

In association with the Supply Chain Management Association

Manufacturing PMI signals slower downturn in business conditions during March

Key findings:

- Manufacturing PMI picked up slightly from February's survey-record low...
- ...helped by slower declines in output and new orders
- Staffing levels decreased for the third month running

March data indicated a further downturn in business conditions across the Canadian manufacturing sector, but the rate of contraction moderated from the survey-record low seen in the previous month. Output, new business and employment levels all fell at slower rates than in February. Manufacturers nonetheless signalled a solid reduction in work-in-hand (but not yet completed), and inventory levels were reduced again amid concerns about the outlook for client demand.

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.

At 48.9 in March, up fractionally from 48.7 in February, the seasonally adjusted RBC Canadian Manufacturing PMI posted below the neutral 50.0 value for the second month running. This represents the first back-to-back deterioration in overall business conditions in the survey's four-and-a-half year history. Moreover, the average reading for Q1 as a whole (49.5) is the weakest since the survey began in late-2010.

Survey respondents suggested that falling capital spending among clients in the energy sector remained the key factor weighing on new business intakes in March. That said, the latest overall decline in incoming new work was only modest and less marked than that seen in the previous month. Export sales also fell at a slower pace than

in February, with some firms commenting on support from exchange rate depreciation and stronger demand from clients in the U.S.

A moderate drop in overall new orders resulted in another decrease in manufacturing production in March. Moreover, the latest survey suggested a lack of pressure on operating capacity, as highlighted by a reduction in backlogs of work for the fourth consecutive month.

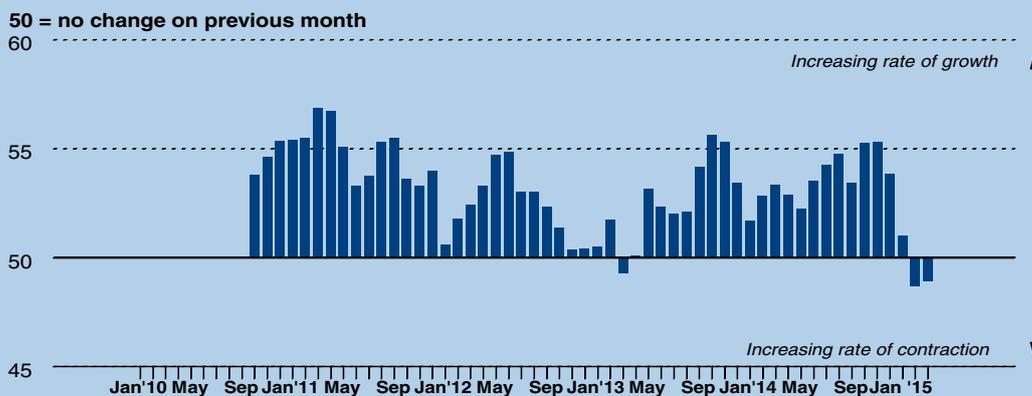
Reduced production schedules and falling workloads contributed to more cautious staff hiring patterns in March. Latest data signalled that payroll numbers decreased for the third month running, although the rate of job shedding moderated from February's survey-record pace.

A number of manufacturers pointed to deliberate stock reduction policies at their plants in response to the uncertain business outlook. Pre-production inventories decreased at the fastest rate since November 2010, while stocks of finished goods were depleted at the most marked pace for just under three years.

Volumes of input buying fell for the second month running in March, reflecting efforts to prevent inventory accumulation across the manufacturing sector. This helped alleviate supply chain pressures in March, with the latest lengthening of vendor lead times the least marked since August 2013.

Average cost burdens increased at a robust pace in March, which survey respondents overwhelmingly attributed to exchange rate depreciation and a corresponding rise in imported raw material costs. That said, the overall rate of input cost inflation moderated since February, while factory gate charges also rose at a weaker pace.

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



Components of the RBC Canadian Manufacturing PMI™

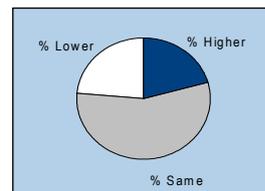
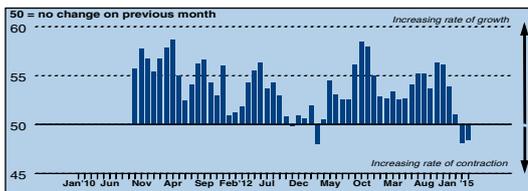
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

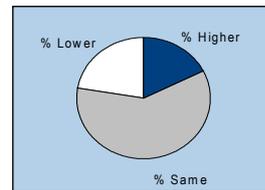
Q. Please compare the state of your new orders (in units) this month with one month ago.



Volumes of new work received by Canadian manufacturing companies declined for the second month running in March, to signal the first back-to-back reduction in new orders since the survey began four-and-a-half years ago. That said, the seasonally adjusted New Orders Index signalled that the rate of contraction eased since February and was only modest.

Output Index (0.25)

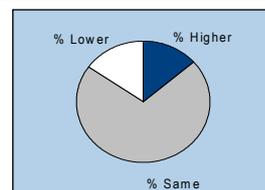
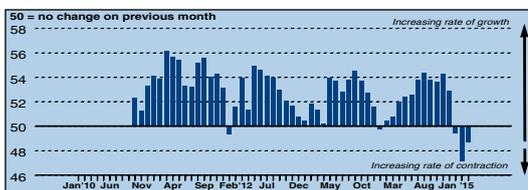
Q. Please compare your production/output this month with the situation one month ago.



In line with the trend for new orders, latest data indicated a further reduction in Canadian manufacturing production levels. The seasonally adjusted Output Index pointed to a slightly slower rate of decline than in February. Reports from survey respondents suggested that falling capital spending across the energy sector remained a key factor weighing on new order intakes in March.

Employment Index (0.20)

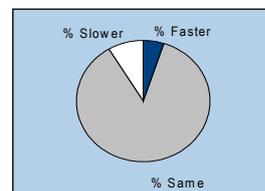
Q. Please compare the level of employment at your unit this month with the situation one month ago.



The seasonally adjusted Employment Index registered below the neutral 50.0 threshold for the third consecutive month in March, which is the longest continuous period since the survey began in late-2010. However, the rate of job shedding eased from the survey-record pace seen in February. Lower staffing levels were linked to falling client demand and concerns about the business outlook.

Suppliers' Delivery Times Index (0.15)

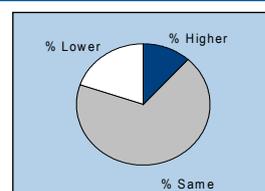
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Average lead times from vendors lengthened again in March, as highlighted by the seasonally adjusted Suppliers' Delivery Times posting below the neutral 50.0 level for the twenty-first successive month. However, the latest deterioration in supplier performance was the least marked since August 2013.

Stocks of Purchases Index (0.10)

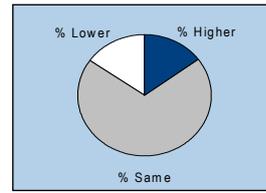
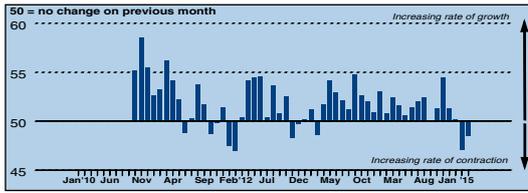
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Manufacturers remained cautious about their inventory levels in March, with the latest survey indicating a decline in stocks of purchases for the fourth month in a row. Moreover, the seasonally adjusted Stocks of Purchases Index signalled the steepest rate of contraction since November 2010.

New Export Orders Index

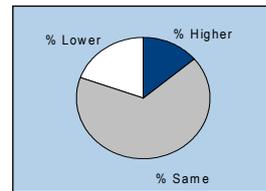
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Adjusted for seasonal influences, the New Export Orders Index posted below the 50.0 no-change value for the second month running in March, to signal a further modest reduction in new business from abroad. The latest drop in new export work was less marked than the three-year low posted in February. Some firms noted that exchange rate depreciation and improving demand from the U.S. had supported export sales in March.

Stocks of Finished Goods Index

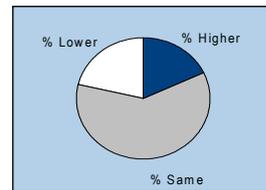
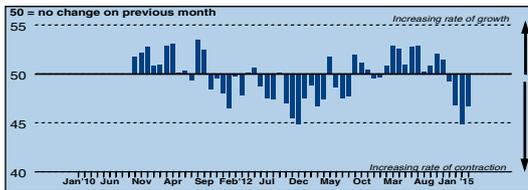
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventories decreased again in March, thereby extending the current period of decline to nine months. The seasonally adjusted Stocks of Finished Goods Index pointed to a solid rate of reduction that was the fastest since June 2012. A number of survey respondents commented on deliberate stock reduction policies in response to lower new order intakes.

Backlogs of Work Index

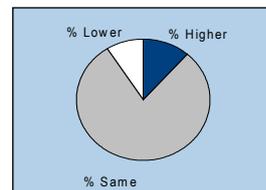
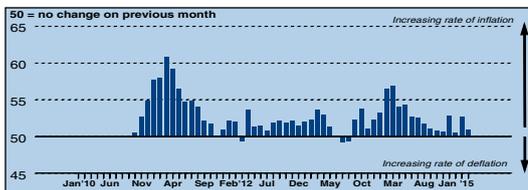
Q. Please compare the level of outstanding business in your company this month with one month ago.



March data suggested a lack of pressure on operating capacity across the Canadian manufacturing sector, as highlighted by the seasonally adjusted Backlogs of Work Index posting below the 50.0 no-change mark for the fourth successive month. However, the latest reading signalled that the rate of backlog depletion moderated from the near survey-record pace seen in February.

Output Prices Index

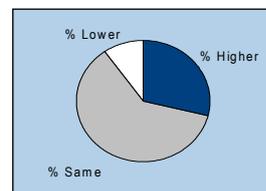
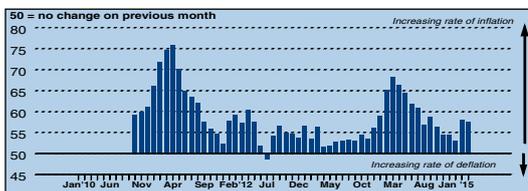
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



The seasonally adjusted Output Prices Index signalled only a modest increase in factory gate charges, and the rate of inflation eased in March. Reports from panel members suggested that weaker input cost inflation and intense competition for new work had contributed to a slower rise in output charges during the latest survey period.

Input Prices Index

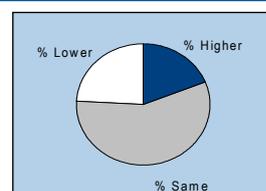
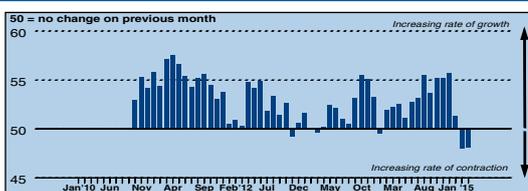
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Adjusted for seasonal influences, the Input Prices Index dipped slightly from February's five-month high. That said, the index still signalled a robust overall rate of input cost inflation in March. Higher average cost burdens were again linked to exchange rate depreciation and a corresponding increase in imported raw material prices.

Quantity of Purchases Index

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



Lower levels of output and incoming new business resulted in another drop in purchasing activity across the manufacturing sector in March. The seasonally adjusted Quantity of Purchases Index was little-changed from February's survey-record low, thereby signalling a further moderate decline in input buying.



Royal Bank of Canada 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, insurance, investor services and capital markets products and services on a global basis. We employ approximately 78,000 full- and part-time employees who serve more than 16 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 39 other countries. For more information, please visit rbc.com.

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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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