

## Manufacturing PMI hits three-month high in March, driven by stronger new order gains

## Key findings:

- Solid improvement in business conditions
- Export rebound supports overall new business growth in March
- Weaker Canadian dollar contributes to further upturn in cost inflation

Solid rates of output and new business growth were recorded across the Canadian manufacturing sector in March, which contributed to a further improvement in overall business conditions. 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.

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 53.3 in March, up from 52.9 in the previous month, the seasonally adjusted 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.

The rise in the headline RBC PMI was driven by an upturn 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

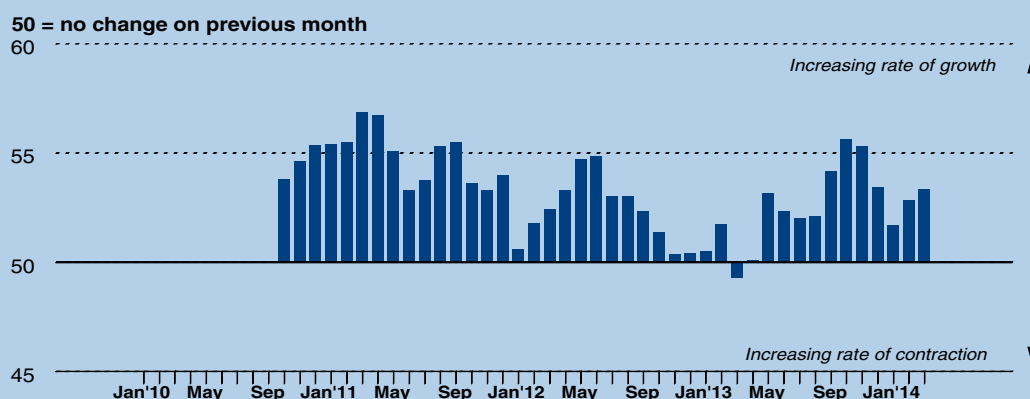
acceleration of new export order growth.

Production volumes continued to rise at a solid pace in March, but the rate of expansion eased fractionally over the month. Latest data suggested that delays in the receipt of raw materials from vendors had 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 most marked 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 only a marginal pace. Meanwhile, input buying rose at a solid pace that was the fastest recorded in 2014 to date.

On the inflation front, input costs increased sharply, and the rate of inflation accelerated for the fourth month running. 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.

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

## Components of the RBC Canadian Manufacturing PMI™

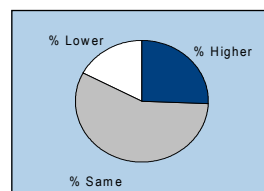
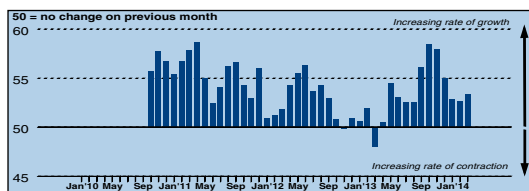
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

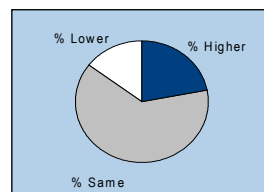
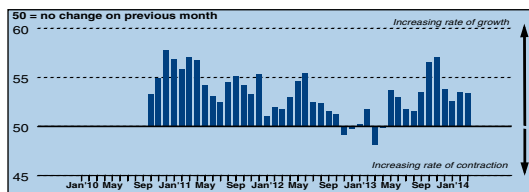
Q. Please compare the state of your new orders (in units) this month with one month ago.



Manufacturers signalled a rebound in new business growth from the six-month low registered in February. The seasonally adjusted New Orders Index pointed to a solid rise in new work during March, which extended the current period of expansion to one year. Survey respondents highlighted improving economic conditions and the launch of new products.

## Output Index (0.25)

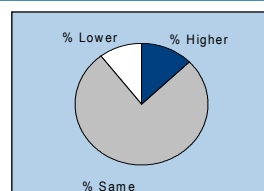
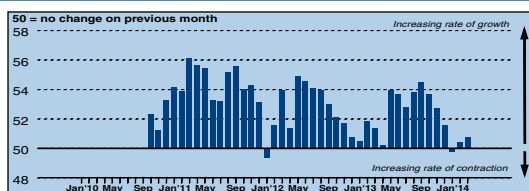
Q. Please compare your production/output this month with the situation one month ago.



March data pointed to a further solid increase in production levels across the manufacturing sector. Adjusted for seasonal influences, the Output Index has now posted above the 50.0 no-change mark for 11 successive months. Companies that reported a rise in output generally cited stronger inflows of new work at their plants.

## Employment Index (0.20)

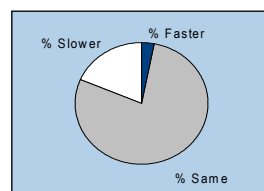
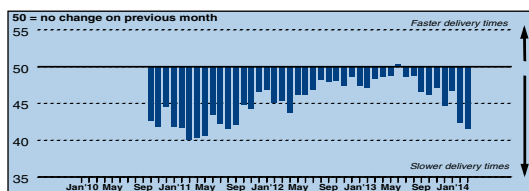
Q. Please compare the level of employment at your unit this month with the situation one month ago.



The seasonally adjusted Employment Index highlighted a further moderate expansion of staffing levels at manufacturers in March, and the latest reading was the highest for three months. However, the pace of job creation remained weaker than the average seen since the survey began three-and-a-half years ago.

## Suppliers' Delivery Times Index (0.15)

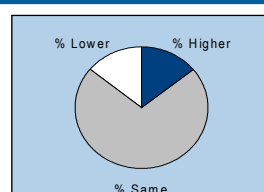
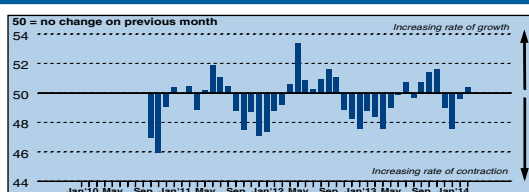
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Vendor performance continued to deteriorate sharply in March, with the seasonally adjusted Suppliers' Delivery Times Index falling to its lowest level since August 2011. Anecdotal evidence cited a number of reasons for slower delivery times, including logistics bottlenecks following adverse U.S. weather conditions, the Port of Vancouver strike and rail transportation delays.

## Stocks of Purchases Index (0.10)

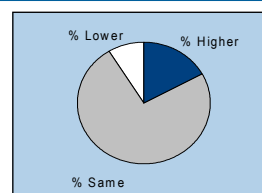
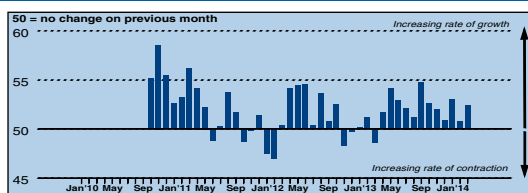
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



March data pointed to a rebound in pre-production inventory levels at manufacturing companies, thereby ending a three-month period of decline. That said, the seasonally adjusted Stocks of Purchases Index signalled only a marginal rate of expansion. Some survey respondents noted that longer supplier lead-times had encouraged them to increase their stocks of inputs.

## New Export Orders Index

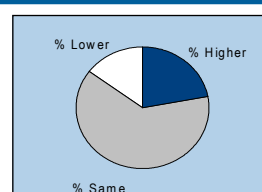
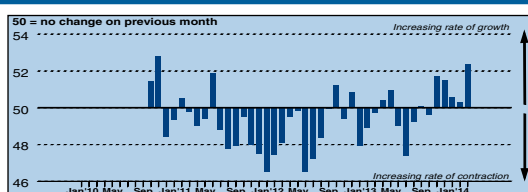
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Adjusted for seasonal influences, the New Export Orders Index picked up from the 11-month low registered in February. The latest reading indicated a solid increase in new work received from abroad and the rate of growth was slightly faster than seen on average since the survey began in late 2010. Some firms commented on stronger demand from the U.S. and UK in March.

## Stocks of Finished Goods Index

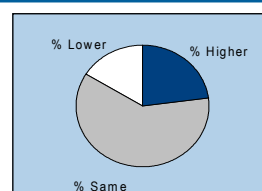
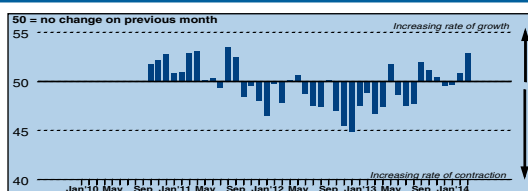
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventory levels increased for the fifth consecutive month in March. The seasonally adjusted Stocks of Finished Goods Index signalled that the pace of expansion accelerated to its fastest since November 2010. Higher inventory levels were widely linked to transportation disruptions and associated delays in shipments of finished goods in March.

## Backlogs of Work Index

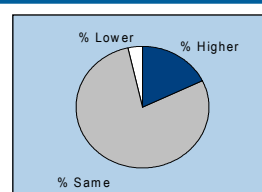
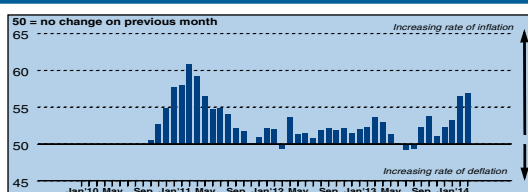
Q. Please compare the level of outstanding business in your company this month with one month ago.



Adjusted for seasonal factors, the Backlogs of Work Index posted above the neutral 50.0 value for the second month running in March. The latest reading indicated solid accumulation of unfinished work that was the steepest since August 2011. A number of manufacturers suggested that delays in the receipt of raw materials and other transportation disruptions had contributed to increased backlogs in March.

## Output Prices Index

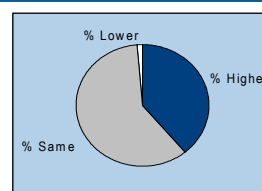
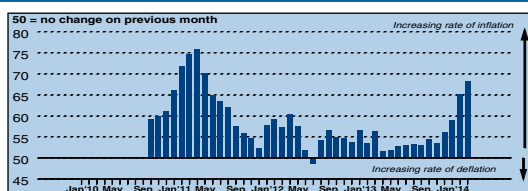
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Factory gate prices increased at a robust pace across the manufacturing sector in March. The seasonally adjusted Output Prices Index registered above the 50.0 no-change level for the seventh successive month and the latest reading signalled the fastest rate of inflation since April 2011.

## Input Prices Index

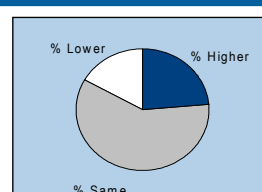
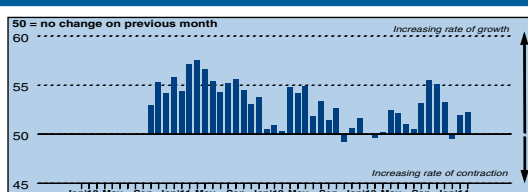
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input cost inflation accelerated for the fourth month in a row during March. The seasonally adjusted Input Prices Index signalled a steep increase in average cost burdens, and the rate of inflation was the fastest since May 2011. Higher input costs were overwhelmingly linked to the weakening of the Canadian dollar.

## Quantity of Purchases Index

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



The seasonally adjusted Quantity of Purchases Index posted above the 50.0 no-change mark for the second month running in March, thereby signalling a further expansion of input buying across the Canadian manufacturing sector. Higher levels of purchasing activity were widely linked to rising volumes of incoming new work.



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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 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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