

News Release

RBC PMI™ points to only marginal improvement in manufacturing business conditions as output stagnates in December

JANUARY 2, 2013 – The **RBC Canadian Manufacturing Purchasing Managers' Index™ (RBC PMI™)** indicated only a marginal rise in new order volumes and broadly no change in output in December. A monthly survey, conducted in association with Markit, a leading global financial information services company, and the Purchasing Management Association of Canada (PMAC), the **RBC PMI** offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

The headline **RBC PMI** – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – remained at 50.4 for the second month running in December, signalling only a marginal improvement in manufacturing operating conditions. The RBC PMI, meanwhile, averaged 50.7 over the fourth quarter as a whole, down from 52.8 in the third quarter and was the lowest quarterly reading since data collection began in October 2010.

The **RBC PMI** found that new orders increased in December, partly reflecting greater demand and new product launches, but output levels were broadly unchanged from November. Meanwhile, employment continued to increase, but the rate of job creation was at an 11-month low and input prices rose at the slowest pace since July.

*“A weak global economy and a strong loonie have weighed somewhat on the broader sector and contributed to a flat PMI reading compared to November,” said **Craig Wright**, senior vice-president and chief economist, RBC. “That said, as the cloak of uncertainty is removed from the global economy in the coming months related to fiscal policy in the U.S. and elsewhere, we expect that demand for Canadian exports will rise, as will investment and hiring across the economy.”*

In addition to the [headline RBC PMI](#), the survey also tracks changes in output, new orders, employment, inventories, prices and supplier delivery times.

Key findings from the December survey include:

- RBC PMI remains at lowest reading since data collection began in October 2010;
- output broadly unchanged from November, while new orders increase only marginally; and
- slowest rate of employment growth since January.

Canadian manufacturers received a larger volume of **new orders** in December, after broadly no change in November. Firms commented on greater client demand and the launch of new products. That said, the rate of growth was only marginal, with **new export work** falling for the second month running.

Despite the rise in new orders, **output** was broadly unchanged from one month earlier. Nonetheless, the flat production trend was an improvement from a modest reduction in the previous survey period. Concurrently, **backlogs of work** were depleted at a marked pace and **stocks of finished goods** rose, albeit the rate of inventory accumulation was only marginal.

Employment in Canada's manufacturing sector increased further during December, with approximately 14% of firms hiring additional staff since November. Job creation has been reported in each month since February, but was the weakest in this sequence of growth.

A marginal increase in the **quantity of purchases** was reported by respondents in the latest survey period. That said, **input inventories** were depleted and at the strongest rate since January 2012.

Suppliers' delivery times lengthened further in December, with panellists commenting on raw material shortages and transportation delays, particularly with international vendors. However, the latest increase in lead times was only modest and the weakest in the 27-month series history.

Manufacturers reported a fifth successive monthly rise in **input costs** in December. Although the rate of inflation was solid, it was nonetheless the slowest in the current sequence of price increases. Firms passed greater costs on to clients by raising their output charges. Nonetheless, average **selling prices** rose only modestly and at the weakest rate since July.

Regional highlights include:

- Manufacturing business conditions improved in **Alberta and British Columbia** and **Ontario** in December.
- The strongest rate of new order growth was posted in **Ontario**.
- Job creation was reported in **Alberta and British Columbia** and **Ontario**, while job losses were reported elsewhere.
- **Quebec** posted the slowest rate of input price inflation in December.

*"The headline RBC PMI index indicated only a marginal improvement in manufacturing business conditions in December, with output largely stagnating and new orders increasing only marginally from November," said **Cheryl Paradowski**, president and chief executive officer, PMAC. "Both the Output and New Orders indices showed improved trends in the latest survey, but the remaining three components of the PMI have deteriorated. In particular, the Employment Index pointed to the weakest rate of job creation in 11 months."*

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

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Notes to Editors:

The RBC Canadian Manufacturing *PMI*TM 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.

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About Purchasing Management Association of Canada

The Purchasing Management Association of Canada (PMAC) is the leading, and the largest, association in Canada for supply chain management professionals. With 7,000 members working across private and public sectors, PMAC is the principal source of supply chain training, education and professional development in the country, requiring all members to adhere to a Code of Ethics. Through its 10 Provincial and Territorial Institutes, PMAC grants the SCMP (Supply Chain Management Professional) designation, the highest achievement in the field and the mark of strategic leadership. For more information please see www.pmac.ca.

About Markit

Markit is a leading, global financial information services company with over 2,500 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 www.markit.com.

About PMIs

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.

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