

RBC Canadian manufacturing PMI rebounds in June

Key findings:

- Output growth accelerates to its fastest so far in 2015
- New business volumes increase for the first time since January
- Strongest upturn in new export sales for seven months

June data pointed to a modest recovery in business conditions across the Canadian manufacturing sector. Production volumes, new business intakes and employment numbers all picked up since the previous month. A number of firms noted that stronger export demand helped drive the upturn in business conditions, as highlighted by the fastest rise in new work from abroad since November 2014.

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 registered 51.3 in June, up from 49.8 in May and above the neutral 50.0 value for the first time in five months. That said, the headline index pointed to only a marginal pace of improvement and the latest reading was still below the average since the survey began in late-2010 (53.0).

Production levels expanded for the second month running in June, and the latest increase was the fastest since December 2014. Survey respondents noted that stronger client demand and, in some cases, reduced caution in terms of finished goods inventories had contributed to increased production schedules in June.

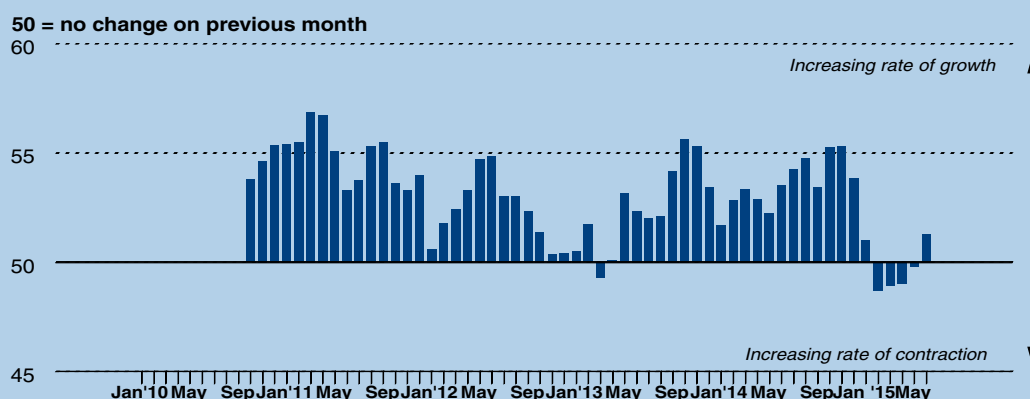
New order volumes picked up slightly in June, thereby ending a four-month period of continuous reduction. Anecdotal evidence suggested that stronger export sales were the key driver of the

overall upturn in new work. Highlighting this, the latest survey pointed to the sharpest rise in new work from abroad for seven months. A number of manufacturers noted that exchange rate depreciation and improving U.S. economic conditions had supported new export order volumes in June.

Despite rising levels of incoming new business, the latest survey pointed to a decline in backlogs of work for the seventh consecutive month. Manufacturers mostly cited a lack of pressure on operating capacity. Nonetheless, payroll numbers picked up slightly in June, which ended a five-month period of sustained job losses across the manufacturing sector. Staff recruitment was linked to rising new order levels and, in some cases, improved confidence towards the business outlook.

Increased production schedules resulted in a modest rebound in input buying by manufacturers. Meanwhile, stocks of purchases were depleted during June, but at a slower pace than in the previous month. Some firms commented on efforts to improve cash flow. However, there were also reports that stronger than expected demand had led to lower pre-production inventories. Meanwhile, suppliers' lead-times lengthened again in June, which marked two years of worsening vendor performance.

Average cost burdens increased at a robust pace in June, which manufacturers linked to rising prices for imported raw materials. However, the overall rate of cost inflation eased to its slowest since January. Factory gate charges also rose in June, but only at a modest pace.

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

Components of the RBC Canadian Manufacturing PMI™

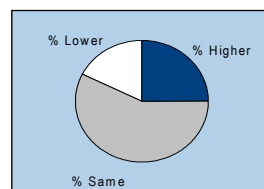
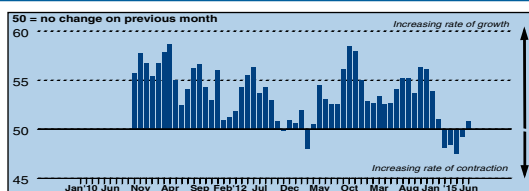
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

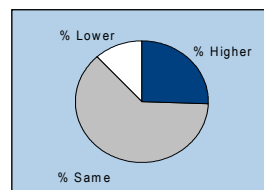
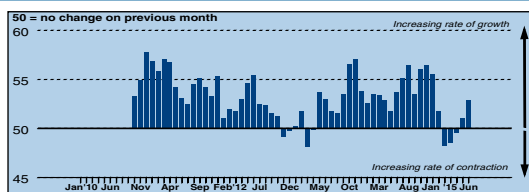
Q. Please compare the state of your new orders (in units) this month with one month ago.



June data signalled a slight rebound in new work received by Canadian manufacturing companies, thereby ending a four-month period of sustained decline. The seasonally adjusted New Orders Index picked up to its highest level since January, but remained below the average since the survey began in 2010 (53.6). A number of firms noted that rising export sales had underpinned the overall increase in client demand.

Output Index (0.25)

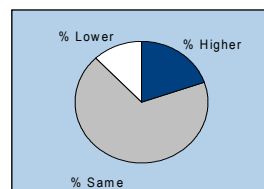
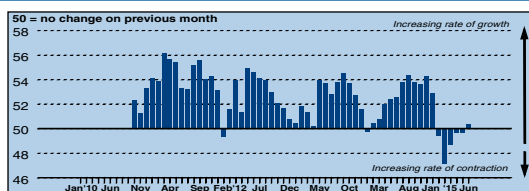
Q. Please compare your production/output this month with the situation one month ago.



Stronger client demand contributed a further rebound in production volumes across the manufacturing sector in June. Adjusted for seasonal influences, the Output Index registered above the neutral 50.0 value for the second month running. Moreover, the latest reading highlighted the fastest expansion of output levels so far in 2015.

Employment Index (0.20)

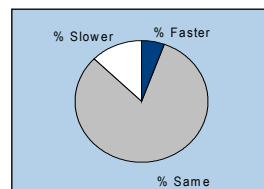
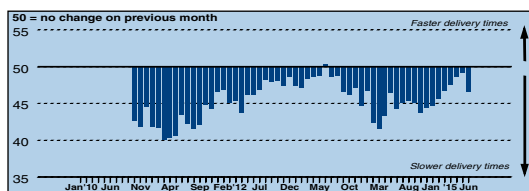
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Manufacturers indicated a slight increase in staffing levels in June, thereby ending a five-month period of sustained job shedding. However, the seasonally adjusted Employment Index remained below the long run series average (52.6). Companies that recruited additional staff generally cited improved business confidence and signs of a rebound in new business volumes.

Suppliers' Delivery Times Index (0.15)

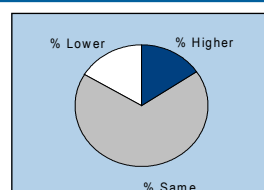
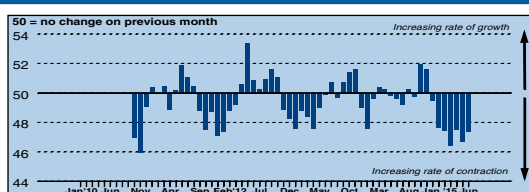
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Adjusted for seasonal influences, the Suppliers' Delivery Times Index registered below the neutral 50.0 threshold in June, which marked two years of lengthening lead times. The latest deterioration in supplier performance was the sharpest since the weather-related delays to delivery times seen in January.

Stocks of Purchases Index (0.10)

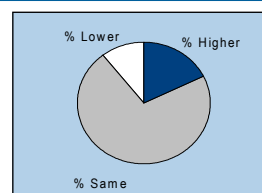
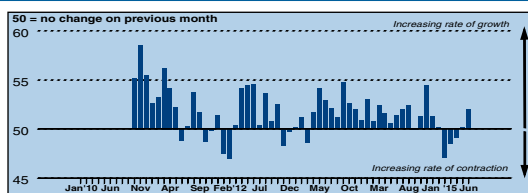
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Despite an upturn in new business, manufacturers signalled another decline in pre-production inventories at their plants in June. The seasonally adjusted Stocks of Purchases Index has now posted below the 50.0 no-change mark for seven months in a row. Survey respondents mainly cited deliberate efforts to pare back inventories and improve cash flow, although some linked the fall to stronger than expected output levels.

New Export Orders Index

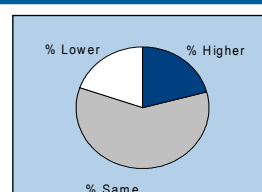
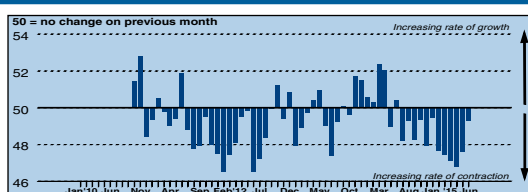
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Adjusted for seasonal influences, the New Export Orders Index registered in positive territory for the second month running in June. Moreover, the latest reading indicated the fastest increase in new work from abroad since November 2014. Anecdotal evidence attributed the upturn in export sales to a combination of stronger underlying U.S. economic conditions and recent exchange rate depreciation.

Stocks of Finished Goods Index

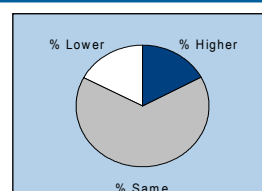
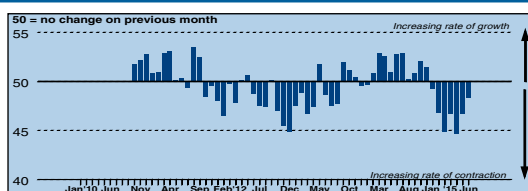
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index signalled only a slight decline in post-production inventories across the manufacturing sector in June and, although still below the neutral 50.0 mark, the latest reading was the highest recorded so far in 2015. Some companies noted that their stock reduction efforts had been less widespread in June, partly reflecting greater new business volumes.

Backlogs of Work Index

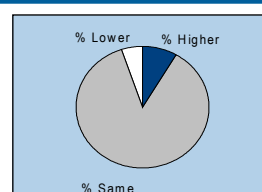
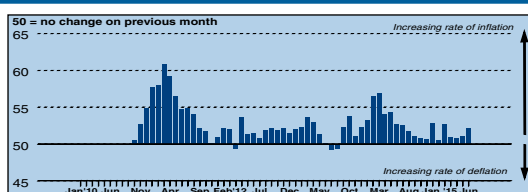
Q. Please compare the level of outstanding business in your company this month with one month ago.



Canadian manufacturers indicated a decline in unfinished business at their plants in June, thereby extending the current period of contraction to seven consecutive months. However, the seasonally adjusted Backlogs of Work Index was the highest seen in 2015 to date and pointed to only a moderate decrease in outstanding business. Lower levels of unfinished work was mainly attributed to a lack of pressure on operating capacity.

Output Prices Index

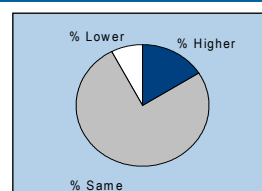
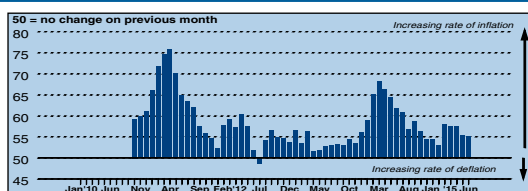
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



June data indicated that factory gate price inflation accelerated for the second month in a row. Although the seasonally adjusted Output Prices Index pointed to only a modest pace of inflation, the latest reading was the highest since February. Survey respondents widely noted that rising costs for imported raw materials had contributed to increased output charges at their plants.

Input Prices Index

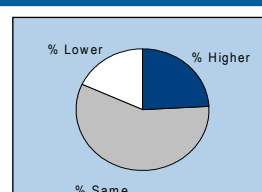
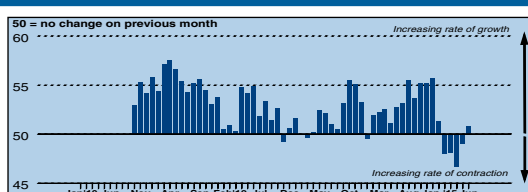
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Average cost burdens continued to rise at a robust pace in June. Nonetheless, the seasonally Input Prices Index signalled that the rate of inflation moderated for the third time in the past four months. Companies that reported a rise in input prices generally cited exchange rate depreciation and a corresponding increase in 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.



Adjusted for seasonal influences, the Quantity of Purchases Index posted above the 50.0 no-change mark for the first time in five months during June. The latest reading pointed to a marginal rebound in purchasing activity across the manufacturing sector, which was widely linked to higher levels of new work and greater production requirements.



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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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