

In association with the Purchasing Management Association of Canada

PMI falls to three-month low in July as new order growth slows

Key findings:

- Modest increases in both output and new orders
- Weakest rate of job creation since April
- Average selling prices fall at strongest pace in near three-year series history

Manufacturing business conditions in Canada improved for the fourth consecutive month in July, albeit modestly. Both output and new orders increased since June, with firms attributing this to greater client demand and new product launches. However, the rates of growth eased to three-month lows and this contributed to a weaker rise in employment. Meanwhile, firms reduced their output charges for the first time since March 2012, often linking discounting to stronger competitive pressures.

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 52.0, the RBC PMI remained above the 50.0 no-change mark for the fourth successive month in July, signalling a further improvement in Canadian manufacturing business conditions. However, down from 52.4 to a three-month low, the headline index indicated a modest expansion that was weaker than the series average.

The volume of new orders received by Canadian manufacturers increased for the fourth consecutive month in July. Firms generally linked this to greater client demand, in part due to new product launches, with new export work also rising over the month. Though remaining moderate overall, the rate of total new order growth was the weakest since April.

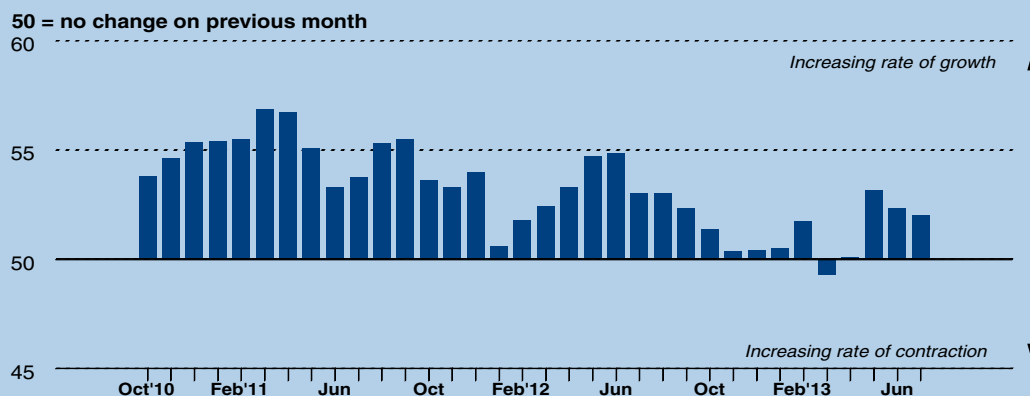
Reflective of the latest increase in new work, manufacturers raised output and depleted existing stocks of finished goods. That said, the latest rise in production was the weakest in the current three-month sequence. Meanwhile, backlogs of work fell solidly and for the second month running.

Concurrently, the quantity of inputs bought by manufacturing companies increased during the latest survey period. Although this mostly reflected higher new orders, part of the rise in purchasing volumes was also used to build input inventories. Stock of purchases rose for the first time since October 2012, albeit only marginally.

Suppliers' delivery times lengthened in July, after having shortened slightly in June. Nonetheless, the deterioration in vendor performance was only modest and weaker than the series average.

Employment in Canada's manufacturing sector continued to rise in July. Approximately 17% of surveyed firms hired additional staff over the month, often linking this to increases in new business. Overall, the rate of job creation was moderate, but slowed further from May's peak to the weakest in three months.

Manufacturers faced greater input costs in July, with higher raw material prices and unfavourable exchange rates behind the latest increase. Overall, the rate of inflation was moderate and the fastest since March. In contrast, companies reduced their output charges from June, with a number of firms citing stronger competitive pressures. The reduction in selling prices was modest and the first for almost a year-and-a-half.

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

Components of the RBC Canadian Manufacturing PMI™

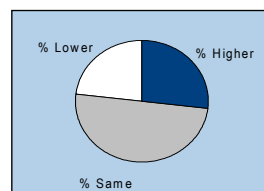
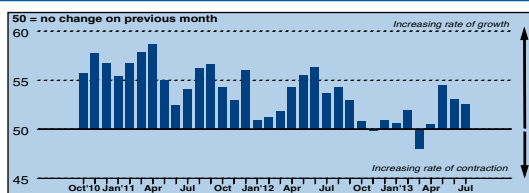
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

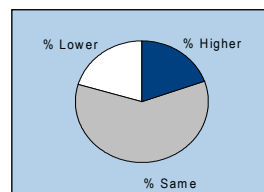
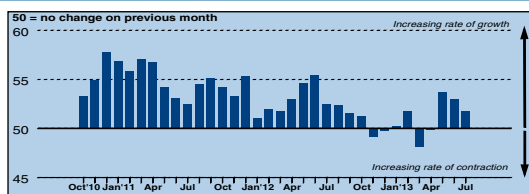
Q. Please compare the state of your new orders (in units) this month with one month ago.



Manufacturing firms in Canada received a larger volume of new work in July, taking the current sequence of growth to four months. Approximately 27% of panellists reported an increase in new orders, often linking this to greater client demand and recent new product launches. That said, the rate of expansion eased further since hitting a 11-month high in May, and was moderate overall.

Output Index (0.25)

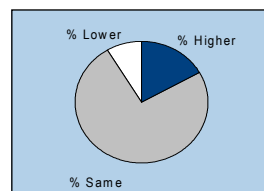
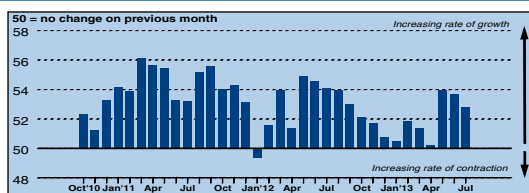
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index remained above the 50.0 no-change mark in July, signalling a third successive monthly rise in manufacturing production. Panellists largely linked higher output levels to increased new order volumes and recent improvements to the production process. Nonetheless, the latest expansion in output was the weakest in the current sequence.

Employment Index (0.20)

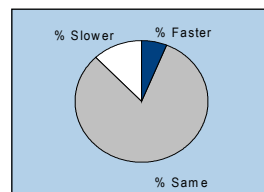
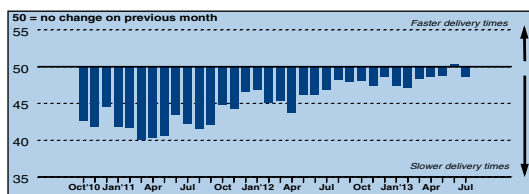
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in Canada's manufacturing sector continued to increase in July, with approximately 17% of firms hiring additional staff from June. Anecdotal evidence generally attributed job creation to increased new business. Overall, the rate of employment growth was moderate but, having slowed for the second month running, the weakest since April.

Suppliers' Delivery Times Index (0.15)

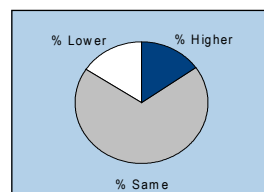
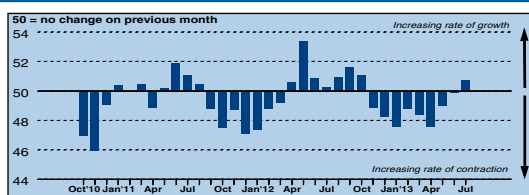
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Lead times for inputs lengthened during July, after having shortened slightly in June. This was signalled by the seasonally adjusted Suppliers' Delivery Times Index returning below the 50.0 no-change threshold that separates an improvement in vendor performance from a deterioration. Nonetheless, the index indicated that delivery times lengthened only modestly, and at a rate weaker than the series average.

Stocks of Purchases Index (0.10)

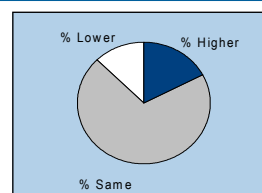
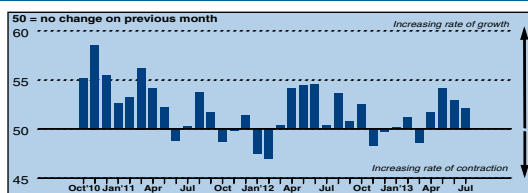
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



For the first time since October 2012, stocks of purchases at Canadian manufacturers increased in July. The rate of inventory accumulation was only marginal, and followed a stagnant trend one month previously. Firms that reported higher levels of pre-production stocks generally commented on an increase in new orders.

New Export Orders Index

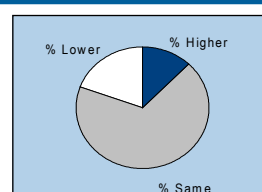
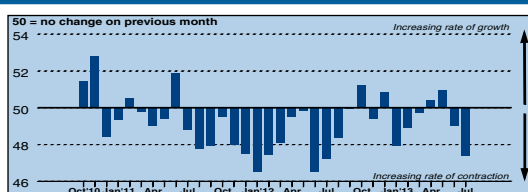
Q. Please compare the state of your new export orders (in units) this month with one month ago.



The volume of new export orders received by Canadian manufacturing companies increased for the fourth consecutive month in July. Over 17% of firms reported an increase in new work from abroad from June, compared with approximately 13% that registered a reduction. Nonetheless, the overall rate of growth was modest and the weakest since April.

Stocks of Finished Goods Index

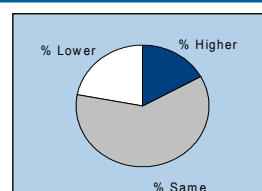
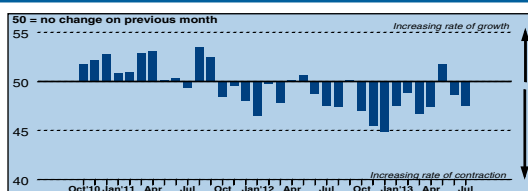
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Inventories of finished goods at manufacturing companies were reduced for the second successive month in July. Moreover, the rate of stock depletion was solid and the fastest for a year. Where lower levels of stocks of finished goods were reported, a number of firms commented that existing inventories were used to fulfil new order requirements in the latest survey period.

Backlogs of Work Index

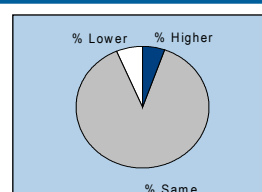
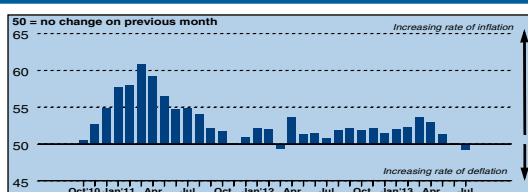
Q. Please compare the level of outstanding business in your company this month with one month ago.



Outstanding business at Canadian manufacturing companies fell for the second month running in July, as indicated by the seasonally adjusted Backlogs of Work Index remaining below the 50.0 no-change mark. The index, down to a reading below the series average, signalled that the rate of decline was solid overall.

Output Prices Index

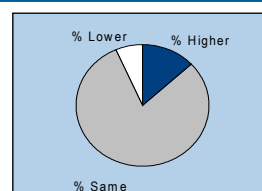
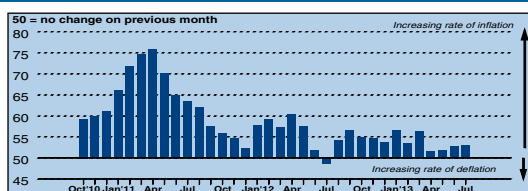
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



The seasonally adjusted Output Prices Index fell below the 50.0 neutral threshold in July, suggesting that the average price charged by manufacturers was lower than in June. Notably, this was the first reduction in selling prices since March 2012 and followed no change one month previously. Moreover, the index was the lowest in the near three-year series history and consistent with a modest price deduction.

Input Prices Index

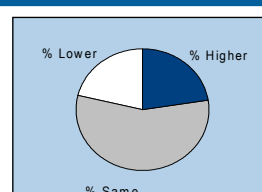
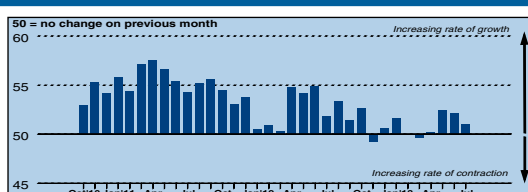
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Canadian manufacturers reported a further increase in input costs during July, taking the current sequence of inflation to one year. Higher prices for raw materials, including wood, and unfavourable exchange rates were some of the reasons provided by panellists when explaining the latest rise in costs. Overall, the rate of input price inflation was moderate and the strongest in four months.

Quantity of Purchases Index

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



The quantity of inputs bought by manufacturing companies increased for the fourth consecutive month in July. Around 23% of firms raised their purchasing volumes over the month, reflecting larger new order requirements. That said, the rate of growth eased to only a marginal pace that was weaker than the series average.



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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.



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.

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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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