

Headline PMI at three-month low as output and new orders rise at weaker rates

Key findings:

- Production and new order growth maintained, but rates of expansion weaken
- Rate of job creation lowest in six months
- Purchasing activity increases at strongest rate in over three-and-a-half years

Business conditions at Canadian manufacturing companies continued to improve at the end of the year, with output and new orders rising further. Companies hired additional workers and increased their buying activity in order to meet higher demand. Cost inflation remained relatively weak by historical standards, while factory gate prices increased at the sharpest rate in seven months. Meanwhile, companies were cautious about their stock policies with both pre- and post-production inventories falling since the previous month.

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.

The seasonally adjusted RBC Canadian Manufacturing PMI remained in firm expansion territory at the end of the year, signalling a further improvement in manufacturers' operating conditions. However, the headline PMI fell from November's 55.3 to a three-month low of 53.9 in December, suggesting that operating conditions improved at a slightly weaker rate. The average PMI reading for the fourth quarter (54.8) was the joint-best since the third quarter of 2011.

December data signalled a further increase in new business placed with Canadian manufacturing firms. However, the rate of growth eased since November to the weakest in three months. The slowing of

new order growth largely reflected an easing in the rate of expansion of new export business. New export orders rose for the third month running, albeit only marginally overall. Where companies reported a rise in new export work, they commented on stronger demand from American, Mexican and Brazilian markets.

Production growth also slowed in December, but remained above the survey's average. Much of the rise in output was linked by Canadian manufacturers to increased new order intakes.

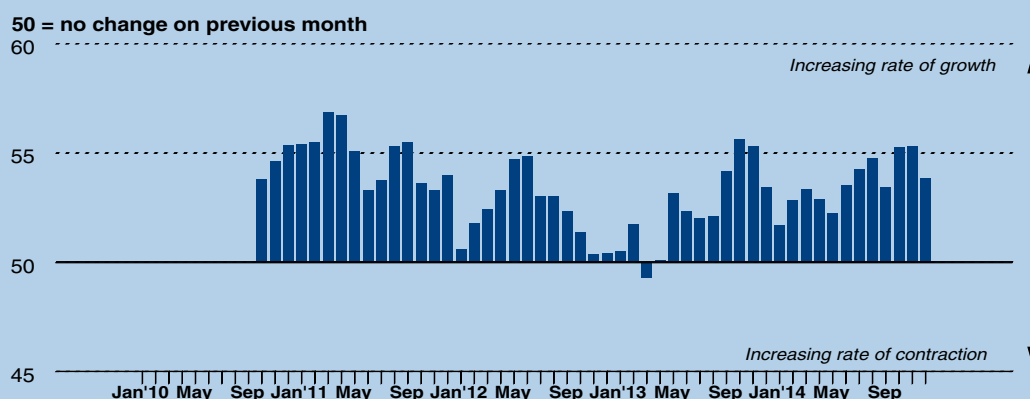
With output and new order rising, companies hired additional workers and increased their buying activity. The rate of job creation eased to a six-month low, while input buying rose at the strongest rate since May 2011.

The latest survey data signalled that Canadian manufacturers were cautious about their stock policies in December. Pre- and post-production inventories both declined, but the rates of depletion were only marginal. Meanwhile, backlogs of work fell for the first time since January, signalling spare capacity in the sector.

Following the trend observed throughout most of the survey history, input costs faced by Canadian manufacturers increased in December. The rate of inflation was little-changed from November and relatively weak by historical standards. Companies passed higher input costs on to their clients, resulting in a further rise in factory gate prices.

Finally, vendor performance in Canada's goods-producing sector deteriorated further in December. The rate at which suppliers' delivery times lengthened was the weakest in three months.

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



Components of the RBC Canadian Manufacturing PMI™

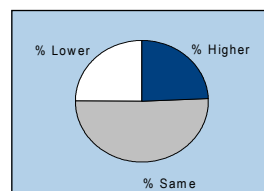
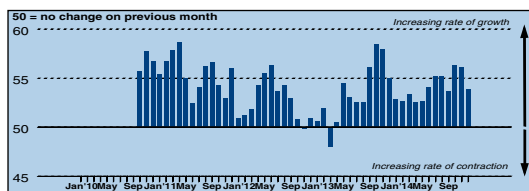
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

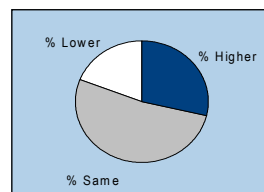
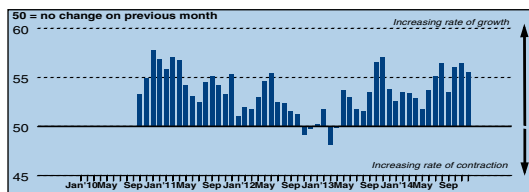
Q. Please compare the state of your new orders (in units) this month with one month ago.



The amount of new work placed with Canadian manufacturers increased further in December, thereby extending the current spell of growth to 21 months. This was highlighted by the seasonally adjusted New Orders Index registering above the neutral 50.0 threshold. However, the rate of expansion eased to the weakest since September and was slightly below the average for this sequence.

Output Index (0.25)

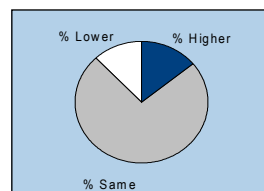
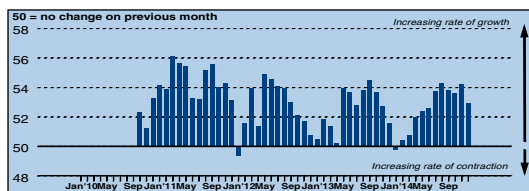
Q. Please compare your production/output this month with the situation one month ago.



Canadian manufacturing companies reported a further increase in production at their units in December. The rate of output growth slowed slightly since November, but remained above the series average. Survey participants largely attributed higher output to increased new orders. Around 29% of the survey panel signalled a rise in production versus 19% that indicated a decline.

Employment Index (0.20)

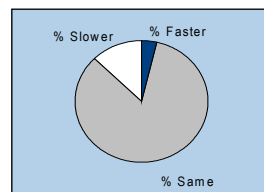
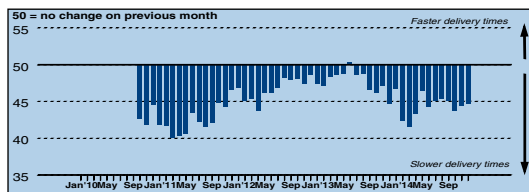
Q. Please compare the level of employment at your unit this month with the situation one month ago.



The seasonally adjusted Employment Index posted above the 50.0 no-change mark in December, signalling ongoing job creation in Canada's manufacturing sector. The latest increase in staffing levels was the weakest since June. Anecdotal evidence suggested that companies hired additional workers in response to higher business requirements.

Suppliers' Delivery Times Index (0.15)

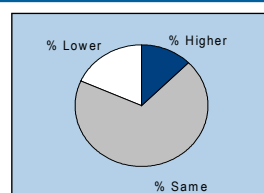
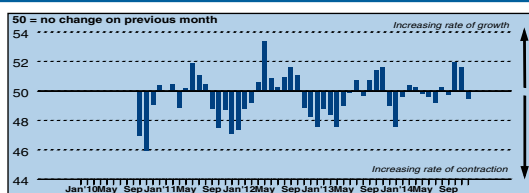
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



As has been the case throughout most of the survey history, vendor performance in the Canadian manufacturing sector deteriorated further in December. The rate at which suppliers' delivery times lengthened was the weakest in three months, but remained marked nonetheless. Around 13% of the survey panel reported longer delivery times, while 4% signalled an improvement.

Stocks of Purchases Index (0.10)

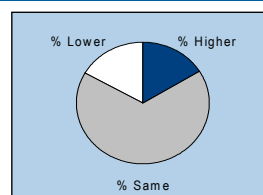
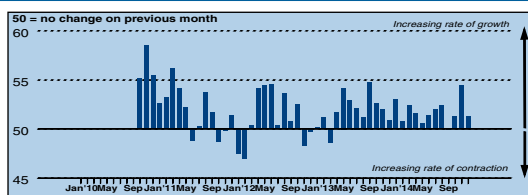
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



December data signalled a reduction in pre-production inventories held at Canadian manufacturing companies, following two months of stock accumulation. The rate of inventory depletion was the strongest since July, but only marginal overall. According to anecdotal evidence, some companies reduced their stocks in an attempt to cut costs.

New Export Orders Index

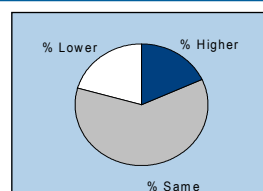
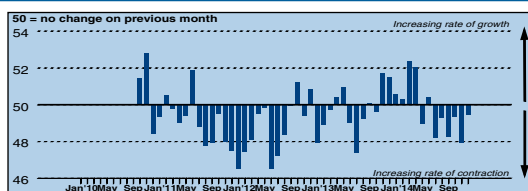
Q. Please compare the state of your new export orders (in units) this month with one month ago.



New export business placed with Canadian manufacturing companies increased for the third month running in December amid reports of stronger demand from American, Mexican and Brazilian markets. The rate of growth slowed since the previous month and was modest. New export orders have now risen 20 times in the past 21 months.

Stocks of Finished Goods Index

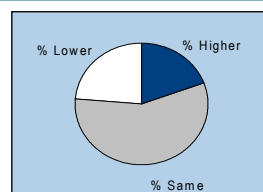
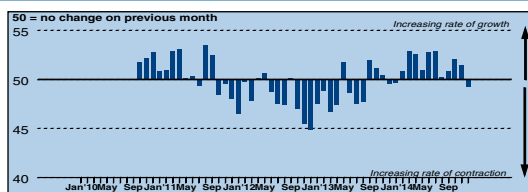
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Canadian manufacturing firms remained cautious about their stock policies in December, as highlighted by a further reduction in post-production inventories. Stocks of finished goods were depleted for the sixth month running, albeit only fractionally. The majority of the survey panel (61%) reported no change in post-production inventories.

Backlogs of Work Index

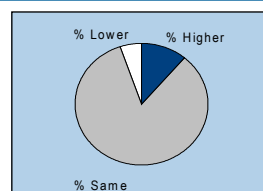
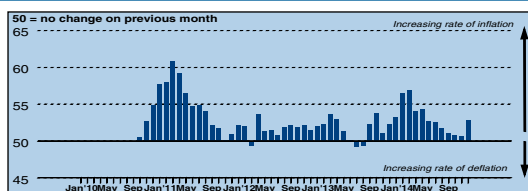
Q. Please compare the level of outstanding business in your company this month with one month ago.



Backlogs of work in Canada's manufacturing sector fell for the first time since January in December, signalling spare capacity in the sector. That said, the rate at which work outstanding was depleted was only marginal. Some companies linked lower backlogs to increased employment levels.

Output Prices Index

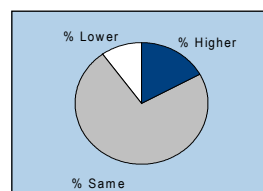
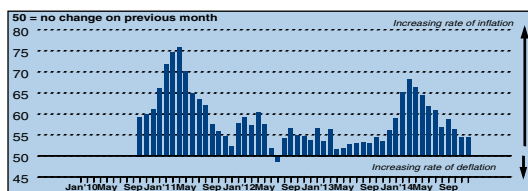
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Manufacturing firms in Canada raised their charges for the sixteenth month running in December. The rate at which factory gate prices increased accelerated since November and was the strongest in seven months. Anecdotal evidence suggested that companies passed on higher input costs to their clients.

Input Prices Index

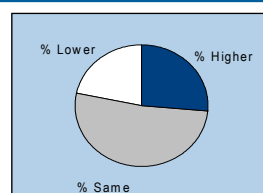
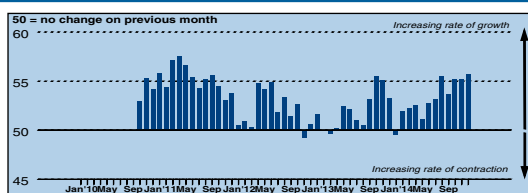
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



As has been the case throughout most of the survey history, input costs faced by Canadian manufacturers increased in December (the only exception being a slight decline in July 2012). The rate of inflation was little-changed from November and remained well below the survey average. Panellists frequently commented on unfavourable exchange rates.

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 remained firmly in expansion territory in December, signalling increased input buying in Canada's goods-producing sector. The rate at which buying activity rose accelerated since the previous month and was the strongest since May 2011. The rise in purchasing activity was largely a result of increased demand, according to surveyed companies.



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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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