

News Release

RBC PMI™ hits three-month high in March driven by stronger new order gains

APRIL 1, 2014 – Solid rates of growth in output and new business were recorded across the Canadian manufacturing sector in March, according to the **RBC Canadian Manufacturing Purchasing Managers' Index™ (RBC PMI™)**. A monthly survey, conducted in association with Markit, a leading global financial information services company, and the Supply Chain Management Association (SCMA), the **RBC PMI** offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

At 53.3 in March, up from 52.9 in the previous month, the headline RBC PMI was the highest since December 2013. The index has now registered above the neutral 50.0 value for 12 consecutive months and the latest reading indicated a solid pace of expansion across the manufacturing sector.

New export orders increased at the second-fastest pace since last October but, on a less positive note, there were widespread reports that supply disruptions had led to longer delivery times for raw materials and an associated increase in unfinished work in March. Meanwhile, input cost inflation was the steepest since May 2011, which manufacturers overwhelmingly linked to currency surcharges related to the weakening Canadian dollar.

*“Canada’s manufacturers have experienced solid conditions for growth in the last year, and March was no different – we saw a nice uptick from a month earlier,” said **Craig Wright, senior vice-president and chief economist, RBC.** “We continue to expect that underlying economic conditions – a strengthening U.S. economy and a weaker Canadian dollar – will lay the foundation for a boost in domestic manufacturing in the near-term.”*

The [headline RBC PMI](#) reflects changes in output, new orders, employment, inventories, prices and supplier delivery times.

Key findings from the March survey include:

- Solid improvement in business conditions
- A rebound in exports supported overall new business growth in March
- A weaker Canadian dollar contributed to further upturn in cost inflation

The rise in the headline RBC PMI was driven by an improvement in new business growth from the six-month low recorded in February. Moreover, the latest increase in new work was the fastest in 2014 to-date. Higher levels of incoming new business partly reflected an acceleration of new export order growth.

Production volumes continued to rise at a solid pace in March, but the rate of expansion eased fractionally over the month. The latest data suggested that manufacturers experienced delays in receiving raw materials from vendors, which weighed on output and created an accumulation of backlogs in March. This was highlighted by outstanding business volumes rising at the steepest pace since August 2011.

Average lead-times from suppliers lengthened to the greatest degree for just over two-and-a-half years in March. Anecdotal evidence cited a range of factors, including the Port of Vancouver strikes, rail transportation delays and ongoing logistics bottlenecks following adverse weather disruptions in the U.S. The latest data also highlighted delays in shipments of manufacturers' finished goods, as signalled by post-production inventory levels rising at the strongest pace since November 2010.

Longer supplier delivery times and rising new business levels encouraged some manufacturers to build their stocks of inputs in March. As a result, pre-production inventory levels increased for the first time in four months, albeit at a marginal pace. Meanwhile, input buying rose at the fastest pace recorded in 2014 to-date.

On the inflation front, input costs increased sharply, and the rate of inflation accelerated for the fourth month in a row. This in turn contributed to a further robust rise in factory gate charges in March, with the pace of inflation the steepest for almost three years.

[Regional highlights](#) include:

- **Ontario** recorded the fastest expansion of manufacturing production.
- All four regions posted an acceleration of new export gains.
- **Quebec** experienced the most marked rise in employment.
- **Alberta & British Columbia** posted the steepest increase in average cost burdens.

*“Manufacturers reported a welcome recovery in new order volumes, helped by stronger export demand, and this in turn supported job creation during March” said **Cheryl Paradowski, president and chief executive officer, SCMA**. “There were signs that supply chain disruptions held back production growth and caused unfinished work to accumulate in March, although subsequent efforts to reduce backlogs may well boost output levels in the coming months. Input prices meanwhile continue to rise sharply in the wake of the weakening exchange rate.”*

The report is available at www.rbc.com/newsroom/pmi.

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Notes to Editors:

The RBC Canadian Manufacturing *PMI™* Report 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 responses 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 responding '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 indicates an overall increase in that variable, below 50 an overall decrease.

The RBC Canadian Manufacturing *Purchasing Managers' Index™* (RBC *PMI™*) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

The *Purchasing Managers' Index (PMI)* survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

Markit does 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

ABOUT RBC

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 services, 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 42 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 2013, we contributed more than \$104 million to causes worldwide, including donations and community investments of more than \$69 million and \$35 million in sponsorships. Learn more at www.rbc.com/community-sustainability.

About Supply Chain Management Association

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 visit scmanational.ca.

About Markit

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 over 3,000 people in 11 countries. For more information, please see www.markit.com

About PMI

Purchasing Managers' Index™ (*PMI™*) surveys are now available for 32 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 markit.com/economics.

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