

News Release

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

JANUARY 2, 2014 – Manufacturing business conditions in Canada continued to improve in December, albeit at the weakest pace since August, 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 Supply Chain Management Association (SCMA), the **RBC PMI** offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

After adjusting for seasonal variation, the **RBC PMI** – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – registered 53.5 in December and, above the 50.0 no-change mark, indicated a solid improvement in Canada's manufacturing business conditions. However, down from 55.3 in November to a four-month low, the RBC PMI suggested that the rate of growth had slowed further from its recent two-and-a-half year peak.

The **RBC PMI** showed that new business rose strongly in December, supporting a further increase in production. However, the rate of new order growth eased sharply to a four-month low. Concurrently, employment increased at a modest pace that was the slowest since April. Input prices, meanwhile, rose at the strongest pace for nine months, but the rate of inflation remained weaker than the series average.

*"While output and new order growth ebbed in December following a particularly strong month in [November](#), Canada's manufacturing sector continued to grow, registering a solid 53.5," said **Paul Ferley, assistant chief economist, RBC**. "Our outlook for 2014 is underpinned by the assumption that Canadian exports will firm as the U.S. continues on a path of recovery – this will provide a healthier environment for manufacturing to further grow in the New Year."*

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

Key findings from the December survey include:

- RBC PMI signals solid improvement in manufacturing business conditions;
- output and new order growth eases from their recent two-and-a-half year peaks; and
- slowest rate of job creation since April.

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.

Regional highlights include:

- Output increased across all four regions, led by **Ontario**.
- New order growth eased sharply in **Alberta and British Columbia**.
- **Quebec** was the only region to see lower employment, although the decline was only marginal.
- Input price pressures strengthened across all four regions in December.

*“Despite having dipped to a four-month low in December, the RBC PMI continued to suggest that the manufacturing sector has moved past the weakness at the start of the year. Importantly, new orders continued to rise strongly, suggesting that overall growth will be sustained moving into 2014,” said **Cheryl Paradowski, president and chief executive officer, SCMA**. “The Employment Index continued to disappoint, showing the weakest increase since April, which was also below trend.”*

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

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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) 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.

About Supply Chain Management Association

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 visit scmanational.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 markit.com.

About PMI

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 markit.com/economics.

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