
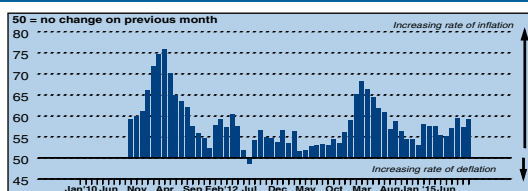
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



October data pointed to another slight increase in average prices charged by manufacturers. The seasonally adjusted Output Prices Index was little-changed from the four-month low recorded in September. Survey respondents noted that rising cost burdens had contributed to increased output charges in October. However, there were also reports that weak demand conditions had a negative influence on pricing power.

Input Prices Index

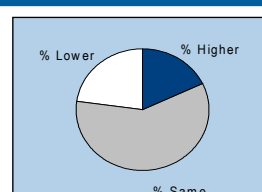
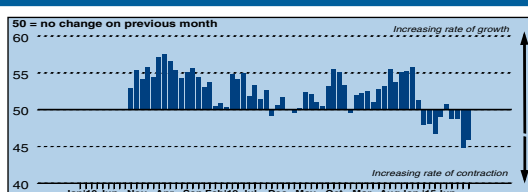
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



The seasonally adjusted Input Prices Index pointed to a sharp and accelerated rise in average cost burdens across the Canadian manufacturing sector. Moreover, the latest increase in input prices was the second-fastest since July 2014. Survey respondents overwhelmingly linked higher input costs to the impact of 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.



Lower levels of incoming new work and reduced production schedules resulted in cautious input buying strategies among manufacturers in October. The seasonally adjusted Quantity of Purchases Index signalled that the rate of decline in purchasing activity moderated slightly since September, but was nonetheless the second-fastest since the survey began five years ago.



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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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