

Canadian manufacturing PMI hits 11-month high in October

Key findings:

- New order growth rebounds to its fastest since November 2013...
- ...despite only a marginal rise in new export business
- Input cost inflation eases to lowest in 2014 to date

October data highlighted a robust rebound in business conditions across the Canadian manufacturing sector, led by the fastest upturn in new order volumes since November 2013. As a result, production levels increased at an accelerated pace and manufacturing firms continued to boost their payroll numbers. Meanwhile, factory gate price inflation eased to its lowest for over a year, reflecting softer cost pressures and, in some cases, price discounting strategies to win new business.

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 registered 55.3 in October, up from 53.5 in September and above the neutral 50.0 value for the nineteenth consecutive month. The latest reading pointed to the strongest improvement in overall business conditions since November 2013.

New business levels increased across the manufacturing sector in October, with the rate of expansion the sharpest for almost a year. Anecdotal evidence linked improved sales volumes to new product launches, successful marketing initiatives and competitive pricing strategies. Nonetheless, volumes of new export business increased only marginally in October, and the rate of expansion was subdued in

comparison to the average since the survey began in late-2010.

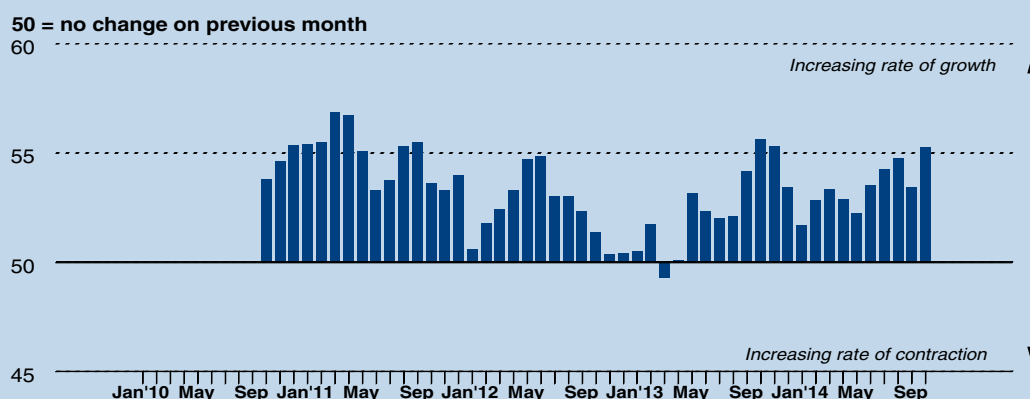
Sustained output and new business growth contributed to a solid increase in manufacturing employment levels. The rate of job creation eased slightly during October, but remained close to August's 11-month high. Meanwhile, backlogs of work were accumulated for the ninth consecutive month and at the sharpest pace for three months.

The latest survey highlighted ongoing supply-chain pressures across the manufacturing sector, in part reflecting a further robust increase in purchasing activity. Delivery times from vendors lengthened for the sixteenth successive month in October, with the latest deterioration of vendor performance the sharpest since April.

Supply chain bottlenecks encouraged some firms to build up their stocks of inputs in October. Although only moderate, the latest increase in stocks of purchases was the most marked since May 2012. Meanwhile, inventories of finished goods were depleted for the fourth month running.

Despite strong domestic demand and reports of upward pressure on costs from exchange rate depreciation, October data indicated a further moderation in overall purchase price inflation. Moreover, the latest rise in average cost burdens was the slowest recorded in 2014 to date. This in turn contributed to softer factory gate price inflation during October. Slower rises in manufacturing output charges have now been recorded in each of the past five months, driven by strong competition for new work and weaker underlying cost pressures.

RBC Canadian Purchasing Managers' Index™ (PMI™)



Components of the RBC Canadian Manufacturing PMI™

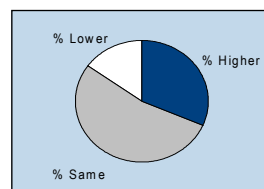
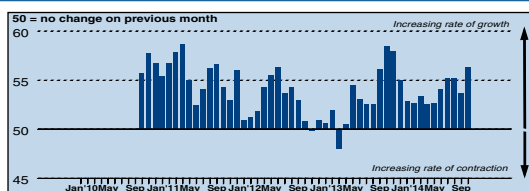
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

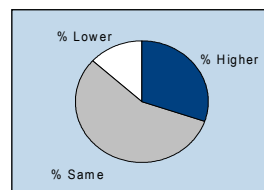
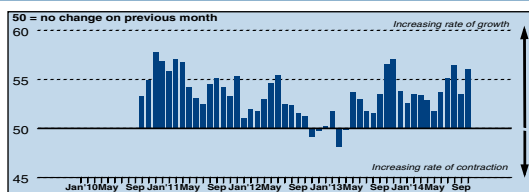
Q. Please compare the state of your new orders (in units) this month with one month ago.



October data indicated a robust and accelerated improvement in new business volumes received by Canadian manufacturers. Adjusted for seasonal influences, the New Orders Index signalled the fastest rise in incoming new work since November 2013. Survey respondents linked the latest upturn to new product launches, successful marketing initiatives and, in some cases, price discounting strategies.

Output Index (0.25)

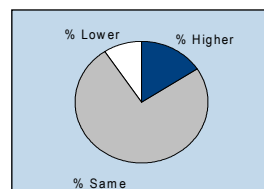
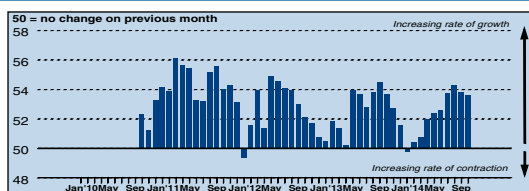
Q. Please compare your production/output this month with the situation one month ago.



In line with the trend for new orders, Canadian manufacturers indicated a strong expansion of production levels at their plants during October. The seasonally adjusted Output Index picked up since September and posted above the 50.0 no-change value for the eighteenth consecutive month.

Employment Index (0.20)

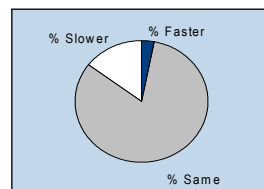
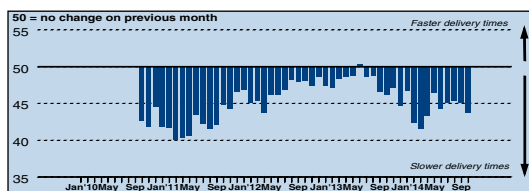
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Manufacturing staffing levels increased for the ninth successive month in October. Adjusted for seasonal factors, the Employment Index pointed to a solid rate of job creation. That said, the index eased for the second month running and pointed to the least marked pace of employment growth since June.

Suppliers' Delivery Times Index (0.15)

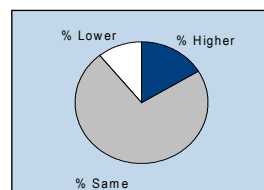
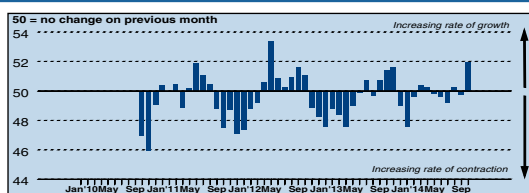
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index remained well below the neutral 50.0 threshold in October, to signal a further sharp deterioration in vendor performance. Moreover, the latest reading indicated that suppliers' delivery times lengthened to the greatest degree since April. Anecdotal evidence cited shortages of stock at vendors amid strong demand for manufacturing inputs.

Stocks of Purchases Index (0.10)

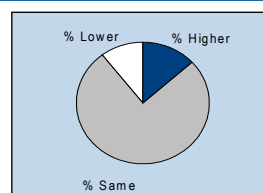
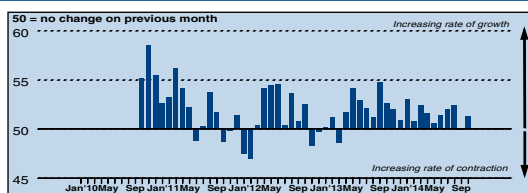
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Pre-production inventories rebounded across the Canadian manufacturing sector in October, following a marginal reduction in the previous month. The seasonally adjusted Stocks of Purchases Index picked up to its highest level since May 2012 and signalled a moderate rate of inventory accumulation.

New Export Orders Index

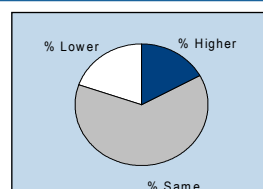
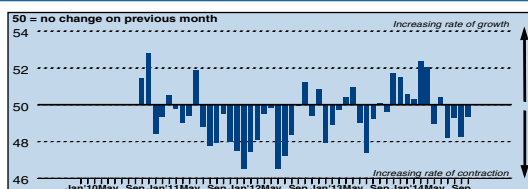
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Canadian manufacturers indicated a renewed rise in new business from abroad during October. However, the seasonally adjusted New Export Orders Index remained below the survey average and pointed to only a marginal pace of expansion. Some panel members commented that subdued global market conditions had weighed on export sales at their plants.

Stocks of Finished Goods Index

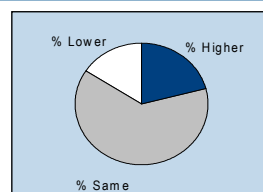
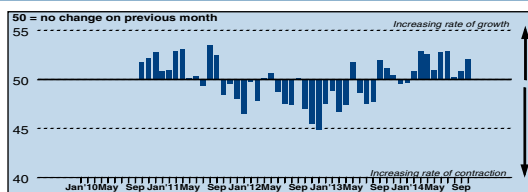
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventory levels decreased for the fourth consecutive month in October. That said, the seasonally adjusted Stocks of Finished Goods Index signalled only a marginal pace of decline that was the slowest in the current period of contraction. A number of manufacturers reported that stronger than expected sales had resulted in lower stocks of finished goods during the latest survey period.

Backlogs of Work Index

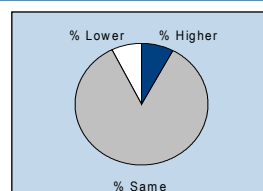
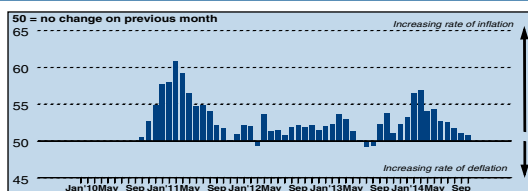
Q. Please compare the level of outstanding business in your company this month with one month ago.



October data highlighted a further increase in unfinished business across the Canadian manufacturing sector. The seasonally adjusted Backlogs of Work Index has now registered above the 50.0 no-change value for nine consecutive months and the latest reading pointed to the sharpest rate of expansion since July.

Output Prices Index

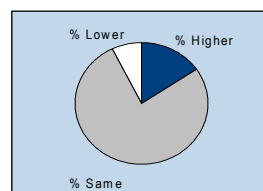
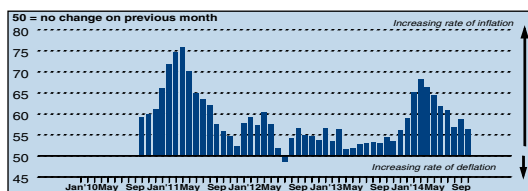
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



The seasonally adjusted Output Prices Index posted above the neutral 50.0 value for the fourteenth month in a row during October. However, the latest reading signalled the slowest rate of factory gate price inflation over this period. Anecdotal evidence suggested that softer input price rises and strong competition for new work had contributed to a moderation in output charge inflation.

Input Prices Index

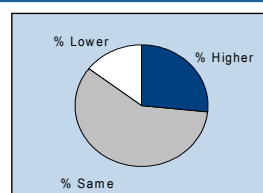
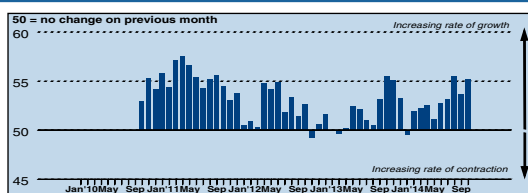
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input cost inflation slowed for the sixth time in the past seven months during October. Moreover, the seasonally adjusted Input Prices Index signalled that the latest rise in manufacturing cost burdens was the weakest so far in 2014. Reports from survey respondents highlighted lower fuel and metals prices, although a number of firms noted that exchange rate factors had pushed up raw material costs in October.

Quantity of Purchases Index

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



Manufacturers in Canada signalled a robust and accelerated rise in purchasing activity at their plants in October. The seasonally adjusted Quantity of Purchases Index has now posted above the 50.0 no-change mark for nine months running. Higher levels of input buying mainly reflected strong new business growth. In some cases, firms also pointed to deliberate stock building in response to longer supplier delivery times.



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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 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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