

In association with the Supply Chain Management Association

RBC Manufacturing PMI drops to its lowest level for 21 months

Key findings:

- Output and new business growth both ease sharply in January
- Manufacturing employment falls for the first time in 12 months
- Input cost inflation drops to its lowest since September 2013, despite weaker exchange rate

January data indicated a sharp slowdown in the Canadian manufacturing sector, with overall business conditions improving at the weakest pace since April 2013. The latest survey signalled that output and new business volumes both expanded at much slower rates than in December, while employment numbers dropped for the first time since the start of 2014. Manufacturers recorded softer input cost inflation during the latest survey period, while factory gate charges increased at the least marked pace for almost a year and a half.

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 51.0 in January, down from 53.9 in December, the seasonally adjusted RBC Canadian Manufacturing PMI signalled only a marginal improvement in overall business conditions at the start of 2015. Moreover, the headline index was at its lowest level for 21 months, largely driven by weaker rates of output and new business growth in January.

Manufacturing production growth has now moderated for two months running, with the latest increase in output volumes the slowest since May (and the joint-weakest since August 2013). Meanwhile, new business volumes rose at the least marked rate since April 2013.

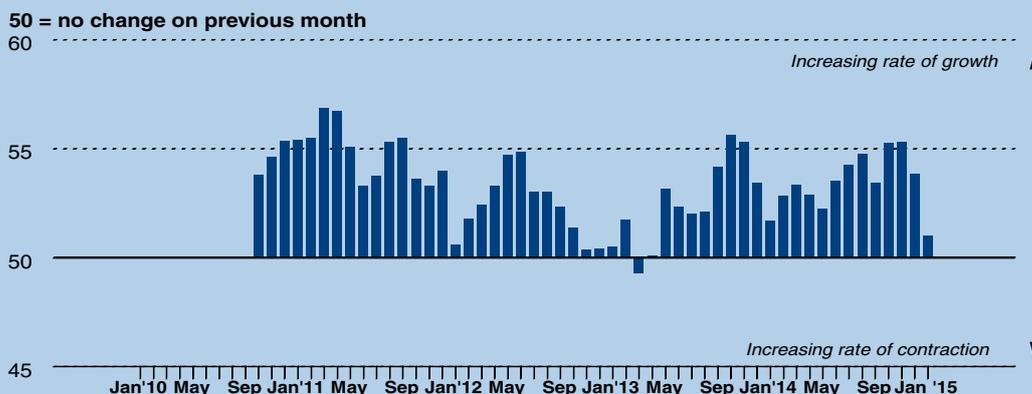
Anecdotal evidence from survey respondents, especially investment goods producers, suggested that softer demand from clients in the oil and gas sector had weighed on overall new order gains in January. Moreover, relatively subdued export trends continued during the latest survey period. New orders from abroad increased only fractionally and at the weakest pace for four months, although some firms again noted a boost to export sales from improving U.S. economic conditions.

Canadian manufacturers signalled a slight reduction in payroll numbers during January, which ended an 11-month period of sustained job creation across the sector. Survey respondents suggested that uncertainty towards the business outlook and a lack of pressure on operating capacity had weighed on staff recruitment at the start of the year. Moreover, latest data pointed to the sharpest fall in backlogs of work since March 2013.

January data highlighted a further month of cautious inventory policies across the manufacturing sector. Stocks of finished goods and pre-production inventories both declined at faster rates than in December. Meanwhile, input buying among Canadian manufacturing firms increased at the slowest pace since May 2014.

Input cost inflation moderated for the third time in the past four months during January. Although the lowest since September 2013, there were widespread reports that the weakening exchange rate had limited the decline in cost inflation. Factory gate charges meanwhile increased only slightly at the start of 2015.

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



Components of the RBC Canadian Manufacturing PMI™

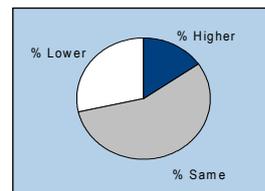
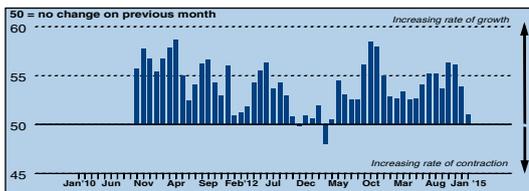
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

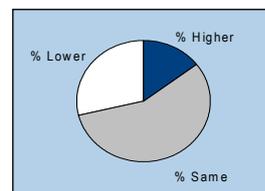
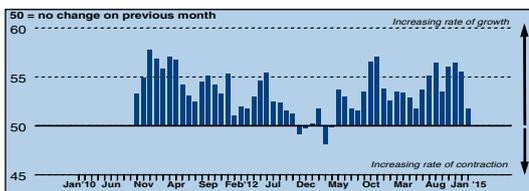
Q. Please compare the state of your new orders (in units) this month with one month ago.



January data highlighted a sharp slowdown in new business growth across the Canadian manufacturing sector. Adjusted for seasonal influences, the seasonally adjusted New Orders Index pointed to the slowest rise in incoming new work since April 2013. Anecdotal evidence suggested that weaker demand from clients in the oil and gas sector had weighed on new business volumes (especially for investment goods producers).

Output Index (0.25)

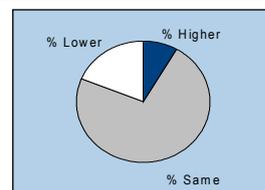
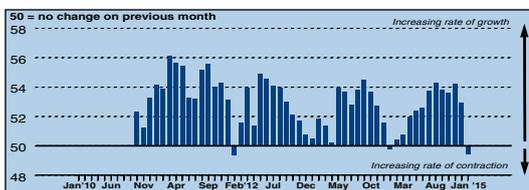
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index remained above the neutral 50.0 threshold for the twenty-first month running in January. However, the latest reading indicated a sharp slowdown in manufacturing output growth to its joint-weakest since August 2013. A number of firms pointed to weaker sales growth during the latest survey period.

Employment Index (0.20)

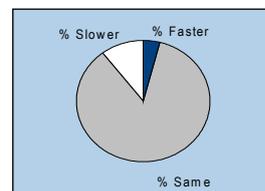
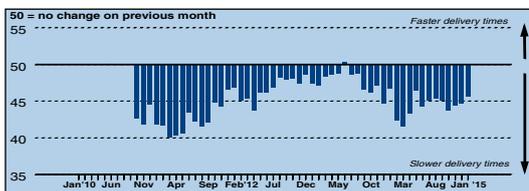
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Canadian manufacturers indicated a slight decline in staffing levels during January, thereby ending an 11-month period of continuous job creation across the sector. Moreover, the seasonally adjusted Employment Index dipped to its lowest level for three years. Some survey respondents noted that heightened concern towards the business outlook had a negative influence on staff recruitment at the start of 2015.

Suppliers' Delivery Times Index (0.15)

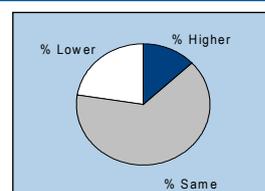
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Average lead-times from vendors lengthened again in January, as highlighted by the seasonally adjusted Suppliers' Delivery Times Index posting below the 50.0 no-change mark. That said, the latest deterioration in supplier performance was the least marked for eight months, which some manufacturers linked to softer growth of input buying at the start of the year.

Stocks of Purchases Index (0.10)

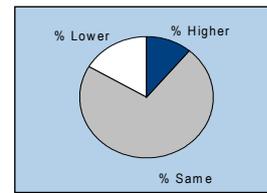
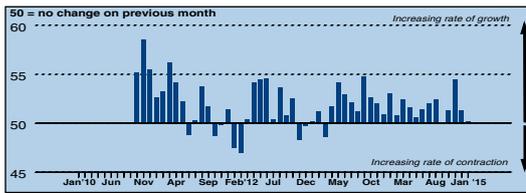
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Purchases Index posted below the 50.0 no-change level for the second month running in January, with the latest reading pointing to the sharpest reduction in pre-production inventories since the start of 2014. Panel members noted that weaker new business growth had contributed to more cautious inventory policies during the latest survey period.

New Export Orders Index

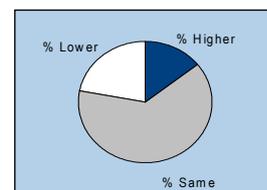
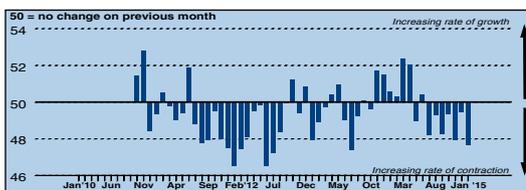
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Canadian manufacturers suggested that new export sales were close to stagnation in January. Moreover, the seasonally adjusted New Export Orders Index registered at its lowest level since September 2013. Where an upturn in new orders from abroad was reported, survey respondents mainly cited the weaker exchange rate and rising demand from clients in the U.S.

Stocks of Finished Goods Index

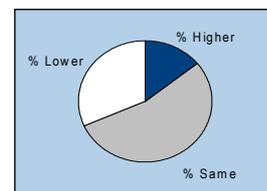
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventory volumes continued to fall in January, which continued the downward trend seen in each month since July 2014. Adjusted for seasonal influences, the Stocks of Finished Goods Index signalled that the rate of decline accelerated to its fastest for a year-and-a-half.

Backlogs of Work Index

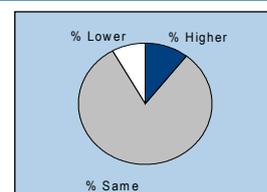
Q. Please compare the level of outstanding business in your company this month with one month ago.



January data indicated a solid reduction in work-in-hand (but not yet completed) across the Canadian manufacturing sector. The seasonally adjusted Backlogs of Work Index has now fallen for three months in a row, with the latest reading signalling the steepest rate of contraction since March 2013. Manufacturers generally linked lower levels of unfinished business to a lack of pressure on operating capacity at their plants.

Output Prices Index

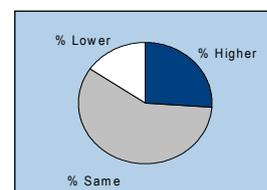
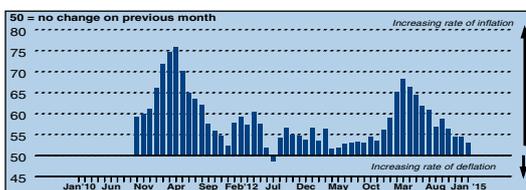
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Factory gate charges increased only marginally at the start of 2015. Although the seasonally adjusted Output Prices Index posted above the 50.0 no-change mark for the seventeenth consecutive month, the latest rise in average tariffs was the weakest over this period. Survey respondents suggested that a gradual easing in cost pressures had resulted in slower prices charged inflation in January.

Input Prices Index

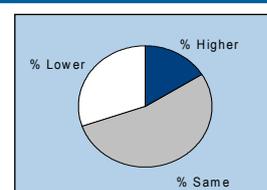
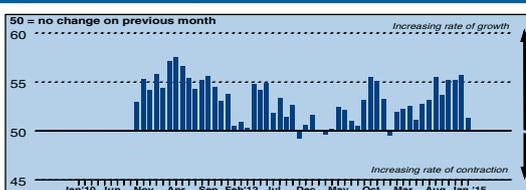
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input cost inflation moderated for the third time in the past four months during January. Adjusted for seasonal influences, the Input Prices Index pointed to a solid overall increase in input costs, but the rate of inflation was the slowest since September 2013. Manufacturers widely commented on falling oil prices, although there were also reports the weakening exchange rate had pushed up imported raw material costs.

Quantity of Purchases Index

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



In line with weaker trends for output and new business growth, the latest survey pointed to slower rises in input buying across the Canadian manufacturing sector during January. The seasonally adjusted Quantity of Purchases Index was the lowest since last May and signalled only a marginal expansion of purchasing activity.



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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.



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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