

In association with the Purchasing Management Association of Canada

## Output and new order growth both slow sharply in January

## Key findings:

- Modest rise in total new orders, as new work from abroad falls solidly
- Net job losses for first time since data collection began in October 2010
- PMI signals weakest improvement in business conditions in survey history

Canadian manufacturing business conditions improved in January, with firms reporting further output and new order growth. However, both rates of expansion were only modest and the weakest since data collection began in October 2010. Concurrently, employment fell for the first time in the survey history, while the rate of input price inflation strengthened to a five-month high in January.

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.

Operating conditions in Canada's manufacturing sector improved further in January, as indicated by the headline PMI index registering above the 50.0 no-change mark that separates growth from contraction. However, at 50.6, down sharply from 54.0 in December, the PMI signalled the weakest improvement in the 16-month series history.

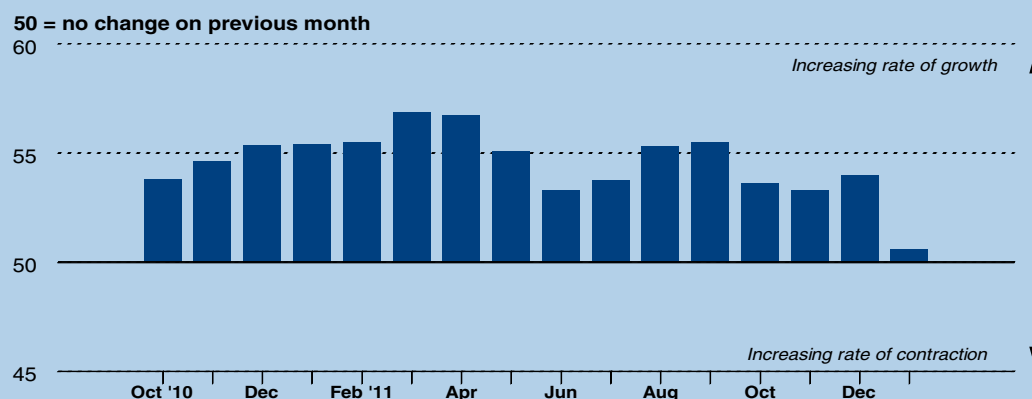
Monitored companies partly attributed the improvement in business conditions to greater client demand. New orders received by Canadian manufacturers increased further in January, but growth was only modest and notably slower than that registered in December. In contrast, new work intakes from abroad fell solidly during the latest survey period, with almost one-fifth of respondents reporting lower volumes of new export orders.

Reflective of the rise in total new orders, Canadian manufacturers raised production and depleted stocks of finished goods in January. However, output growth was only modest and the weakest in the 16-month survey history. Backlogs declined for the fourth consecutive month, with a number of panellists citing the completion of large projects and weak growth of incoming new work.

Firms purchased a greater amount of inputs during the latest survey period, as has been the case since the series started in October 2010. However, the latest rise in input buying was only marginal. Stocks of purchases meanwhile were depleted for the fifth month running in January. Anecdotal evidence linked the fall in input inventories to leaner stock holding policies. Suppliers' delivery times continued to lengthen in January, but the latest increase in lead times was slightly weaker than that reported in December.

Employment in Canada's manufacturing sector fell for the first time in the 16-month series history during the latest survey period. Approximately 17% of firms reduced their workforces (while 14% hired additional staff), and generally attributed job losses to the slower rate of new order growth.

Input costs rose further in January, with panellists reporting price increases across a wide variety of goods. Notably, the rate of input price inflation was strong and the fastest since last August. Firms partly passed on greater cost burdens to clients by raising their output charges. Although the rate of output price inflation quickened since December, it remained slower than its series average.

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

## Components of the RBC Canadian Manufacturing PMI™

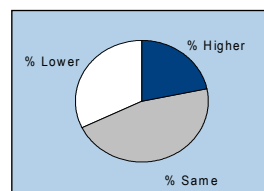
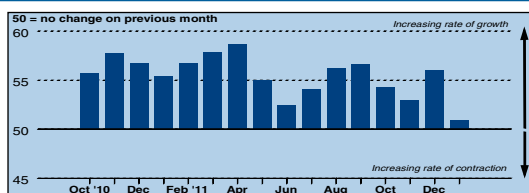
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

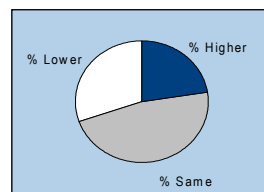
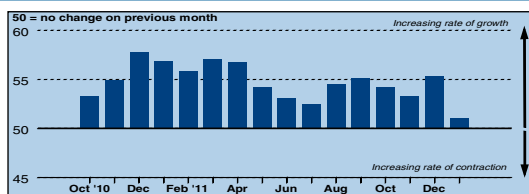
Q. Please compare the state of your new orders (in units) this month with one month ago.



Incoming new work at Canadian manufacturers increased in January, as signalled by the seasonally adjusted New Orders Index posting above the 50.0 no-change mark. Firms largely linked the rise in new orders to greater client demand. However, the index fell by approximately five points since December, indicating a sharp slowdown in the rate of new order growth.

## Output Index (0.25)

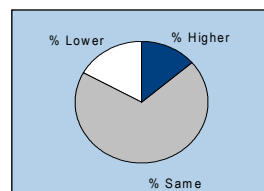
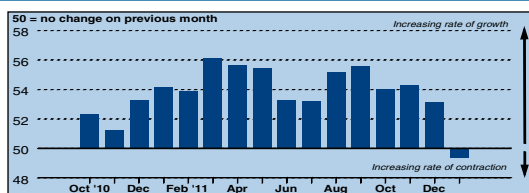
Q. Please compare your production/output this month with the situation one month ago.



Production at Canadian manufacturing firms increased in January, continuing the trend that has been registered in each month since data collection began in October 2010. However, the expansion in output was only modest and the slowest in the survey history. Although panellists generally stepped up production to meet the rise in new order volumes, a number of respondents cited production disruptions in January.

## Employment Index (0.20)

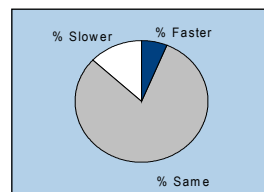
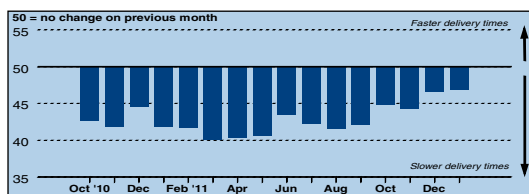
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in Canada's manufacturing sector fell during January. This was indicated by the seasonally adjusted Employment Index posting below the 50.0 no-change level that separates job creation from losses. Although the rate of decrease was only marginal, it was nonetheless the first fall in the 16-month series history. Where staff headcounts were reduced, panellists often linked this to the weaker rise in new orders.

## Suppliers' Delivery Times Index (0.15)

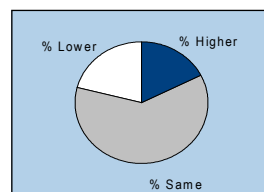
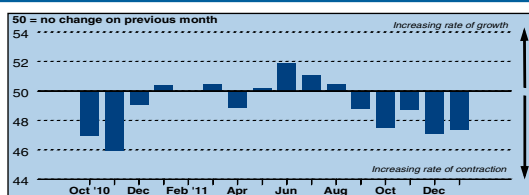
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Canadian manufacturing companies reported a further lengthening of suppliers' delivery times in January. Approximately 13% of surveyed firms registered a deterioration in vendors' performance, compared with 6% that recorded an improvement. Overall, the latest increase in lead times was solid, albeit slightly weaker than that registered in the previous survey period.

## Stocks of Purchases Index (0.10)

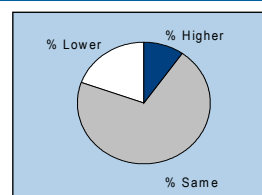
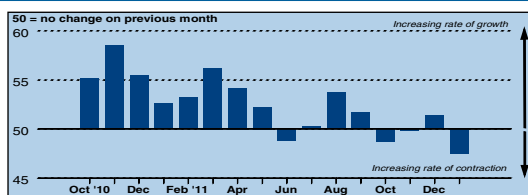
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Stocks of purchases were depleted for the fifth consecutive month in January. Anecdotal evidence provided by panellists suggested that input inventories decreased as leaner stock holding policies were implemented. Despite the rate of decline easing since the previous survey period, it remained solid and faster than the series average.

## New Export Orders Index

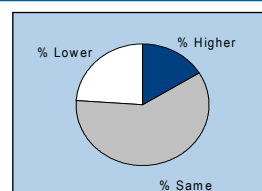
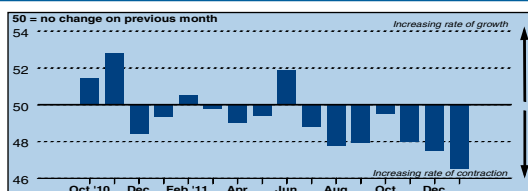
Q. Please compare the state of your new export orders (in units) this month with one month ago.



The seasonally adjusted New Export Orders Index registered below the 50.0 no-change threshold in January, indicating a fall in the volume of new work from abroad. The latest decline was solid and in contrast to modest growth registered in December. Approximately one-fifth of survey respondents reported a reduction in new export orders, with a number of firms commenting on weak demand in key export markets.

## Stocks of Finished Goods Index

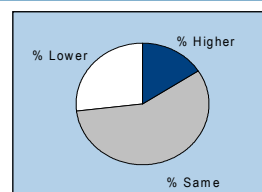
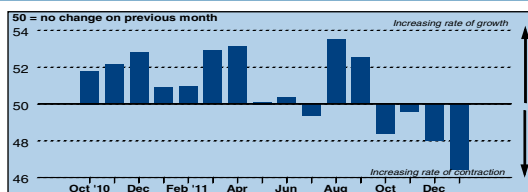
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Monitored companies reported lower stocks of finished goods in January. Inventories of post-production goods have declined in each month since last July, with the latest reduction the strongest since data collection began in October 2010. In general, panellists attributed the fall in inventories to leaner stock holding policies that were recently introduced.

## Backlogs of Work Index

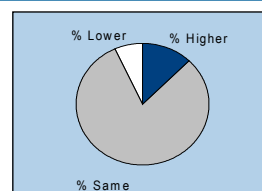
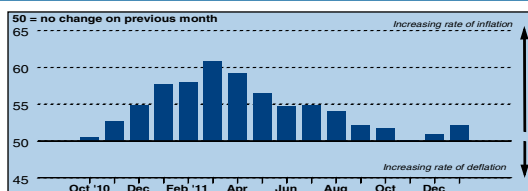
Q. Please compare the level of outstanding business in your company this month with one month ago.



Outstanding business fell for the fourth consecutive month in January. Moreover, the latest depletion of backlogs was solid and the fastest in the 16-month series history. Where a decline in work-in-hand was indicated, respondents commented on the completion of large projects and recent improvements to the production process.

## Output Prices Index

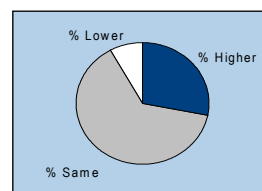
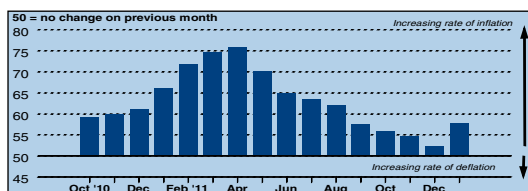
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Canadian manufacturing firms raised their output charges in January, as has been the case since the series started in October 2010. Anecdotal evidence suggested that panellists increased their factory gate prices as they partly passed on higher raw material costs to clients. Overall, the rate of output price inflation was the fastest in four months, but nonetheless slower than the series average.

## Input Prices Index

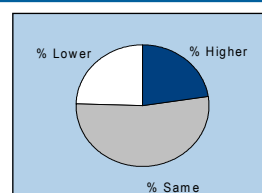
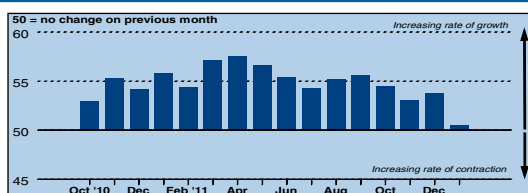
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input costs faced by monitored companies rose strongly during January. Higher prices were recorded across a wide variety of inputs, with raw materials such as metal, resins and food particularly mentioned by panellists. Notably, the rate of input price inflation was the fastest since last August, with the seasonally adjusted Input Prices Index increasing sharply from December.

## 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 Canadian manufacturing companies increased in January, as has been the case since data collection began in October 2010. However, the latest rise in purchases was only marginal and the weakest in the series history. Firms raised their purchasing activity as both output and new orders continued to rise, albeit at slower rates, during the latest survey period.



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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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