

In association with the Purchasing Management Association of Canada

## Output and new order growth both remain modest in February

### Key findings:

- Production growth strengthens, but still second-slowest in 17-month survey history
- Manufacturers hire additional staff, in contrast to job losses in January
- Rate of input price inflation fastest since last August

Canadian manufacturing business conditions improved in February, with firms generally citing greater client demand. Subsequently, both new orders and output increased. The rates of growth were modest, however, and the second-weakest in 17 months of data collection. Meanwhile, Canadian manufacturers hired additional staff in February, in contrast to job losses in January, and the rate of input price inflation strengthened to a six-month high.

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.

Business conditions in Canada's manufacturing sector improved in February, as indicated by the headline PMI index posting above the neutral 50.0 mark. At 51.8, up from 50.6 in January, the PMI signalled a modest improvement in operating conditions. Nonetheless, the latest index reading was the second-lowest in the 17-month survey history.

Firms largely linked the improvement in Canadian manufacturing business conditions to greater client demand. Approximately 22% of panellists received a larger volume of new orders during the latest survey period, with growth modest overall. In contrast, new export orders fell for the second month running, with the rate of decline the sharpest since the survey began in October 2010.

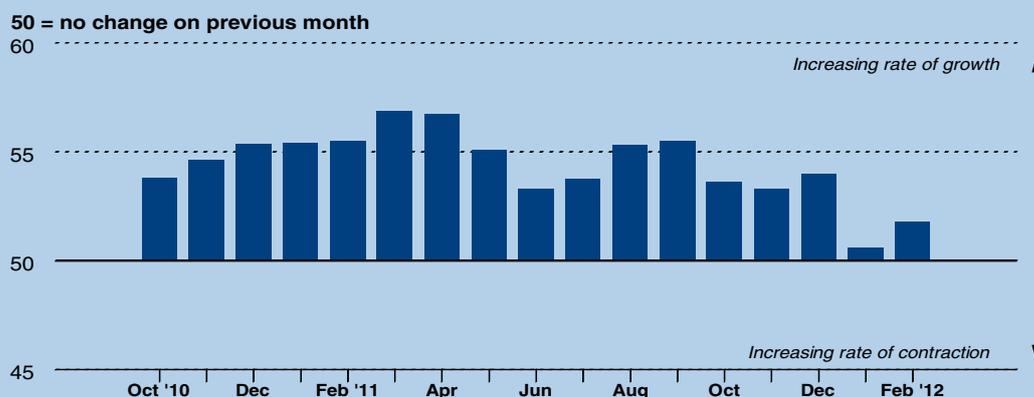
Reflective of larger new order requirements, Canadian manufacturers raised production and depleted stocks of finished goods in February. Output rose modestly, and at a rate stronger than that registered in the previous survey period. Concurrently, outstanding business was broadly unchanged in February, with the majority of respondents (almost two-thirds) reporting no-change from January.

Monitored companies bought a larger amount of inputs during the latest survey period. Moreover, input inventories were reduced for the sixth month running. Anecdotal evidence generally attributed gains in purchases to higher new work intakes. Meanwhile, suppliers' delivery times lengthened in February, and to the greatest extent in three months. Firms suggested that vendors had difficulty in sourcing key raw materials during the latest survey period.

In contrast to job losses reported in January, Canadian manufacturers hired additional staff in February. Where job creation was reported, panellists generally commented on increases in new work intakes. Overall, employment growth was modest, and weaker than the series average.

Input costs faced by Canadian manufacturing companies increased further during February. Raw materials such as steel and fuel were particularly mentioned by panellists as having increased in price. The rate of input price inflation was marked and the strongest since August 2011. Firms passed greater cost burdens on to clients by raising their output charges. Factory gate prices grew solidly, and at a rate broadly similar to that recorded in January.

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



**Components of the RBC Canadian Manufacturing PMI™**

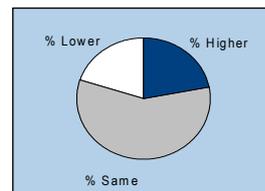
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)**

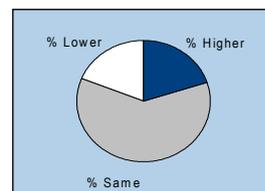
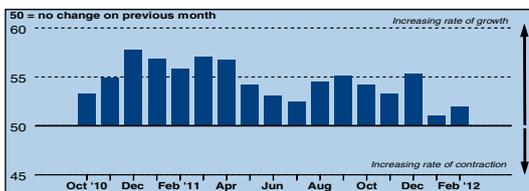
Q. Please compare the state of your new orders (in units) this month with one month ago.



Canadian manufacturers received a larger volume of new orders in February, as has been the case since data collection began in October 2010. Firms that registered an increase in new work intakes generally attributed this to greater client demand. Although the rate of new order growth strengthened since January, it remained modest and was the second-weakest in the series history.

**Output Index (0.25)**

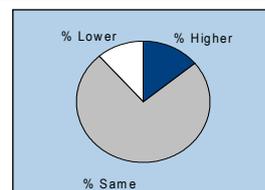
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production in Canada increased further during February. Exactly 20% of survey respondents reported higher output levels compared with one month earlier, while approximately 19% of panellists registered a decline. Where an increase was recorded, firms often cited larger new order requirements. Overall, the expansion in output was modest, and the second-weakest in 17 months of data collection.

**Employment Index (0.20)**

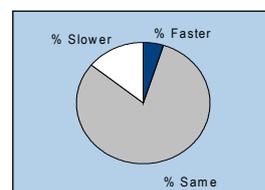
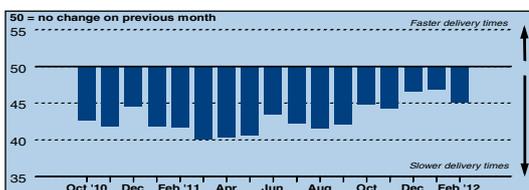
Q. Please compare the level of employment at your unit this month with the situation one month ago.



In contrast to the decline reported in January, employment in Canada's manufacturing sector increased in February. This was signalled by the seasonally adjusted Employment Index posting above the 50.0 no-change mark that separates job creation from losses. Approximately 14% of monitored companies hired additional staff in February, attributing the increase in headcounts to the rise in new work.

**Suppliers' Delivery Times Index (0.15)**

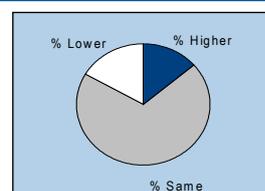
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Following the trend that has been registered in each month since the series began in October 2010, suppliers' delivery times lengthened in February. The latest increase in lead times was solid, and the sharpest in three months. Anecdotal evidence provided by panellists suggested that vendors generally had difficulty in sourcing key raw materials during the latest survey period.

**Stocks of Purchases Index (0.10)**

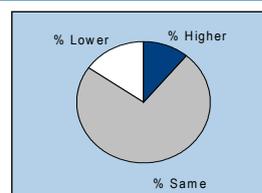
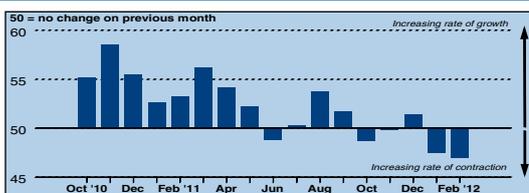
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Stocks of purchases were depleted for the sixth consecutive month in February. Approximately 17% of respondents reported lower input inventories during the latest survey period, with a number of panellists citing leaner stock holding policies. Overall, the rate of decline slowed since January, with the seasonally adjusted Stocks of Purchases Index at a three-month high.

**New Export Orders Index**

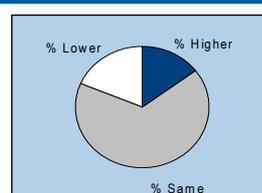
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Canadian manufacturers received a lower volume of new export orders for the second month running in February. This was indicated by the seasonally adjusted New Export Orders Index registering below the neutral 50.0 no-change mark. Notably, the index was the lowest in 17 months of data collection, and indicated a sharp fall in new work intakes from abroad.

**Stocks of Finished Goods Index**

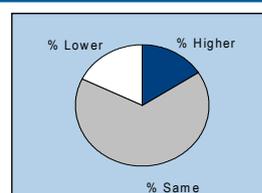
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods were depleted in February, extending the current period of decline to eight months. A number of monitored companies commented that new order requirements were partly fulfilled through the reduction of post-production good inventories. Overall, stocks fell solidly, although the rate of decline was weaker than that registered in the previous survey period.

**Backlogs of Work Index**

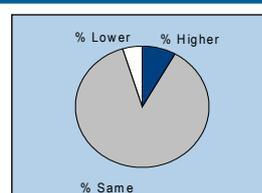
Q. Please compare the level of outstanding business in your company this month with one month ago.



The seasonally adjusted Backlogs of Work Index posted broadly at the 50.0 no-change level in February, indicating that the amount of work-in-hand at Canadian manufacturers was virtually the same as in January. On the whole, respondents commented that an increase in new order volumes were largely offset by higher production levels and a depletion of finished good stocks during the latest survey period.

**Output Prices Index**

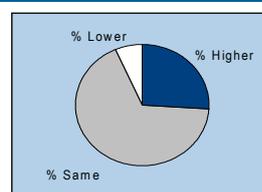
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



The average price charged by firms operating in Canada's manufacturing sector increased in February. Monitored companies generally passed greater cost burdens on to clients by raising factory gate prices during the latest survey period. Overall, the rate of output price inflation was modest, and slower than the series average.

**Input Prices Index**

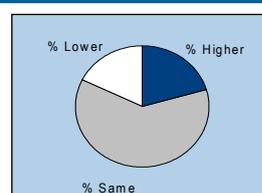
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input costs faced by Canadian manufacturers rose further in February, continuing the trend that has been recorded in each of the 17 months of data collection to date. Moreover, the rate of input price inflation was marked and the fastest in six months. Approximately 26% of panellists reported higher input prices in February, with raw materials such as steel and fuel particularly mentioned as having increased in cost.

**Quantity of Purchases Index**

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



Reflective of the increase in new work intakes, Canadian manufacturing firms bought a larger amount of inputs in February. Buying activity has increased in each month since data collection began in October 2010. Despite the latest rise in purchases being stronger than that registered in January, it remained weaker than the series average and was only marginal overall.



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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, contact:

Cori Ferguson

416 542-9129

[cferguson@pmac.ca](mailto:cferguson@pmac.ca)

[www.pmac.ca](http://www.pmac.ca)



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*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](http://www.markit.com/economics)

Markit Economics

Henley on Thames

Oxon RG9 1HG, UK

Tel: +44 1491 461000

Fax: +44 1491 461001

e-mail: [economics@markit.com](mailto:economics@markit.com)

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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