

Solid output growth continues in February, but new orders rise at slowest pace for six months

Key findings:

- Production levels increase for the tenth successive month
- Weaker new business growth partly reflected softer export order expansion
- Input cost inflation strongest since May 2011

February data signalled that the Canadian manufacturing sector remained in expansion mode, with output, new orders and employment all rising over the month. That said, the latest increase in new work was the slowest since August 2013, partly reflecting a marked moderation in the pace of new export order growth. Meanwhile, input cost inflation accelerated sharply in February, contributing to the steepest rise in factory gate charges for almost three years.

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 headline RBC PMI registered 52.9 during February, up slightly from a nine-month low of 51.7 in January. The index has now posted above the neutral 50.0 value for eleven successive months and the latest reading pointed to a solid improvement in overall business conditions.

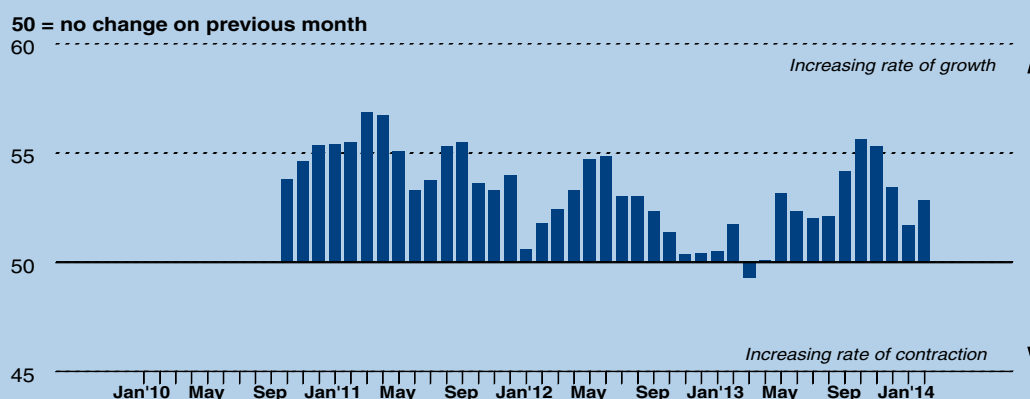
A stronger overall performance by the Canadian manufacturing sector in February partly reflected an acceleration of output growth from the five-month low seen during January. Although new business volumes increased for the eleventh successive month, the latest rise was the slowest since last August. New orders from abroad increased only marginally, with February data highlighting the weakest trend in export sales since March 2013.

Manufacturers indicated a return to jobs growth in February, following a slight reduction in staffing levels during the previous month. However, the pace of employment growth was only marginal and a number of firms noted that weaker new business gains had led to cautious staff hiring policies. Meanwhile, backlogs of work rose only slightly, albeit for the first time in three months.

In line with greater production requirements, manufacturers signalled a moderate rise in their levels of input buying during February. Despite the relatively subdued trend for purchasing activity, latest data signalled a steep deterioration in supplier performance. Average lead-times from vendors lengthened to the greatest degree since September 2011, which survey respondents widely linked to adverse weather conditions (especially those receiving deliveries from suppliers in the US).

February data indicated that manufacturers remained cautious about their stock levels, largely due to weaker new business growth. As a result, post-production inventories increased at the slowest pace in the current four-month period of expansion while stocks of inputs dropped for the third month running.

Meanwhile, manufacturers signalled a sharp and accelerated pace of input cost inflation during February, which led to a robust rise in factory gate charges. The latest increase in average input prices was the fastest since May 2011. Survey respondents commented on higher underlying raw material costs, alongside inflationary pressures from exchange rate movements against the US dollar.

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

Components of the RBC Canadian Manufacturing PMI™

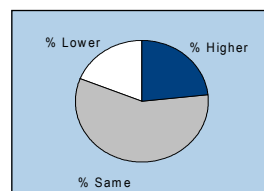
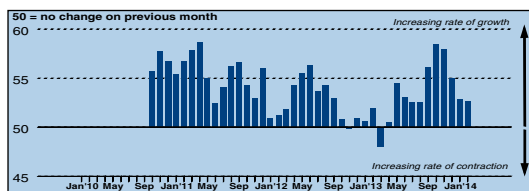
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

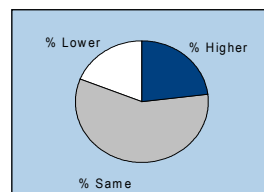
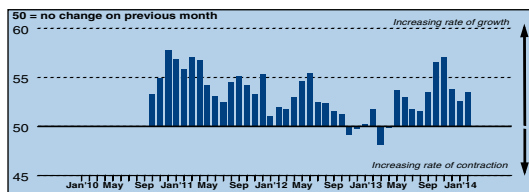
Q. Please compare the state of your new orders (in units) this month with one month ago.



Higher levels of new business were recorded for the eleventh consecutive month in February. However, the New Orders Index signalled that the rate of expansion continued to ease from the two-and-a-half year peak seen last October. The latest reading indicated the slowest rate of new business growth since August 2013, which anecdotal evidence mainly linked to subdued export demand.

Output Index (0.25)

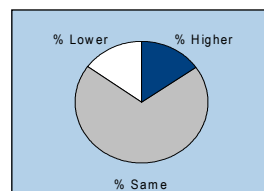
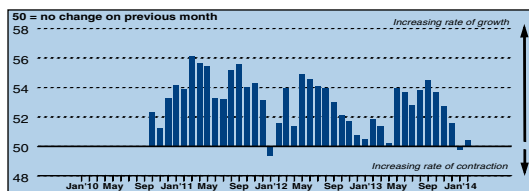
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production volumes increased at a solid pace in February, and the rate of expansion accelerated from the five-month low registered during January. Adjusted for seasonal influences, the Output Index has pointed to rising levels of output during each month since May 2013.

Employment Index (0.20)

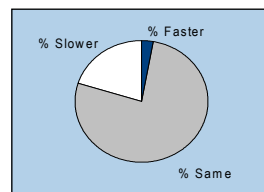
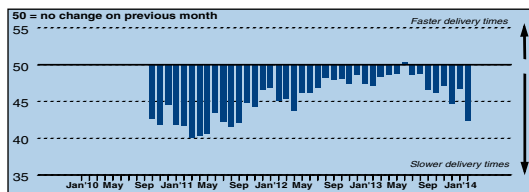
Q. Please compare the level of employment at your unit this month with the situation one month ago.



February data indicated a slight rebound in staffing numbers across the manufacturing sector, following the decline reported during the previous month. Although the seasonally adjusted Employment Index was above the neutral 50.0 mark, the latest reading was the second-lowest since April 2013. Some manufacturers noted that softer new business growth had weighed on job hiring trends during the latest survey period.

Suppliers' Delivery Times Index (0.15)

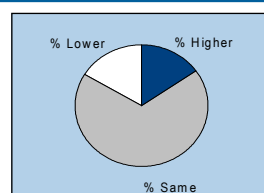
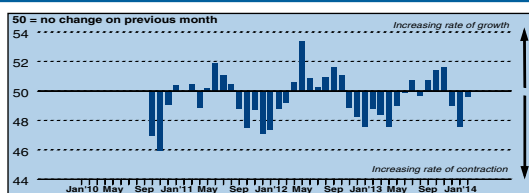
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Vendor performance deteriorated at a sharp and accelerated pace in February. This was highlighted by the seasonally adjusted Suppliers' Delivery Times Index dipping to its lowest level since September 2011. The index has indicated longer supplier delivery times during each of the past eight months. Reports from survey respondents widely attributed longer lead-times to adverse weather conditions (especially in the US).

Stocks of Purchases Index (0.10)

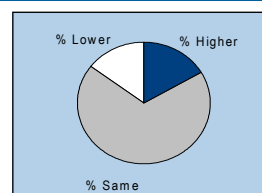
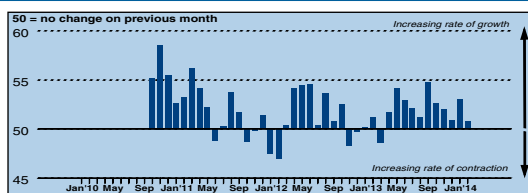
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Purchases Index remained below the 50.0 no-change mark in February, thereby indicating a reduction in manufacturers' pre-production purchases for the third month running. However, the latest fall in stocks of inputs was only marginal and the slowest in the current period of contraction.

New Export Orders Index

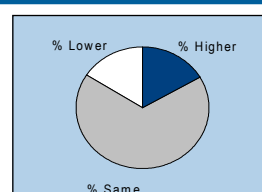
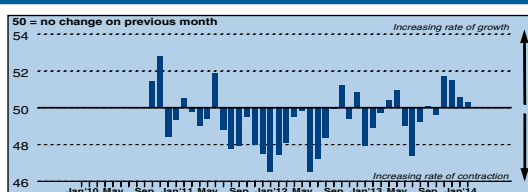
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Adjusted for seasonal influences, the New Export Orders Index registered above the 50.0 no-change level for the eleventh successive month during February. However, the latest rise in new work from abroad was only marginal and the slowest in the current period of expansion. Companies that reported higher export sales mainly commented on rising demand from the US and western Europe.

Stocks of Finished Goods Index

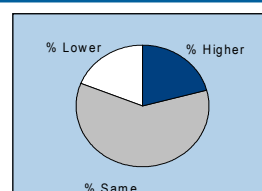
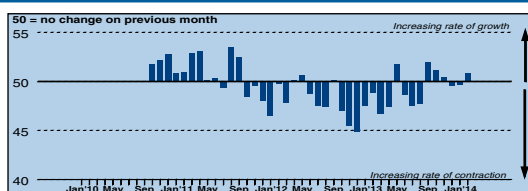
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index indicated a marginal rate of stock accumulation in February. Post-production inventories have now increased for four months running, but the latest expansion was the slowest recorded over this period. Some manufacturers noted that softer demand growth in recent months had led to more cautious inventory policies at their plants.

Backlogs of Work Index

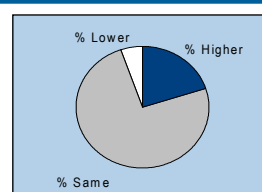
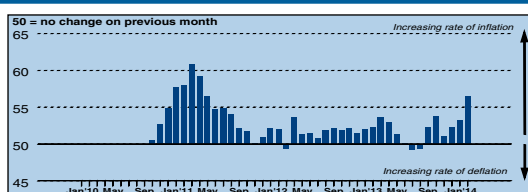
Q. Please compare the level of outstanding business in your company this month with one month ago.



Volumes of work-in-hand (but not yet completed) were accumulated across the Canadian manufacturing sector for the first time in three months during February. Adjusted for seasonal factors, the Backlogs of Work Index was the highest since October 2013, but the latest reading nonetheless signalled only a marginal expansion of outstanding business.

Output Prices Index

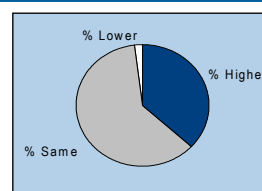
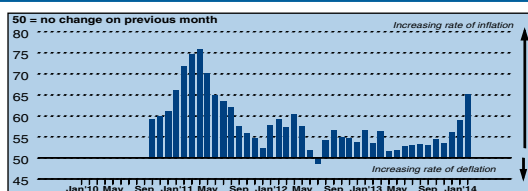
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Average prices charged by manufacturers in Canada continued to rise during February, which extended the current period of factory gate price inflation to six months. Moreover, the seasonally adjusted Output Prices Index pointed to the fastest increase in output charges since April 2011. Higher average tariffs were widely linked to another sharp increase in input costs.

Input Prices Index

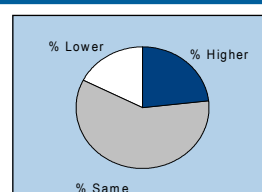
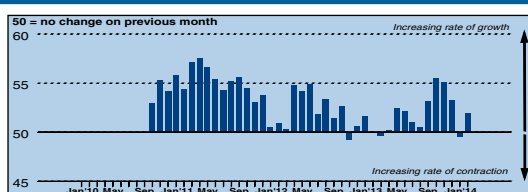
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input cost inflation accelerated for the third successive month in February. The seasonally adjusted Input Prices Index pointed to a steep increase in average cost burdens and the latest reading was the highest since May 2011. Reports from survey respondents cited higher underlying raw material costs, alongside increased prices related to exchange rate movements 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.



February data signalled a return to higher purchasing activity across the manufacturing sector, following the marginal reduction recorded during the previous month. That said, the seasonally adjusted Quantity of Purchases Index was still below its average since the series began in October 2010. A number of manufacturers noted that slower new order growth had led to cautious stock buying policies at their plants.



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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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