

## Manufacturing PMI signals a further improvement in business conditions during April

## Key findings:

- Output expands in April, but at a slower pace than in the previous month
- Job creation hits five-month high
- Sharp rise in average cost burdens

April data pointed to another positive month for the Canadian manufacturing sector, with the latest survey pointing to higher levels of output, new business and employment. Supply chain disruptions nonetheless persisted, leading to longer delivery times and another rise in backlogs of work. Meanwhile, manufacturers noted that input costs were pushed up by the weaker Canadian dollar, which in turn contributed to a solid increase in factory gate charges during the latest survey period.

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.

Adjusted for seasonal influences, the headline RBC PMI registered 52.9 in April, down slightly from 53.3 in March but above the neutral 50.0 value for the thirteenth successive month. All five component indices had a positive influence on the RBC PMI in April. The drop in the index since March mainly reflected slower rates of output and new business growth.

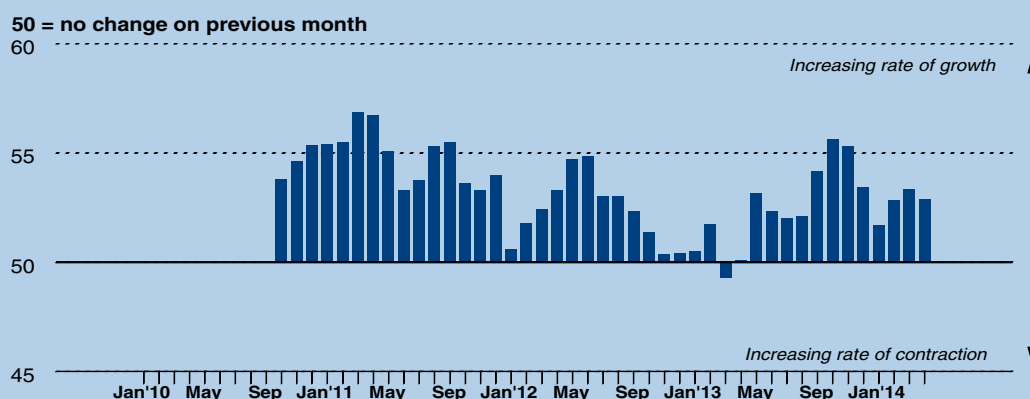
Manufacturers in Canada signalled that production growth eased for the second month running in April and was slightly slower than the average since the survey began in late 2010. The moderation in output growth reflected a slight slowdown in the pace of new business expansion in April.

Volumes of new work from abroad increased only marginally in April and the rate of expansion eased since the previous month. Companies that reported a rise in new export orders generally cited exchange rate depreciation and stronger underlying demand from the US.

Delivery times from suppliers lengthened in April, which manufacturers attributed to logistics bottlenecks and, in some cases, ongoing disruptions from adverse weather conditions. The latest deterioration in vendor performance was one of the sharpest seen over the past two-and-a-half years. As a result, backlogs of work accumulated for the third month running and some manufacturers sought to increase their pre-production inventories in April. Stocks of finished goods also rose during the latest survey period.

Greater production requirements and resilient confidence about the economic outlook supported job creation across the manufacturing sector. The latest rise in employment levels was the fastest since November 2013, but still slightly weaker than the average seen since the survey began around three-and-a-half years ago.

April data indicated a further sharp rise in average cost burdens within the manufacturing sector. The rate of input price inflation eased since March, but remained one of the fastest recorded over the past three years. Meanwhile, the latest survey pointed to a solid rise in factory gate charges, which extended the current period of output charge inflation to eight months. Manufacturers widely linked higher output prices to strong cost inflation in recent months.

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

## Components of the RBC Canadian Manufacturing PMI™

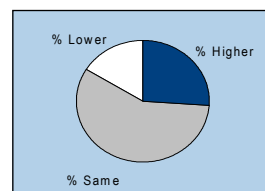
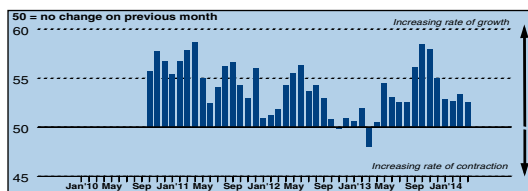
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

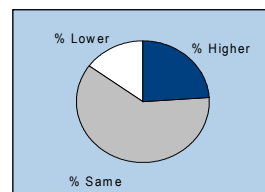
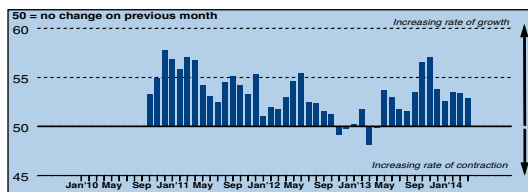
Q. Please compare the state of your new orders (in units) this month with one month ago.



Manufacturers in Canada recorded a further expansion of incoming new work in April. However, the seasonally adjusted New Orders Index signalled only a relatively moderate rate of growth that was the joint-slowest for a year. Some survey respondents pointed to a weaker contribution to growth from export sales in April.

### Output Index (0.25)

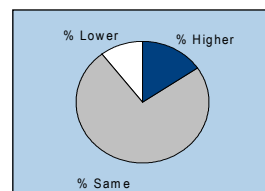
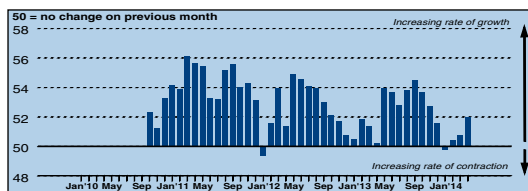
Q. Please compare your production/output this month with the situation one month ago.



Adjusted for seasonal influences, the Output Index registered above the 50.0 no-change value for the twelfth consecutive month in April. The latest reading nonetheless signalled the slowest rate of production growth since January. Anecdotal evidence suggested that softer output growth reflected a moderation in new business gains during April.

### Employment Index (0.20)

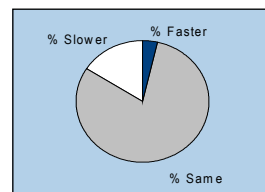
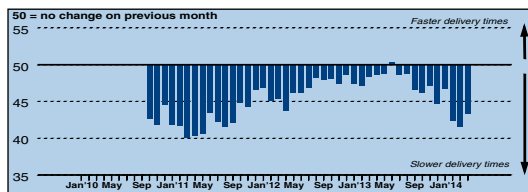
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Staffing levels increased across the Canadian manufacturing sector for the third month running in April. Although the seasonally adjusted Employment Index pointed to only a moderate pace of job creation, the latest index reading was the highest since November 2013. Increased payroll numbers were linked to rising backlogs of work and resilient confidence about the economic outlook.

### Suppliers' Delivery Times Index (0.15)

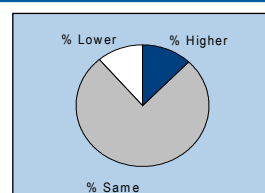
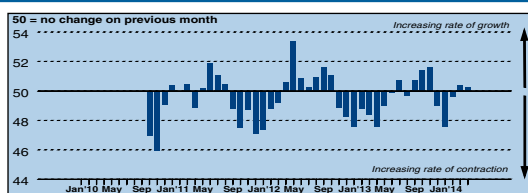
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



April data pointed to another steep deterioration in vendor performance. The seasonally adjusted Suppliers' Delivery Times Index picked up slightly since March, but remained at one of the lowest levels seen over the past two-and-a-half years. Survey respondents widely commented on ongoing logistics bottlenecks and delays related to adverse weather conditions.

### Stocks of Purchases Index (0.10)

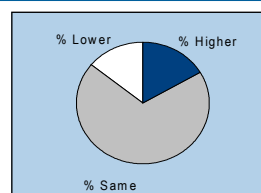
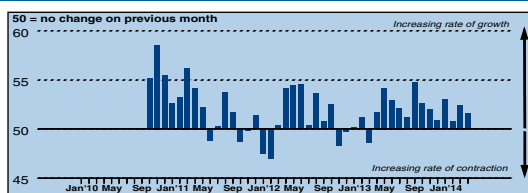
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Pre-production inventories increased for the second month running in April. That said, the seasonally adjusted Stocks of Purchases Index signalled that the pace of inventory accumulation remained only marginal. Some survey respondents commented on efforts to build up stocks of inputs in response to supply chain disruptions in recent months.

## New Export Orders Index

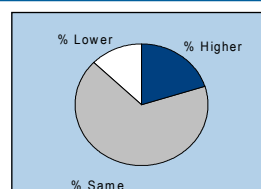
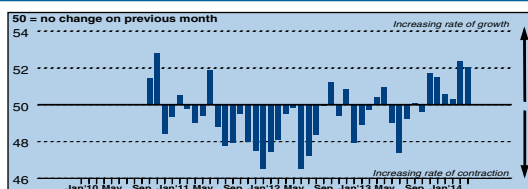
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Adjusted for seasonal influences, the New Export Orders Index registered above the neutral 50.0 value for the thirteenth consecutive month in April. However, the latest reading pointed to only a marginal rise in new business from abroad, and the rate of expansion eased from the two-month high registered in March.

## Stocks of Finished Goods Index

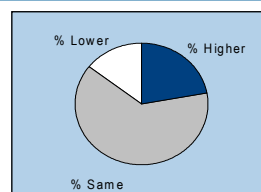
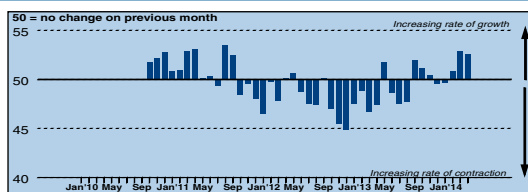
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventory levels increased at a moderate pace in April, thereby extending the current period of inventory accumulation to six months. The seasonally adjusted Stocks of Finished Goods Index signalled that the rate of increase in post-production stocks was only slightly slower than the 40-month high seen in March.

## Backlogs of Work Index

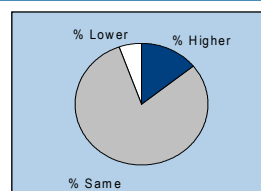
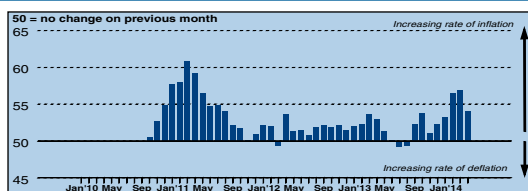
Q. Please compare the level of outstanding business in your company this month with one month ago.



Volumes of unfinished work increased in the Canadian manufacturing sector for the third month running in April. Adjusted for seasonal factors, the Backlogs of Work Index signalled that the rate of accumulation eased since March but was still one of the fastest seen over the past three-and-a-half years. A number of firms noted that delays in the receipt of raw materials had contributed to rising levels of outstanding business.

## Output Prices Index

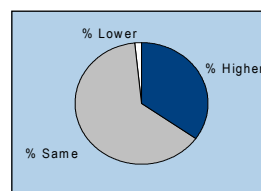
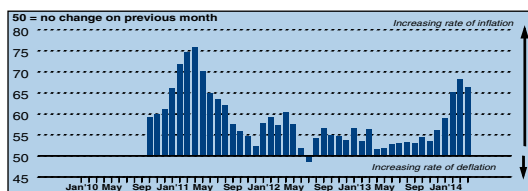
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



April data indicated a moderation in factory gate price inflation from the near three-year high registered in March. Nonetheless, the seasonally adjusted Output Prices Index remained above the survey average and signalled a robust rise in prices charged by manufacturers in Canada. Survey respondents widely linked rising tariffs to sharp input cost inflation at their plants.

## Input Prices Index

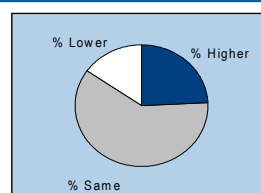
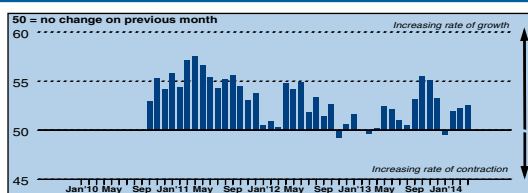
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Average cost burdens increased sharply across the manufacturing sector in April. The seasonally adjusted Input Prices Index has posted above the neutral 50.0 level in each month since August 2012, with the rate of inflation in April one of the fastest seen over the past three years. Anecdotal evidence suggested that supply chain pressures and exchange rate depreciation had pushed up input costs.

## Quantity of Purchases Index

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



Input buying increased at a moderate pace in April, which survey respondents mostly attributed to rising output requirements and efforts to build pre-production inventories. The seasonally adjusted Quantity of Purchases Index has now registered above the neutral 50.0 threshold for three months in a row.



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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.

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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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