

Manufacturing output declines at slowest pace for three months in November

Key findings:

- RBC Canadian Manufacturing PMI picks up from October's survey-record low...
- ...helped by a softer decline in production levels
- New business levels fall at a faster pace, despite rebound in export sales

Canadian manufacturers experienced a slightly slower downturn in overall business conditions than the survey-record low recorded during October. This largely reflected a moderation in production cuts across the manufacturing sector in November, with the latest fall in output the least marked for three months. New business levels nonetheless decreased at a sharper pace than in October, while efforts to reduce staffing numbers and inventories persisted during the latest survey period. A slight rebound in new export sales and softer input price pressures were the main positive developments signalled by manufacturing companies in November.

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 November, the seasonally adjusted RBC Canadian Manufacturing PMI picked up from a survey-record low of 48.0 during October. That said, the latest reading remained inside contraction territory and lower than the average for 2015 so far (49.5). The main factor boosting the headline index in November was a much slower decline in production volumes than seen during the previous month. Moreover, the latest reduction in output was only marginal and the least marked since August.

While a number of manufacturers commented on lower production schedules and extended shutdowns in response to falling client demand,

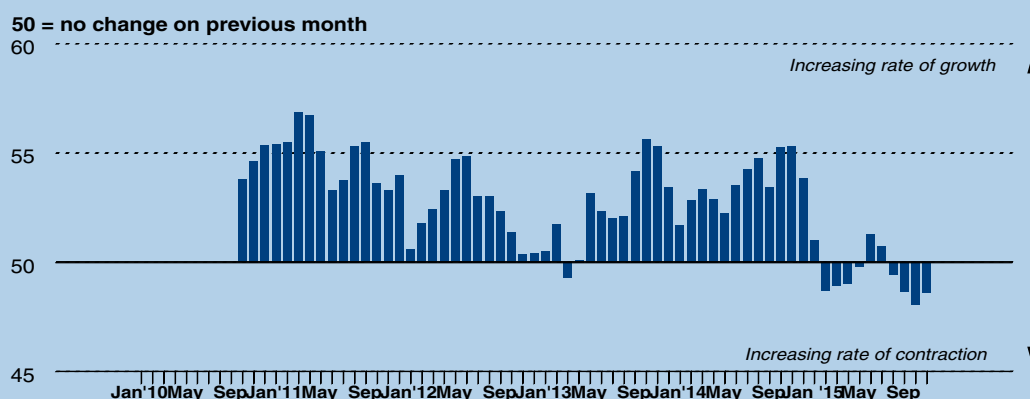
there were also reports that signs of an improvement in export sales, especially to U.S. consumer markets, had helped to support output volumes. Panel members also cited a boost from the weaker exchange rate. Reflecting this, latest data pointed to a modest rebound in new work from abroad, with the rate of expansion the fastest since June.

At the same time, total new orders continued to drop across the Canadian manufacturing sector as a whole during November, with the pace of decline the steepest since April. In line with recent trends, survey respondents widely commented on weaker spending across the energy sector and subdued domestic economic conditions. This resulted in another decrease in backlogs of work and some firms restructured their staffing numbers in response to excess capacity. Manufacturing employment has now fallen for five successive months, although the rate of decline remained moderate and partly driven by the non-replacement of voluntary leavers.

Input buying declined again in November, which extended the current period of contraction to five months. Inventory levels were lowered as manufacturers again sought to improve cash flow and streamline stocks. However, delivery times for raw materials lengthened, which survey respondents linked to capacity cuts among suppliers.

November data pointed to a strong rise in input prices, largely driven by higher costs for imported materials. Nonetheless, the rate of cost inflation eased over the month, which manufacturers linked to lower steel prices on world markets and, in some cases, efforts to source local inputs. Meanwhile, output charge inflation slipped to its lowest since January amid widespread reports of squeezed pricing power.

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



Components of the RBC Canadian Manufacturing PMI™

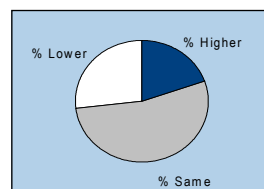
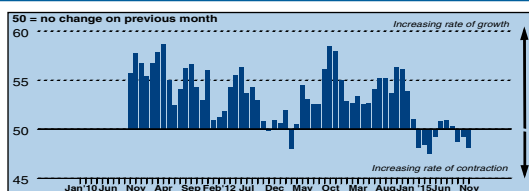
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

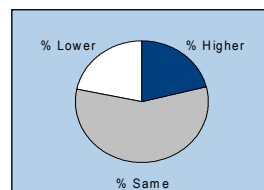
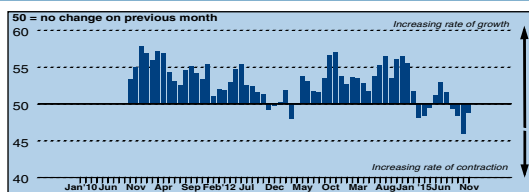
Q. Please compare the state of your new orders (in units) this month with one month ago.



November data pointed to a further reduction in new work received by Canadian manufacturers, with the seasonally adjusted New Orders Index posting below the 50.0 no-change mark for the third month running. Although signalling only a moderate pace of decline, the latest reading was the lowest since April. Survey respondents suggested that weaker domestic demand had offset a slight rebound in new export sales.

Output Index (0.25)

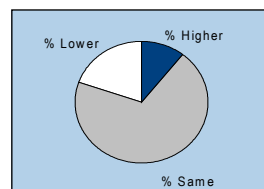
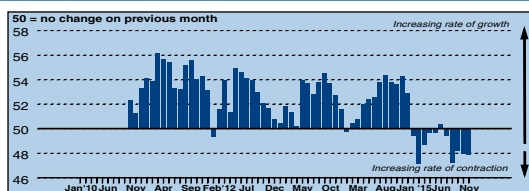
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index picked up from October's survey-record low, but still indicated an overall decrease in manufacturing production volumes in November. Output has now fallen for four months in a row, which is the longest continuous period of decline since the survey began. Manufacturers commented on reduced production schedules in response to a sustained fall in new business levels.

Employment Index (0.20)

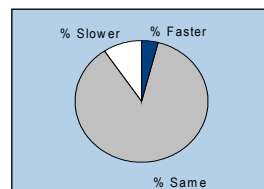
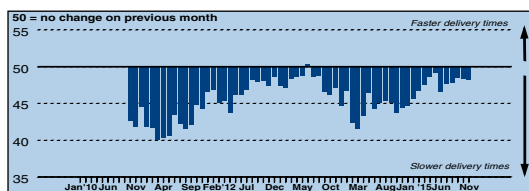
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Manufacturers continued to lower their overall staffing numbers in November, which extended the current period of decline to five months. However, the seasonally adjusted Employment Index pointed to only a moderate rate of job shedding. Companies that reduced their payroll numbers mainly cited restructuring plans in response to a lower production and a sustained decrease in client spending.

Suppliers' Delivery Times Index (0.15)

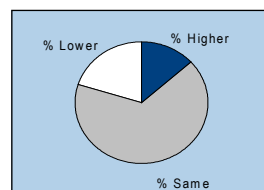
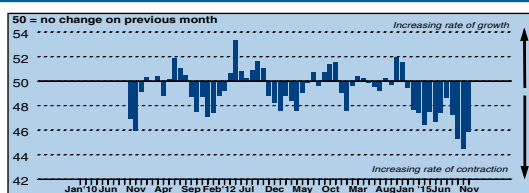
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Average lead-times from suppliers lengthened again in November. This was highlighted by the seasonally adjusted Suppliers' Delivery Times Index posting below the neutral 50.0 threshold for the twenty-ninth successive month. A number of manufacturers suggested that capacity cuts and lower stocks among suppliers had contributed to longer delivery times for raw materials.

Stocks of Purchases Index (0.10)

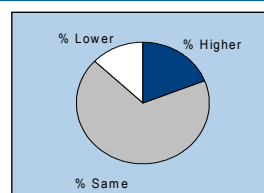
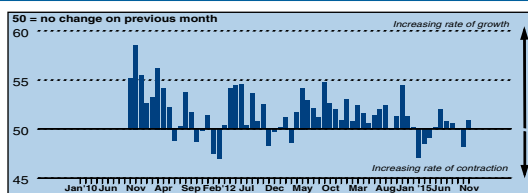
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Adjusted for seasonal influences, the Stocks of Purchases Index pointed to a solid reduction in pre-production inventories across the manufacturing sector in November, although the rate of decline eased from the survey-record pace seen in October. The latest drop in stocks of purchases was linked to softer client demand and ongoing efforts to streamline inventories.

New Export Orders Index

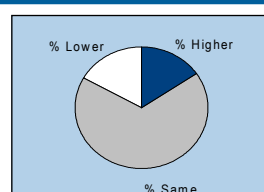
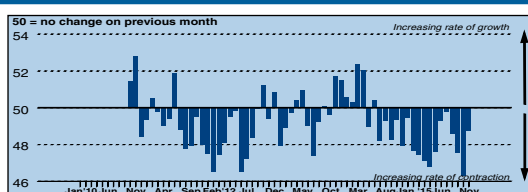
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Canadian manufacturers experienced a slight rebound in new work from abroad in November, following a modest reduction during the previous month. Moreover, the seasonally adjusted New Export Orders Index reached its highest level since June. A number of panel members noted that the weaker exchange rate had provided a boost to export sales, especially to U.S. markets.

Stocks of Finished Goods Index

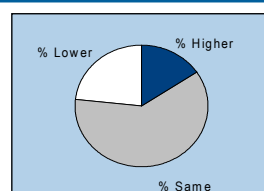
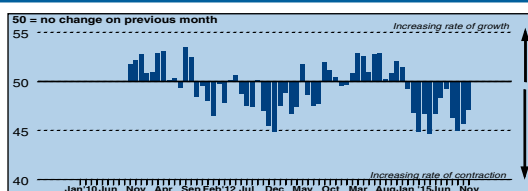
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventories were depleted again in November, thereby extending the current period of decline to 17 months. However, adjusted for seasonal influences, the Stocks of Finished Goods Index picked up from October's survey-record low and pointed to the slowest rate of decline since July. Companies that lowered their stocks of finished goods cited weaker demand patterns and efforts to boost cash flow.

Backlogs of Work Index

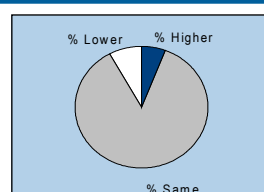
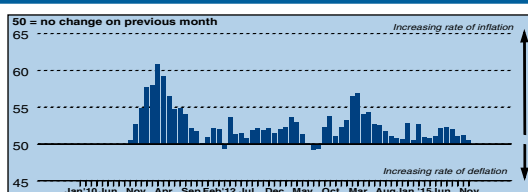
Q. Please compare the level of outstanding business in your company this month with one month ago.



The seasonally adjusted Backlogs of Work Index picked up for the second month running in November, but remained below the 50.0 no-change mark. Anecdotal evidence suggested that falling levels of new work and a lack of pressure on operating capacity had contributed to an overall decline in outstanding business across the manufacturing sector.

Output Prices Index

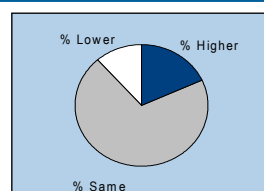
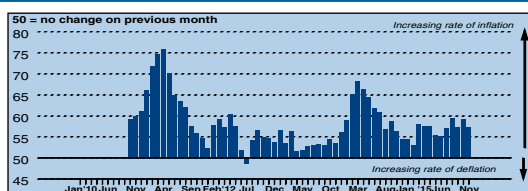
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



November data indicated only a marginal increase in factory gate charges across the manufacturing sector. Moreover, the seasonally adjusted Output Prices Index signalled that the rate of inflation eased to its lowest since January. Reports from survey respondents suggested that softer output charge inflation reflected competitive pricing strategies and a slight moderation in cost pressures.

Input Prices Index

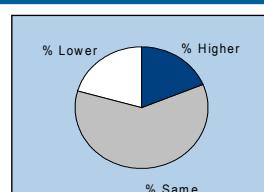
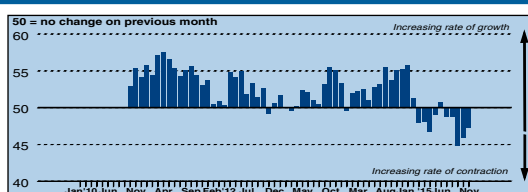
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Average cost burdens continued to rise in November, although the seasonally adjusted Input Prices Index signalled a slowdown in overall cost inflation since October. Manufacturers widely noted that the weaker exchange rate had pushed up imported raw material costs. Panel members nonetheless commented on lower steel prices. There were also some reports that local sourcing of inputs had helped to bring down costs.

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 at a solid pace in November, thereby continuing the trend seen through much of the year to date. The seasonally adjusted Quantity of Purchases Index pointed to the slowest fall in purchasing activity since August, but the latest reading was still well below the average since the survey began in late-2010 (52.3).



Royal Bank of Canada is Canada's largest bank, and one of the largest banks in the world, based on market capitalization. We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management, insurance, investor services and capital markets products and services on a global basis. We employ approximately 79,000 full- and part-time employees who serve more than 16 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 38 other countries. For more information, please visit rbc.com.

RBC supports a broad range of community initiatives through donations, sponsorships and employee volunteer activities. In 2014, we contributed more than \$111 million to causes worldwide, including donations and community investments of more than \$76 million and \$35 million in sponsorships.



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.

For more information, please contact:

Amanda Cormier

416 542-3860

acormier@scmanational.ca

www.scmanational.ca



Markit is a leading global diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ approximately 4,000 people in 11 countries. Markit shares are listed on NASDAQ under the symbol MRKT. For more information, please see www.markit.com

Purchasing Managers' Index™ (PMI™) surveys are now available for over 30 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

Markit Economics

Henley on Thames

Oxon RG9 1HG, UK

Tel: +44 1491 461000

Fax: +44 1491 461001

e-mail: economics@markit.com

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.

The intellectual property rights to the RBC Canadian Manufacturing PMI provided herein are either owned by or licensed to Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™* and *PMI™* are either registered trade marks of Markit Economics Limited or are licensed to Markit Economics Limited. RBC use the above marks under licence. Markit is a registered trade mark of Markit Group Limited.