

PMI signalled weaker improvement in manufacturing operating conditions in May, as growth of output and new orders eased.

Key findings:

- PMI fell for second consecutive month.
- Robust rise in employment, but at a slower rate than the previous month.
- Suppliers' delivery times lengthened further as vendors struggled to source raw materials.

Business conditions in the Canadian manufacturing sector improved at a slower pace in May. This reflected weaker expansions of both output and new orders. Meanwhile, job creation remained solid and broadly similar to that registered during the previous survey period. Suppliers' delivery times lengthened further, while input prices rose at a marked rate during May.

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.

The headline PMI registered 54.8 in May, down from 56.3 in April. Nevertheless, the latest reading posted above the 50.0 no-change level that separates growth from contraction and signalled an improvement in overall business conditions for the eighth month running.

Canadian manufacturers received a larger amount of new orders during May, although the rate of expansion eased. Anecdotal evidence attributed new order growth to greater demand from both domestic and international markets. Panellists particularly highlighted the US as a key source of new export order wins in May.

Surveyed firms correspondingly increased their output in May. Manufacturers have now raised production levels for eight consecutive months. However, output growth weakened to a slower

rate during the latest survey period.

Reflective of new order growth being stronger than that of output, the amount of outstanding work increased fractionally during May. The rate of accumulation was partially limited by firms depleting stocks of finished goods.

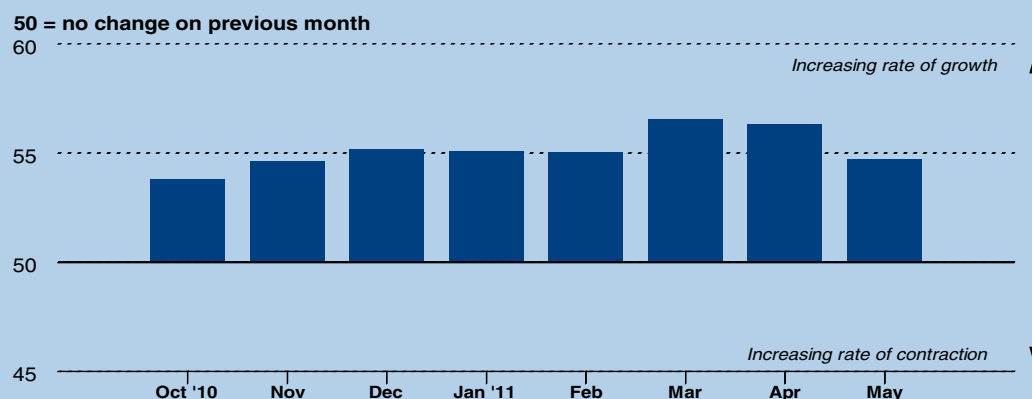
Employment in the Canadian manufacturing sector increased solidly during the latest survey period, with over a fifth of respondents expanding their workforces. That said, the rate of growth was down slightly from the previous month. Anecdotal evidence from the survey panel suggested that firms added to their workforces as production requirements rose during May.

Similarly, surveyed firms purchased a greater quantity of inputs in May. A number of respondents commented that this reflected further output growth and efforts to boost stocks.

Supplier lead times lengthened at a marked pace in May, with around 23 per cent of surveyed firms reporting a deterioration. Respondents suggested that vendors struggled to source certain raw materials in May, particularly as global supply-chains were disrupted in the aftermath of the Japanese earthquake.

Monitored companies indicated that a wide range of inputs increased in price during May. Steel and oil were particularly mentioned by panellists. Firms passed part of their greater cost burdens on to clients by raising output prices, but the rate of inflation remained slower than that of input costs. Although still strong, the rates of inflation of both input and output charges eased during May.

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



Components of the RBC Canadian Manufacturing PMI™

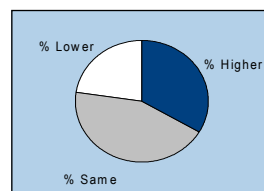
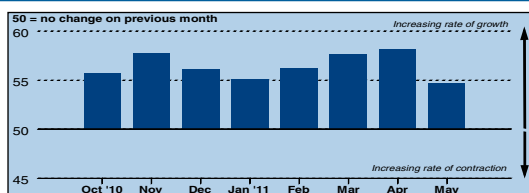
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

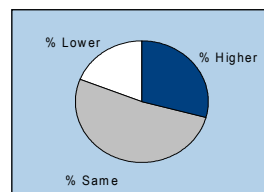
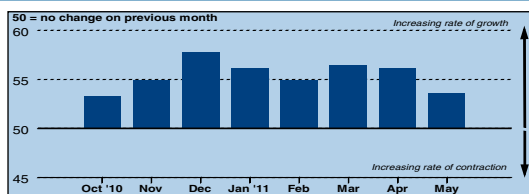
Q. Please compare the state of your new orders (in units) this month with one month ago.



Canadian manufacturing companies received a greater level of new work during May. This was signalled by the seasonally adjusted New Orders Index posting above the 50.0 no-change threshold that separates growth from contraction. Surveyed firms commented that stronger demand resulted in new order growth during the latest survey period. However, a fall in the index signalled a slower rate of growth.

Output Index (0.25)

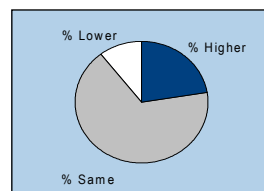
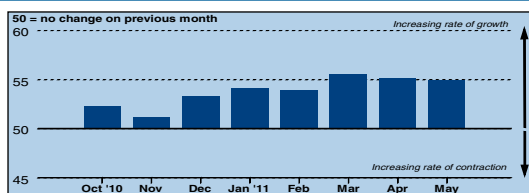
Q. Please compare your production/output this month with the situation one month ago.



Reflective of stronger demand and the increase in new business volumes, Canadian manufacturers registered a higher level of output in May. Over 29% of survey respondents reported that their production had increased during the latest survey period. However, the rate of output growth weakened since April, as signalled by the seasonally adjusted Output Index dropping for a second successive month.

Employment Index (0.20)

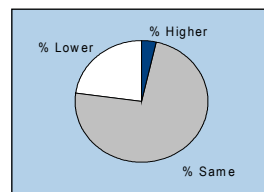
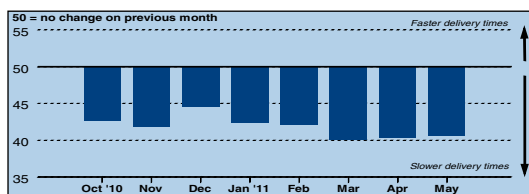
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in the Canadian manufacturing sector rose solidly during May. Around 22% of surveyed firms reported hiring additional staff, compared with just under 11% that reduced the size of their workforces. Employment growth was attributed to greater production requirements. With the seasonally adjusted Employment Index little changed, the rate of job creation was broadly similar to that registered in April.

Suppliers' Delivery Times Index (0.15)

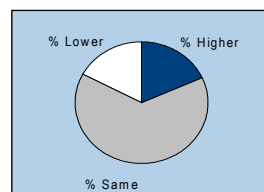
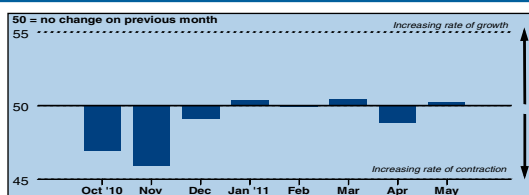
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Latest data signalled a further lengthening of lead times in May, with the seasonally adjusted Suppliers' Delivery Times Index posting again below the 50.0 no-change level. Firms suggested that suppliers struggled to meet greater demand for inputs and experienced difficulty in sourcing some raw materials. Global supplies of certain items were also reported to have been restricted by disruption in Japan.

Stocks of Purchases Index (0.10)

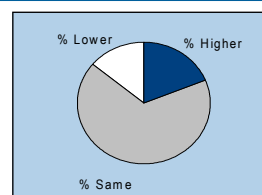
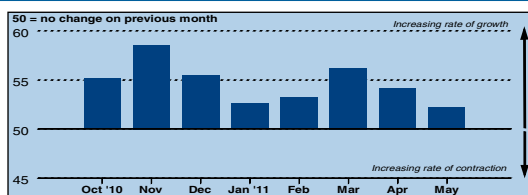
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



The amount of inputs held as stock by Canadian manufacturers increased marginally during May, signalled by the seasonally adjusted Stocks of Purchases Index posting just above the 50.0 no-change level. This was in contrast to the modest stock depletion registered in April. Out of the 18% of firms that reported stock accumulation, attempts to mitigate against further delivery delays were often cited as the reason.

New Export Orders Index

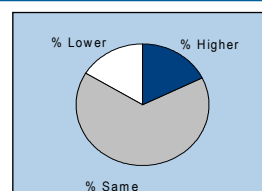
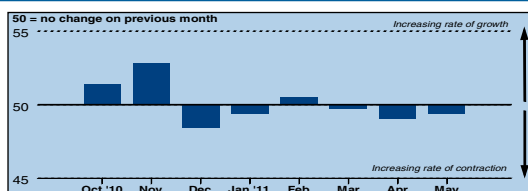
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Monitored companies received a greater volume of new export orders in May. Anecdotal evidence suggested that the US was a key source of export sales growth during the latest survey period. That said, the rate of expansion slowed since April and was only modest as highlighted by a fall in the seasonally adjusted New Export Orders Index.

Stocks of Finished Goods Index

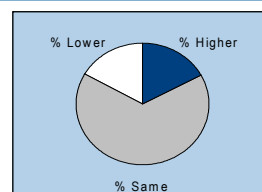
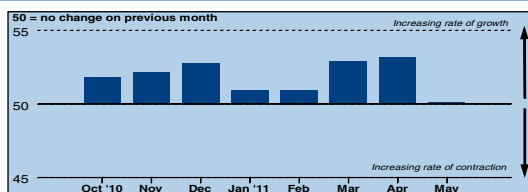
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Following the trend that started in March, the amount of finished goods held as stock by Canadian manufacturing firms decreased slightly during May. This was indicated by the seasonally adjusted Stocks of Finished Goods Index posting below the 50.0 no-change level that separates stock accumulation from depletion. Panellists commented that stocks were run down partly to meet higher new order requirements in May.

Backlogs of Work Index

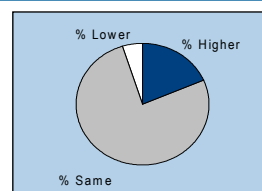
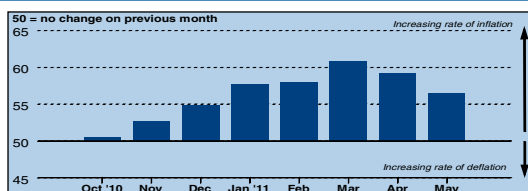
Q. Please compare the level of outstanding business in your company this month with one month ago.



The amount of work-in-hand (but not yet completed) at Canadian manufacturers increased fractionally in May, with the seasonally adjusted Backlogs of Work Index only just above the 50.0 no-change level. Of the 17% of firms that recorded a rise in outstanding business, many attributed the latest increase to new order growth being faster than that of output.

Output Prices Index

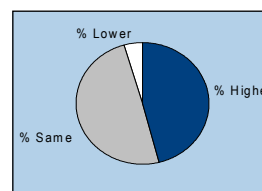
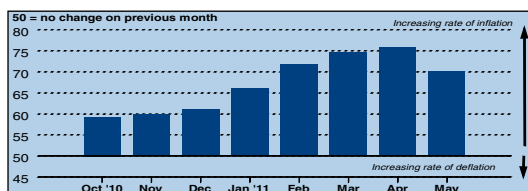
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



The average price charged by manufacturing companies in Canada increased strongly in May. Almost 19% of respondents raised their factory gate prices as they passed on greater cost burdens to clients. Although still strong, the latest increase in output prices was the weakest in five months.

Input Prices Index

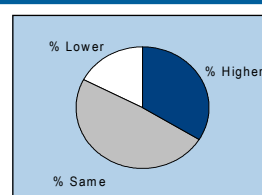
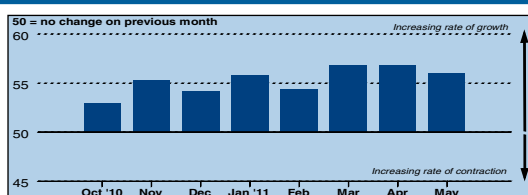
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input prices faced by Canadian manufacturers increased for the eighth successive month in May. Although easing to a four-month low, the rate of input cost inflation remained marked, with the seasonally adjusted Input Prices Index posting well above the 50.0 no-change threshold. Panellists recorded higher prices across a wide range of goods, with steel and oil particularly mentioned.

Quantity of Purchases Index

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



The amount of inputs purchased by surveyed firms increased further in May. Almost 34% of respondents purchased more inputs during the latest survey period, which they generally attributed to greater production requirements. In addition, a number of companies commented that purchasing activity grew as they looked to bolster input stocks in anticipation of further suppliers' delivery delays.



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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 the regional and industry contribution to 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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