

PMI falls to four-month low as both output and new order growth slows

Key findings:

- PMI signals solid improvement in manufacturing business conditions
- Growth of output and new orders ease from their recent peaks
- Slowest rate of job creation since April

Manufacturing business conditions in Canada continued to improve in December, albeit at the weakest pace since August. Although new orders rose strongly, supporting a further increase in production, the rate of growth eased sharply to a four-month low. Concurrently, employment increased at a modest pace that was the slowest since April. Meanwhile, input prices rose at the fastest pace for nine months, but the rate of inflation was weaker than the series average.

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 RBC PMI registered 53.5 in December, indicating a solid improvement in Canada's manufacturing business conditions. However, down from 55.3 in November to a four-month low, the headline index suggested that the rate of growth had slowed further from its recent two-and-a-half year peak.

The volume of new orders received by Canadian manufacturers increased for the ninth consecutive month in December. Panellists generally commented on greater client demand, both domestically and in key export markets such as the United States. Overall, the rate of new order growth was strong but, having eased over the month, the weakest since August.

Reflective of higher new order requirements, firms raised production

and increased their inventories of finished goods during December. That said, output rose at a much weaker pace compared with November, with a number of firms citing production problems. Concurrently, backlogs of work fell for the first time in four months, albeit marginally.

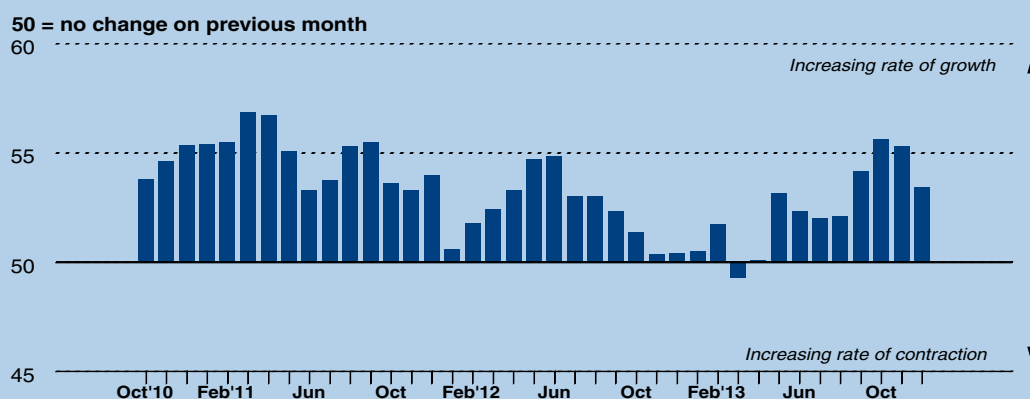
The quantity of inputs bought by manufacturers rose at a moderate pace in December, with firms often linking this to increased output. Companies also reduced their existing input inventories, with this the first stock depletion since August. Suppliers generally struggled with greater demand for inputs in the latest survey period. Consequently, lead times for inputs continued to lengthen, with the latest increase strong and the greatest for 20 months.

Manufacturing employment in Canada rose for the twenty-third consecutive month in December. However, after adjusting for seasonal factors, the rate of job creation eased to an eight-month low, which was also weaker than the series average.

Canadian manufacturers recorded a further increase in costs during December. Higher fuel and raw material prices were commonly reported by panellists, while other respondents also mentioned that unfavourable exchange rates pushed up the cost of imports. Overall, the rate of inflation was strong and the fastest in nine months.

Firms passed on greater costs to clients by raising their selling prices in the latest survey period. The increase in output charges was moderate and to a greater extent than one month previously, but weaker than the rise in costs.

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



Components of the RBC Canadian Manufacturing PMI™

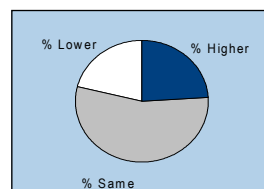
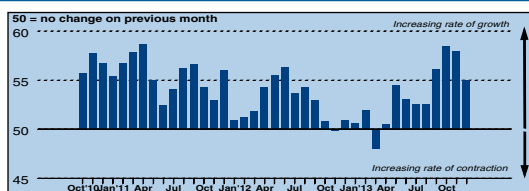
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

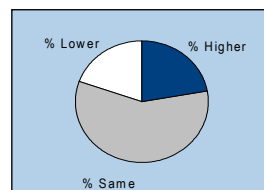
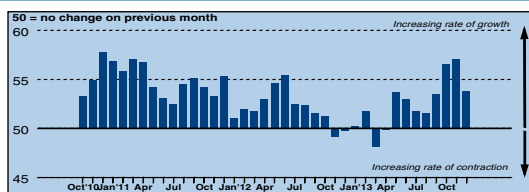
Q. Please compare the state of your new orders (in units) this month with one month ago.



The seasonally adjusted New Orders Index remained above the 50.0 no-change mark in December, indicating a further increase in the volume of new work received by Canadian manufacturers. Panellists generally commented on greater client demand. Although the index was consistent with a strong increase in new business, having fallen three points, suggested that the rate of growth eased to a four-month low.

Output Index (0.25)

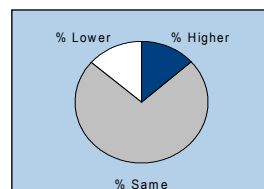
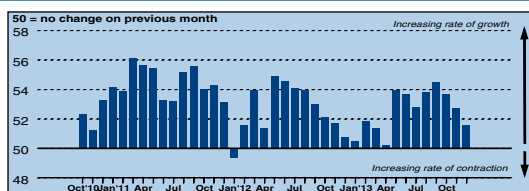
Q. Please compare your production/output this month with the situation one month ago.



After adjusting for seasonal variation, manufacturing output in Canada continued to rise in December, taking the current sequence of expansion to eight months. Survey respondents often linked higher production to larger volumes of new business. However, the latest increase in output was much weaker than November's 32-month peak, with some companies experiencing production problems.

Employment Index (0.20)

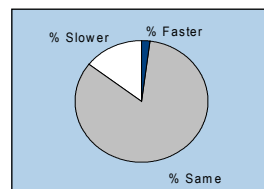
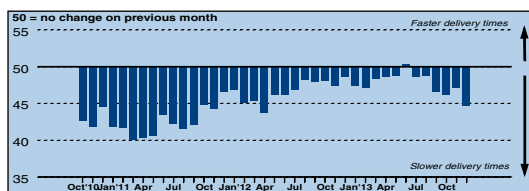
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in Canada's manufacturing sector increased for the twenty-third consecutive month in December, as signalled by the seasonally adjusted Employment Index remaining above the 50.0 no-change mark. However, the rate of job creation eased to a modest pace that was weaker than the series average and the slowest since April.

Suppliers' Delivery Times Index (0.15)

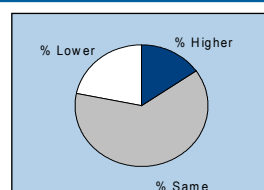
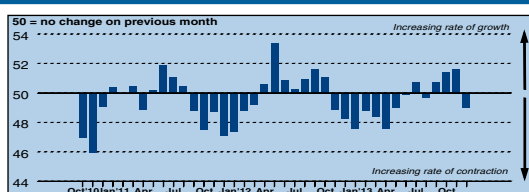
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Following the trend that has been recorded in each month since July, suppliers' delivery times lengthened further in December. Approximately 15% of panellists recorded longer lead times for inputs (while 2% registered a reduction), and generally suggested that vendors struggled with greater demand. Overall, suppliers' delivery times increased strongly and to the greatest extent since April 2012.

Stocks of Purchases Index (0.10)

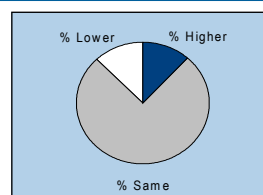
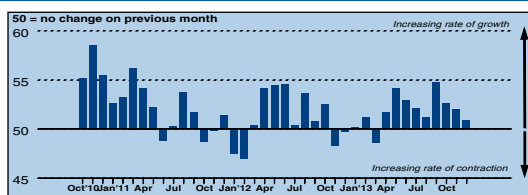
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



In contrast with increases in the previous three months, stocks of purchases at Canadian manufacturing companies fell during December. Almost 22% of monitored companies reported lower input inventories, compared with 15% that registered an increase. Overall, the rate of stock depletion was modest and the fastest in seven months.

New Export Orders Index

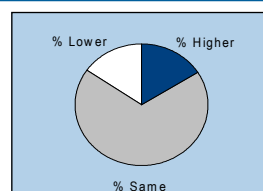
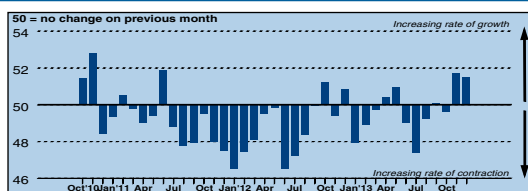
Q. Please compare the state of your new export orders (in units) this month with one month ago.



The seasonally adjusted New Export Orders Index remained above the 50.0 no-change threshold in December, suggesting a further increase in new export work at Canadian manufacturers. A number of companies cited greater client demand from the United States in the latest survey period. That said, the overall rate of growth was marginal and the weakest in the current nine-month sequence of expansion.

Stocks of Finished Goods Index

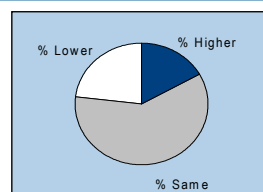
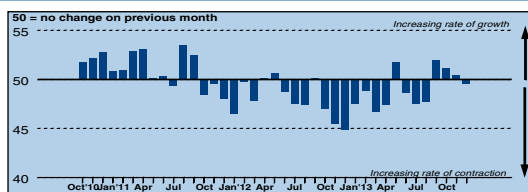
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Inventories of finished goods at Canadian manufacturing firms increased for the second consecutive month in December. The rate of stock accumulation was modest and yet, little-changed from November, one of the fastest since data collection began in October 2010. Anecdotal evidence generally attributed higher stocks of finished goods to larger new order requirements.

Backlogs of Work Index

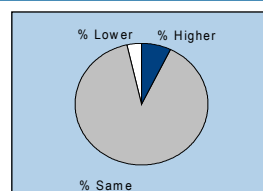
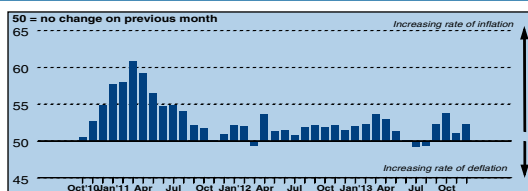
Q. Please compare the level of outstanding business in your company this month with one month ago.



Outstanding business at Canadian manufacturing companies was depleted in December. Although marginal, the reduction in work-in-hand (but not yet completed) was in contrast with increases in the previous three months. Firms that reported a lower level of backlogs of work (approximately 23%) largely linked this to a slower rate of new order growth.

Output Prices Index

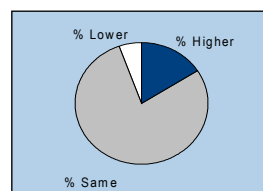
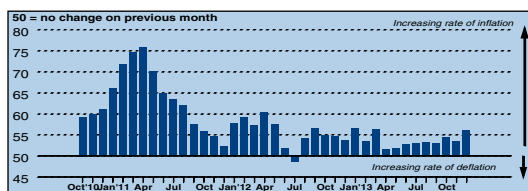
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Average selling prices at Canadian manufacturing firms increased for the fourth consecutive month in December. Panellists commented that rising costs were passed on to clients in the form of higher charges, while other respondents also mentioned exchange rate movements. Overall, output prices rose moderately and to a greater extent than in the previous survey period.

Input Prices Index

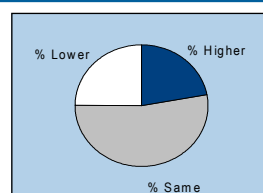
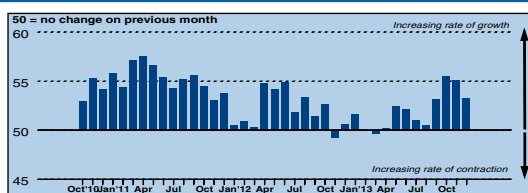
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Manufacturing firms in Canada faced higher input costs in December, as has been the case in each month since August 2012. Panellists commonly reported higher prices for fuel and raw materials, including steel, as well as unfavourable exchange rates which pushed up the cost of imported goods. Although weaker than the series average, the overall rate of input price inflation was strong and the fastest in nine months.

Quantity of Purchases Index

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



After adjusting for seasonal factors, the quantity of inputs bought by Canadian manufacturers increased in December. Although the weakest in three months, the rate of growth was moderate and broadly in line with the series average. A number of companies commented on higher output requirements in the latest survey period.



Royal Bank of Canada (RY on TSX and NYSE) is Canada's largest bank and one of 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, investor services and capital markets products and services on a global basis. We employ approximately 79,000 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.

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:

Amanda Cormier

416 542-3860

acormier@scmanational.ca

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

Markit Economics

Henley on Thames

Oxon RG9 1HG, UK

Tel: +44 1491 461000

Fax: +44 1491 461001

e-mail: 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 are either owned by or licensed to 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 either registered trade marks of Markit Economics Limited or are licensed to Markit Economics Limited. RBC use the above marks under licence. Markit is a registered trade mark of Markit Group Limited.