

News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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RBC PMI™ falls to three-month low in July as new order growth slows

AUGUST 1, 2013 – Manufacturing business conditions in Canada improved for the fourth consecutive month in July; however, the rate of growth was modest and the weakest in three months, according to the **RBC Canadian Manufacturing Purchasing Managers' Index™ (RBC PMI™)**. 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.

At 52.0, the headline **RBC PMI** – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – 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 **RBC PMI** indicated ongoing growth of both output and new orders in July, with firms generally 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.

*“Canada’s manufacturing sector stayed afloat in July, although conditions were slightly less favourable than on average historically,” said **Craig Wright**, senior vice-president and chief economist, RBC. “We expect the U.S. economy to shift into higher gear in the second half of the year, slowly increasing demand for Canada’s exports, and manufacturing goods in particular – this is good news for overall GDP growth.”*

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

Key findings from the July survey include:

- modest increases in both output and new orders;
- weakest rate of job creation since April; and
- average selling prices fall at strongest pace in near three-year series history.

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 per cent 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.

Regional highlights include:

- **Alberta and British Columbia** was the only region to see deterioration in manufacturing business conditions in July, although this was only slight.
- Manufacturers based in **Ontario** saw a marginal reduction in new order volumes.
- Employment increased in three regions during July, with the only exception being **Alberta and British Columbia** that saw broadly no change from June.
- The weakest rise in input costs was recorded for **Quebec**.

*"The Canadian manufacturing sector remained in expansion mode at the start of the second half of the year, with greater demand supporting ongoing growth of new orders and output," said **Cheryl Paradowski**, president and chief executive officer, PMAC. "However, the manufacturing expansion still remains fragile, as indicated by the RBC PMI falling to a three-month low that was lower than the series average."*

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

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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.

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 3,000 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.

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