

## PMI climbs to two-and-a-half year high in October

### Key findings:

- PMI signals strong improvement in Canada's manufacturing business conditions
- Output and new orders both increase at fastest rates since April 2011
- Employment growth remains solid

Canada's manufacturing sector grew at the fastest pace for two-and-a-half years in October. The strong expansion generally reflected the fastest increases in output and new orders since April 2011, which manufacturers attributed to greater client demand. Concurrently, firms continued to take on more staff, although the rate of job creation eased slightly from September's 15-month peak. Meanwhile, inflationary pressures strengthened, with the latest rise in input costs the greatest since March.

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.

After adjusting for seasonal variation, the headline RBC PMI rose to its highest level in 30 months during October. At 55.6, up from 54.2 in September and above the series average of 53.3, the PMI indicated a strong improvement in Canadian manufacturing operating conditions.

The volume of new orders received by Canadian manufacturers increased further in October. Firms generally attributed this to greater client demand in both domestic and international markets, with new export work also rising since September. Overall, total incoming new work rose strongly over the month, and at the second-strongest pace since data collection began in October 2010.

Reflective of higher new order requirements, firms raised production for the sixth consecutive month in October. Moreover, the latest rise in output was strong and the fastest for two-and-a-half years. Nonetheless, backlogs of work increased for the second month running, while stocks of finished goods were depleted only slightly.

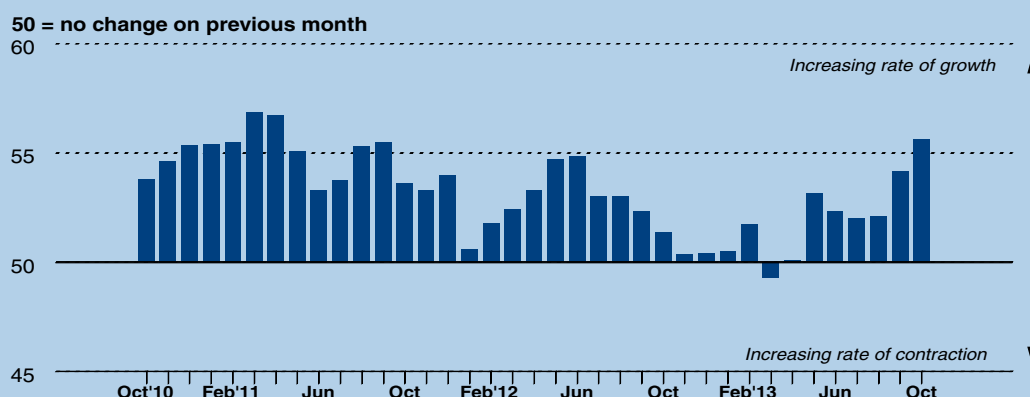
Manufacturers bought a larger quantity of inputs in October, with the latest rise in buying activity the strongest since September 2011. Some of the increase in purchases was held back in stock, with input inventories rising modestly over the month. Meanwhile, suppliers' delivery times lengthened further in the latest survey period, as vendors were generally busier. The latest increase in lead times was the greatest for 16 months.

Employment in Canada's manufacturing sector rose for the twenty-first successive month in October. Approximately 16% of surveyed firms hired additional staff over the month, often linking this to higher new order volumes. Overall, the rate of job creation was solid, despite having eased from September's peak.

Input costs faced by Canadian manufacturers continued to rise in October, with firms commonly reporting higher fuel and raw material prices, including steel and packaging. Although the overall rate of inflation was the fastest in seven months, it nonetheless remained weaker than the series average.

Meanwhile, companies passed on greater costs to clients by raising their output charges. Average selling prices rose solidly and at the strongest pace since August 2011.

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



## Components of the RBC Canadian Manufacturing PMI™

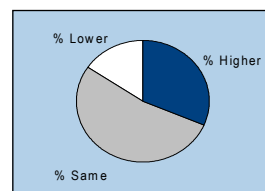
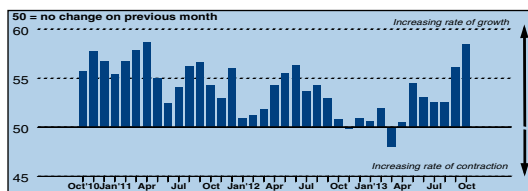
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

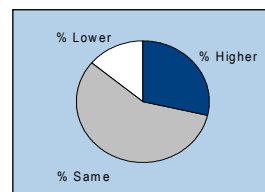
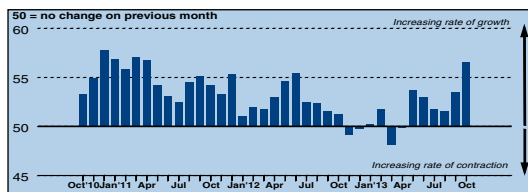
Q. Please compare the state of your new orders (in units) this month with one month ago.



Incoming new work at Canadian manufacturing companies rose at the sharpest pace for two-and-a-half years in October. Moreover, the strong rate of new order growth was the second-fastest since data collection began in October 2010. Approximately 31% of firms reported an increase in new business, and often linked this to greater demand and new client wins.

## Output Index (0.25)

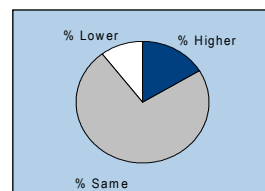
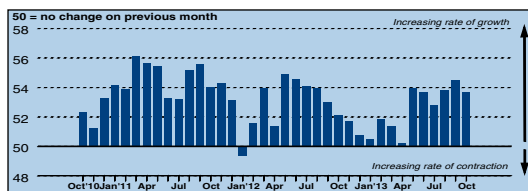
Q. Please compare your production/output this month with the situation one month ago.



After adjusting for seasonal variation, manufacturing output in Canada increased for the sixth consecutive month in October. Moreover, the rate of growth accelerated to its fastest pace since April 2011. Panellists that reported higher production levels (almost 29%) generally attributed this to increased demand and the subsequent rise in new orders.

## Employment Index (0.20)

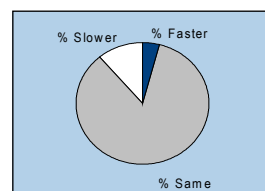
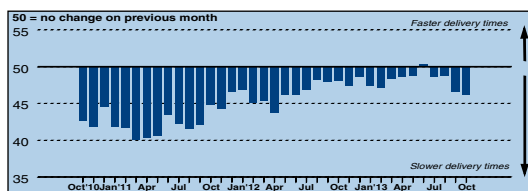
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Manufacturing employment in Canada continued to rise in October, taking the current sequence of job creation to 21 months. Approximately 16% of firms hired additional staff over the month (while 10% reduced their headcount), and largely cited higher new order requirements. Overall, the rate of employment growth was solid but, having eased from September's 15-month peak, the weakest since July.

## Suppliers' Delivery Times Index (0.15)

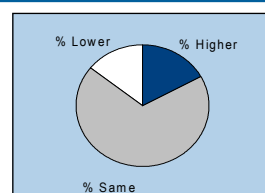
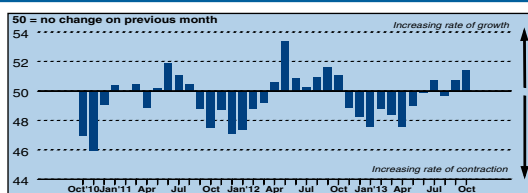
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index posted below the 50.0 no-change mark for the fourth consecutive month in October, indicating a further increase in lead times for inputs. Anecdotal evidence suggested that suppliers were generally busier in the latest survey period. Notably, the index fell to a 16-month low and suggested that delivery times lengthened at a solid pace overall.

## Stocks of Purchases Index (0.10)

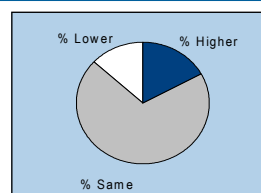
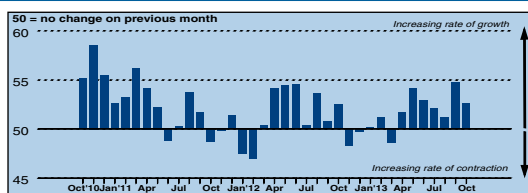
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Stocks of purchases at Canadian manufacturing companies increased for the second month running in October. Exactly 17% of panellists reported an increase in input inventories, compared with 14% that reduced their stocks. Overall, the rate of growth was modest, but the strongest since September 2012.

## New Export Orders Index

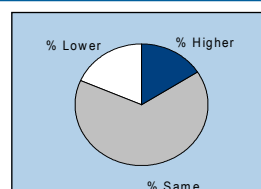
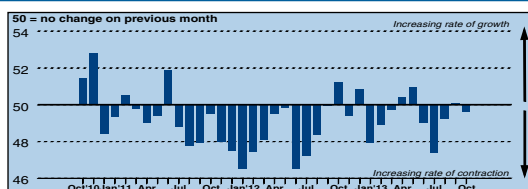
Q. Please compare the state of your new export orders (in units) this month with one month ago.



The volume of new export orders received by Canadian manufacturers increased in October, as has been the case in each month since April. Firms commonly reported new contract wins and greater demand, particularly from Europe, when explaining the latest increase in new export work. Overall, the rate of growth was moderate, but weaker than September's two-and-a-half year peak.

## Stocks of Finished Goods Index

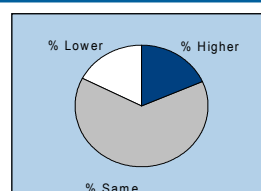
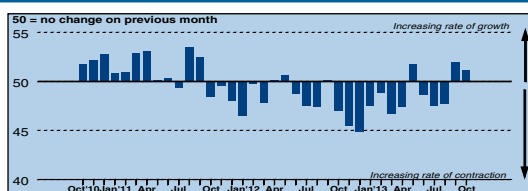
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Following a broadly stagnant trend in September, stocks of finished goods at Canadian manufacturers fell during October. That said, the rate of inventory depletion was marginal, with the seasonally adjusted Stocks of Finished Goods Index only slightly below the 50.0 no-change mark. Although some panellists reported a preference for leaner inventories, other respondents raised stocks in light of increased new orders.

## Backlogs of Work Index

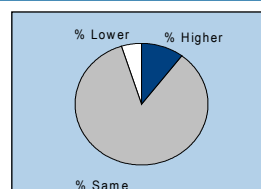
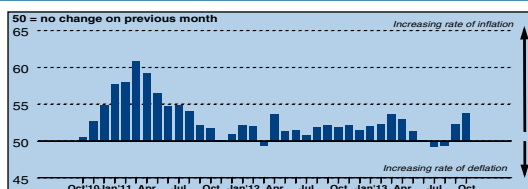
Q. Please compare the level of outstanding business in your company this month with one month ago.



Outstanding business at Canadian manufacturing companies increased for the second month running in October. Firms generally attributed the rise in work-in-hand to higher new order volumes. Although the rate of backlog accumulation was modest and slower than in September, it was nonetheless the second-strongest for over two years.

## Output Prices Index

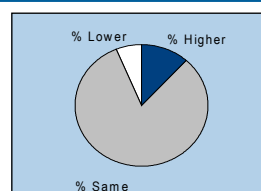
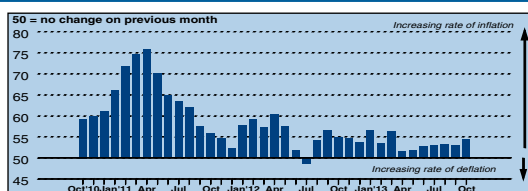
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Average selling prices at monitored companies increased for the second successive month in October. Approximately 10% of surveyed firms raised their output prices over the month, compared with half as many that reduced their charges. Overall, the latest increase in factory gate prices was solid and to the greatest extent since August 2011.

## Input Prices Index

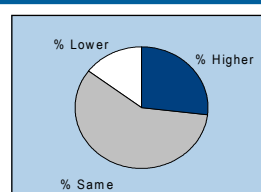
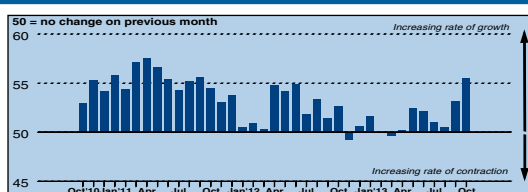
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Following the trend that has been recorded in each month since August 2012, input costs faced by Canadian manufacturers increased in October. Panellists commonly reported higher fuel and raw material prices, including steel and packaging. Despite the overall rate of input price inflation strengthening to a seven-month high in the latest survey period, it remained weaker than the series average.

## Quantity of Purchases Index

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



Reflective of higher new order requirements, the quantity of inputs bought by manufacturers increased in October. Purchasing activity has risen in each month since April, with the latest increase the strongest in 25 months. Approximately 27% of survey respondents bought a larger volume of inputs over the month, compared with 15% that reduced their purchases.



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, 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 44 other countries. For more information, please visit [rbc.com](http://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.



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:

Cori Ferguson  
416 542-9129  
[cferguson@scmanational.ca](mailto:cferguson@scmanational.ca)  
[www.scmanational.ca](http://www.scmanational.ca)



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 market place.

*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](http://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](mailto: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.

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 use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.