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RBC Canadian Manufacturing PMI™

compiled by markit

In association with the Supply Chain Management Association

Business conditions deteriorate at sharpest pace since the survey began in 2010

Key findings:

- Manufacturing PMI at lowest level in almost four-and-a-half years of data collection
- Output, new orders and employment all decreased in February
- Weaker exchange rate led to robust and accelerated input cost inflation

Canadian manufacturers indicated a modest reduction in production levels during February, which ended a 21-month period of sustained expansion. The latest survey also highlighted falling volumes of incoming new work and employment numbers across the sector. Softer demand patterns also contributed to more cautious inventory policies and lower input buying in February.

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 RBC Canadian Manufacturing PMI dropped from 51.0 in January to 48.7 in February, to signal a moderate deterioration in overall business conditions across the manufacturing sector. The headline index was below the neutral 50.0 threshold for the first time in almost two years, with the latest reading also the lowest since the survey began in October 2010.

February data indicated a decline in manufacturing output levels for the first time since April 2013. Anecdotal evidence suggested that weaker client spending patterns had contributed to lower production volumes during the latest survey period. A number of manufacturers, especially intermediate and investment goods producers, cited lower demand from clients in the oil and gas sector.

Volumes of new work received by manufacturers in Canada decreased at a moderate pace in February, thereby ending a 22-month period of continuous expansion. Moreover, the reduction in overall new order levels was the second-fastest since the survey began in October 2010.

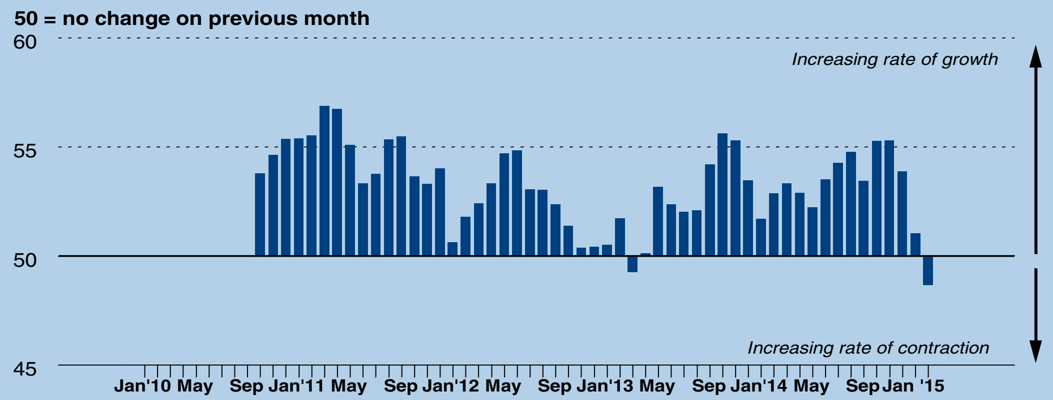
New export sales also decreased in February, with the rate of decline the most marked for three years. Panel members noted that sharp falls in energy infrastructure spending had weighed on new business volumes from abroad. However, some manufacturers commented on the positive influence of exchange rate depreciation and stronger U.S. economic conditions.

Lower levels of new work and reduced production volumes contributed to a fall in manufacturing payroll numbers in February. Staffing levels have now declined for two months in a row, and the rate of job shedding accelerated to its most marked in almost four-and-a-half years of data collection. That said, a number of firms noted that payroll numbers had been lowered through hiring freezes and the non-replacement of voluntary leavers.

Input buying also decreased at a survey-record pace during February, although the rate of contraction was only moderate. Supplier lead-times nonetheless continued to lengthen, which some firms linked to disruptions at U.S. West Coast ports.

Average cost burdens rose at a sharp pace in February, with the rate of inflation accelerating to a five-month peak. Higher input prices were overwhelmingly linked to the impact of exchange rate depreciation against the U.S. dollar. Meanwhile, factory gate charges rose only moderately across the manufacturing sector, but the rate of inflation picked up from January's recent low.

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



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SCMA

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Components of the RBC Canadian Manufacturing PMI™

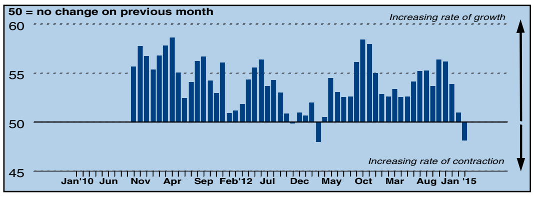
The RBC Canadian Manufacturing *Purchasing Managers' Index™ (PMI™)* is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

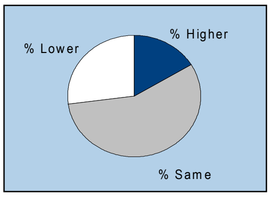
New Orders	0.30
Output	0.25
Employment	0.20
Suppliers' Delivery Times (inverted)	0.15
Stocks of Purchases	0.10

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.

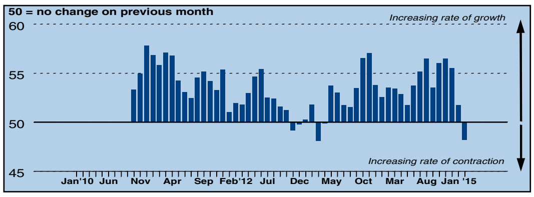


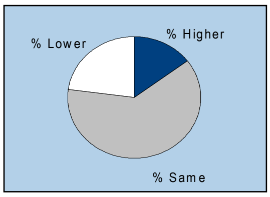


February data indicated a modest reduction in new work received by Canadian manufacturing companies, thereby ending a 22-month period of expansion. Adjusted for seasonal influences, the seasonally adjusted New Orders Index signalled the second-sharpest rate of reduction since the survey began (exceeded only by March 2013). Survey respondents widely commented on weaker demand from clients in the oil sector.

Output Index (0.25)

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

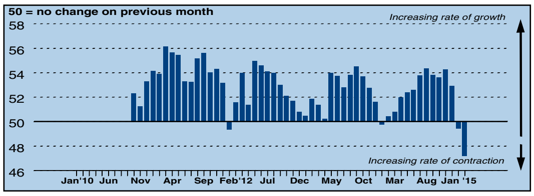


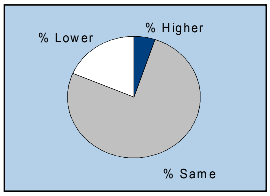


Manufacturers in Canada pointed to a return to falling production volumes in February. This was highlighted by the seasonally adjusted Output Index registering below the neutral 50.0 threshold for the first time since April 2013. Moreover, the latest reading indicated the second-fastest decline in output levels since the survey began in October 2010.

Employment Index (0.20)

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

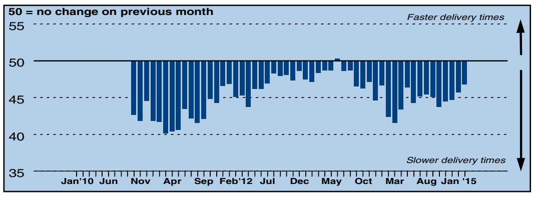


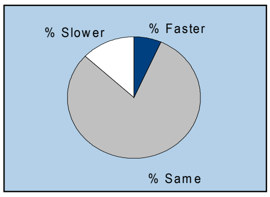


Staffing levels dipped for the second month running in February. Moreover, the seasonally adjusted Employment Index pointed to the sharpest reduction in manufacturing payroll numbers since the survey began almost four-and-a-half years ago. Anecdotal evidence suggested that lower employment levels mainly reflected the non-replacement of voluntary leavers in response to weaker new order intakes.

Suppliers' Delivery Times Index (0.15)

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

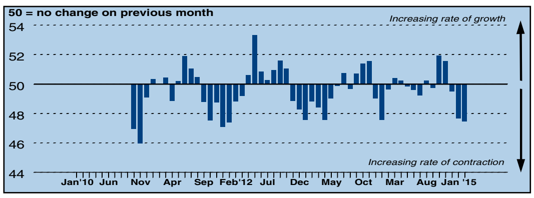


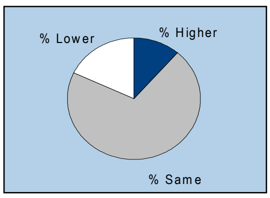


The seasonally adjusted Suppliers' Delivery Times Index registered below the 50.0 no-change value in February, but the latest reading signalled the least marked rate of deterioration since November 2013. Survey respondents noted that low stocks at suppliers, as well as U.S. West Coast port strikes, had contributed to longer delivery times from vendors.

Stocks of Purchases Index (0.10)

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

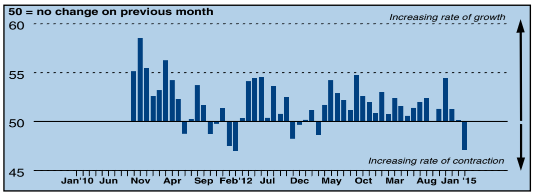


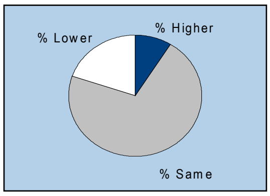


Canadian manufacturers indicated a greater degree of caution towards their inventory levels in February. The seasonally adjusted Stocks of Purchases Index registered below the neutral 50.0 mark for the third month running. Moreover, the latest reading pointed to the sharpest rate of decline since January 2012.

New Export Orders Index

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

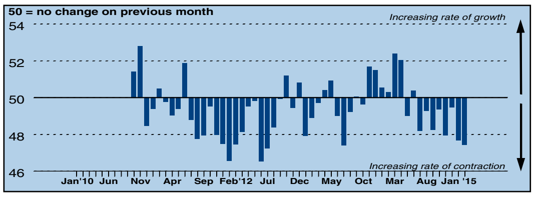


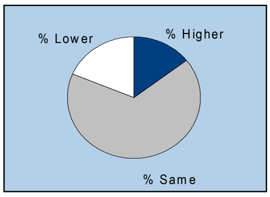


New work from abroad decreased during February, which ended a four-month period of continuous growth. Adjusted for seasonal influences, the New Export Orders Index pointed to the sharpest pace of decline for three years. A number of panel members noted weaker demand from export clients in the oil and gas sector. However, some manufacturers commented on the positive influence of the weaker exchange rate.

Stocks of Finished Goods Index

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

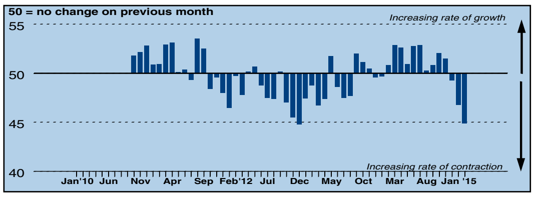


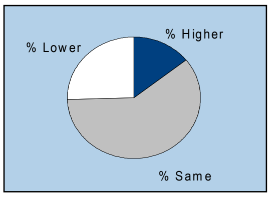


February data highlighted a sustained reduction in post-production inventory levels across the Canadian manufacturing sector. The seasonally adjusted Stocks of Finished Goods Index signalled the steepest rate of decline since July 2013. Survey respondents generally pointed to deliberate inventory reduction policies amid weaker client demand.

Backlogs of Work Index

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

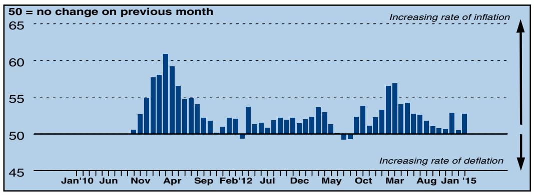


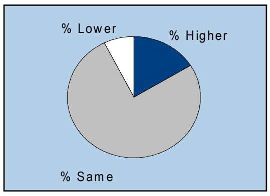


Volumes of work outstanding decreased at a sharp and accelerated pace among manufacturing firms in February. The seasonally adjusted Backlogs of Work Index has now posted below the 50.0 no-change level for three months running and the latest reading was the lowest since December 2012.

Output Prices Index

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

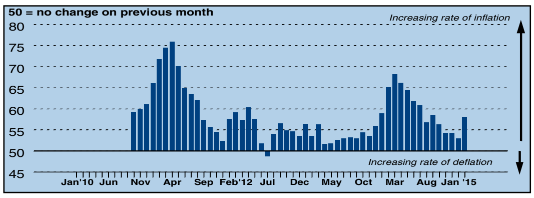


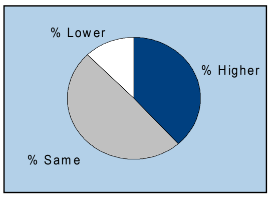


Manufacturers indicated a moderate increase in factory gate charges in February, but the seasonally adjusted Output Prices Index picked up from January's 17-month low. Companies that raised their output prices generally cited higher raw material costs during the latest survey period.

Input Prices Index

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

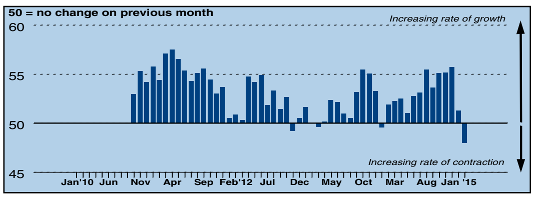


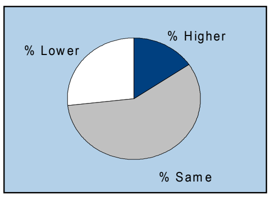


The seasonally adjusted Input Prices Index picked up sharply from January's 16-month low. Moreover, the latest reading signalled a strong rate of cost inflation that was the fastest since September 2014. According to panel members, increased input prices were overwhelmingly driven by the impact of exchange rate depreciation 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.





Lower levels of input buying were recorded for the first time in 13 months during February. Although the seasonally adjusted Quantity of Purchases Index pointed to only a modest reduction in purchasing activity, the latest reading was the weakest since the survey began. Manufacturers indicated that softer demand conditions and efforts to reduce inventories had contributed to falling input buying at their plants.

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, insurance, investor services and capital markets products and services on a global basis. We employ approximately 78,000 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 39 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 2014, we contributed more than $111 million to causes worldwide, including donations and community investments of more than $76 million and $35 million in sponsorships.

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 contact:
Amanda Cormier
416 542-3860
acormier@scmanational.ca
www.scmanational.ca

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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 www.markit.com/economics

Markit Economics
Henley on Thames
Oxon RG9 1HG, UK
Tel: +44 1491 461000
Fax: +44 1491 461001
e-mail: economics@markit.com

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.