

News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 09:30 EDT 02 April 2013

Canadian manufacturing business conditions deteriorate for first time in two-and-a-half years: RBC PMI™

APRIL 2, 2013 – The March **RBC Canadian Manufacturing Purchasing Managers' Index™ (RBC PMI™)** signalled the first deterioration in manufacturing business conditions since data collection began in October 2010, with monthly declines reported for both output and new orders. A monthly survey, conducted in association with Markit, a leading global financial information services company, and the Purchasing Management Association of Canada (PMAC), the **RBC PMI** offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

The headline **RBC PMI** – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – fell below the 50.0 no-change mark that separates growth from contraction in March. This was the first sub-50 reading in the two-and-a-half year survey history. At 49.3, down from 51.7 in February, the RBC PMI was consistent with a marginal rate of contraction in March.

The **RBC PMI** found that both the levels of output and new orders were lower in March compared with one month previously. A number of firms linked this to weak client demand. The reduced workloads also contributed to a slower rate of job creation. Meanwhile, on the price front, the rate of input cost inflation was strong and faster than in February, but remained slower than the series average.

*"The deterioration in the Canadian manufacturing measure is surprising in the face of improving growth in both the U.S. and various emerging economies. However, uncertainty about resolving fiscal imbalances in the U.S. – with sequestration going ahead March 1 – and in the Euro-area may have weighed on sentiment," said **Craig Wright**, senior vice-president and chief economist, RBC. "This weak spot should be short-lived, however, as we expect that global demand for Canadian exports will recover, providing a welcome boost for domestic manufacturers."*

The [headline RBC PMI](#) reflects changes in output, new orders, employment, inventories, prices and supplier delivery times.

Key findings from the March survey include:

- RBC PMI falls below the 50.0 no-change mark that separates growth from contraction;
- both output and new orders fall modestly in March; and
- employment growth slows.

Canadian manufacturers received a lower volume of **new orders** in March. Firms generally linked the reduction to weak client demand, both at home and abroad, with **new export work** also having fallen since February. Although moderate, the rate of decline in total new orders was the sharpest in the 30-month series history.

Reflective of lower new work intakes, manufacturing firms reduced their **output** in the latest survey period. Production has fallen in three out of the past five months, with the latest reduction moderate. Concurrently, **stocks of finished goods** were depleted, albeit only marginally, and **backlogs of work** fell further and at a faster rate than one month previously.

Following no change in purchasing volumes in February, the quantity of **inputs bought** by manufacturers fell in March. However, the rate of decline was only slight. **Input inventories**, meanwhile, fell for the fifth successive month, partly reflecting leaner stock holding requirements.

Suppliers' delivery times lengthened further in March. Anecdotal evidence suggested that vendors were working with lower inventories, with some suppliers also experiencing transportation problems. Overall, the increase in lead times was modest, but to a lesser extent than in February.

Manufacturing **employment** in Canada continued to increase in March. However, the rate of growth eased since hitting a four-month high in February. Approximately 14 per cent of firms hired additional staff in the latest survey period, while 10 per cent reduced their workforces.

Input costs faced by manufacturers rose further in March, with higher raw material prices and unfavourable exchange rates contributing to the latest increase. Overall, the rate of **input price** inflation was strong and faster than in February. Meanwhile, **output charges** also increased over the month, with the latest rise the greatest for almost a year.

Regional highlights include:

- Three regions saw a deterioration in manufacturing business conditions in March. The rates of contraction were moderate in both **Alberta and British Columbia** and **Ontario**, but marginal in **Quebec**.
- Production fell at the sharpest rate in **Alberta and British Columbia**.
- The strongest rate of contraction in new orders was recorded in **Ontario**.
- Job losses were reported in **Alberta and British Columbia**, but employment growth was recorded elsewhere.

"The Canadian manufacturing sector took a turn for the worse in March, seeing a deterioration in overall operating conditions for the first time in the survey's two-and-a-half year history," said Cheryl Paradowski, president and chief executive officer, PMAC. "Highlighting weak demand both domestically and in key export markets, manufacturers reported month-over-month declines in output and new orders in March, and they responded by scaling back hiring."

The report is available at www.rbc.com/newsroom/pmi.

For further information, please contact:

Royal Bank of Canada

Gillian McArdle, Head of Communications, Canada
RBC Capital Markets
Telephone +001-416-842-4231
Email gillian.mcardle@rbc.com

Elyse Lalonde, Communications Manager, Canada
RBC Capital Markets
Telephone +001-416-842-5635
Email elyse.lalonde@rbc.com

Purchasing Management Association of Canada

Cheryl Paradowski, President and CEO
Telephone +001-416-542-9120
Email cparadowski@pmac.ca

Cori Ferguson, Director, Public Affairs & Communications
Telephone +001-416-542-9129
Email cferguson@pmac.ca

Markit

Mark Wingham, Economist
Telephone +44-1491-461-004
Email mark.wingham@markit.com

Rachel Harling, Corporate Communications
Telephone +001-917-441-6345 / +001-646-351-3584
Email rachel.harling@markit.com

Notes to Editors:

The RBC Canadian Manufacturing *PMI™* Report 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 responses 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 responding '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 indicates an overall increase in that variable, below 50 an overall decrease.

The RBC Canadian Manufacturing *Purchasing Managers' Index™* (RBC *PMI™*) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

The *Purchasing Managers' Index (PMI)* survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

Markit does 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

About RBC

Royal Bank of Canada (RY on TSX and NYSE) and its subsidiaries operate under the master brand name RBC. We are Canada's largest bank as measured by assets and market capitalization, and are among 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 services, insurance, corporate and investment banking and investor services and wholesale banking on a global basis. We employ approximately 80,000 full- and part-time employees who serve more than 15 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 49 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 2012, we contributed more than \$95 million to causes worldwide, including donations and community investments of more than \$64 million and \$31 million in sponsorships.

About Purchasing Management Association of Canada

The Purchasing Management Association of Canada (PMAC) is the leading, and the largest, association in Canada for supply chain management professionals. With 7,000 members working across private and public sectors, PMAC is the principal source of supply chain training, education and professional development in the country, requiring all members to adhere to a Code of Ethics. Through its 10 Provincial and Territorial Institutes, PMAC grants the SCMP (Supply Chain Management Professional) designation, the highest achievement in the field and the mark of strategic leadership. For more information please see www.pmac.ca.

About Markit

Markit is a leading, global financial information services company with over 2,800 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial marketplace. For more information, see www.markit.com.

About PMIs

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.

The intellectual property rights to the RBC Canadian Manufacturing PMI provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited, RBC uses the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.