

In association with the Purchasing Management Association of Canada

RBC PMI at eight-month high in May, with strong increases in both output and new orders

Key findings:

- RBC PMI signals strongest improvement in Canadian manufacturing business conditions since last September
- Greater demand supports robust rise in incoming new work
- Job creation sustained for fourth month running

May data signalled the strongest improvement in Canadian manufacturing business conditions since September 2011, with firms generally citing greater client demand. Output and new orders increased robustly over the month, with the rates of expansion both at five-month highs. Concurrently, manufacturing employment increased for the fourth consecutive month in May, while the rates of input and output price inflation both slowed from those recorded in April.

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 RBC PMI remained above the 50.0 no-change mark in May, as has been the case since data collection began in October 2010, and indicated a further improvement in Canadian manufacturing operating conditions. Moreover, at 54.7, up from 53.3 in April and above the series average of 54.3, the seasonally adjusted headline index signalled the strongest rate of expansion in eight months.

Canadian manufacturers generally attributed the improvement in business conditions to greater client demand. Incoming new work rose further during May, with approximately 37% of firms reporting an increase compared with April. New export orders also rose, with higher demand from the U.S. and Asia particularly mentioned by

panellists. Overall, total new work intakes increased strongly in May, with the rate of growth the strongest in 2012 to date.

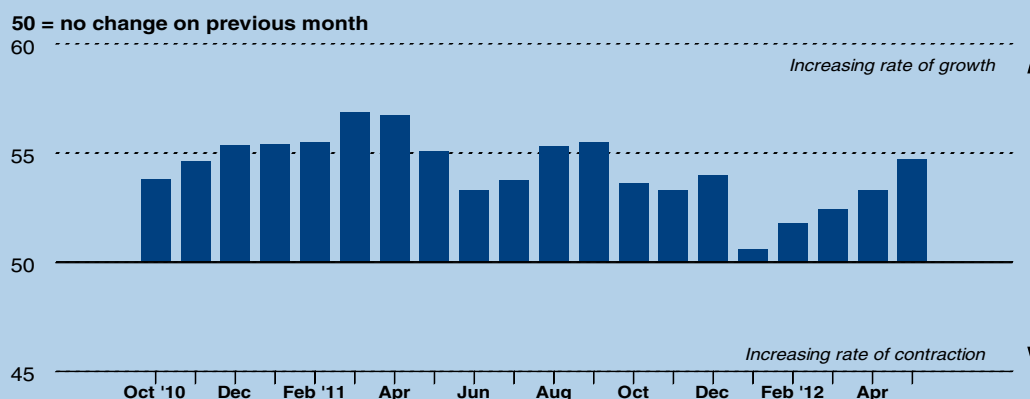
Reflective of the increase in new orders, firms stepped up production in May. Output rose solidly over the month, with the latest expansion stronger than the series average. Stocks of finished goods were depleted slightly to fulfil some new order requirements, but backlogs of work nonetheless increased in May, albeit only marginally.

The quantity of inputs bought by monitored companies increased further during the latest survey period. Panellists attributed the rise in purchases to greater production requirements. Firms held some of the inputs bought as stock, with inventories of pre-production goods rising solidly and at the strongest rate in the 20-month series history. Meanwhile, suppliers' delivery times lengthened further in May, but this was to a lesser extent than in April.

Manufacturing employment in Canada rose for the fourth consecutive month in May, with almost 27% of firms hiring additional staff since April. Overall, the rate of job creation was strong and the fastest since September 2011.

Companies reported that higher raw material prices and unfavourable exchange rates both contributed to larger cost burdens in May. The rate of input price inflation remained marked, despite having eased since April. Panellists passed parts of the increase in costs to clients by raising their selling prices. However, output charges rose only modestly during the latest survey period, and at a rate weaker than the series average.

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



Components of the RBC Canadian Manufacturing PMI™

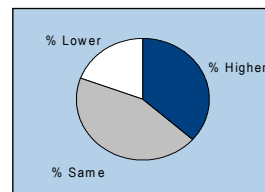
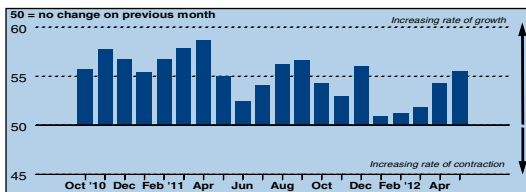
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

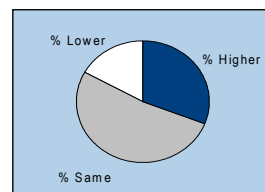
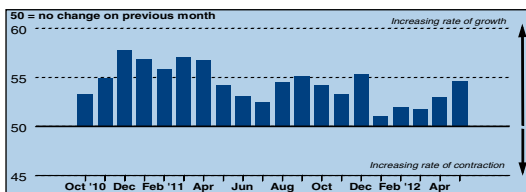
Q. Please compare the state of your new orders (in units) this month with one month ago.



After adjusting for seasonal variation, the volume of new orders received by Canadian manufacturers increased strongly during May. Firms that reported a rise in new work intakes compared with one month earlier (approximately 37%) generally attributed this to greater client demand. Overall, new order growth quickened for the fourth month running to its fastest pace since December 2011.

Output Index (0.25)

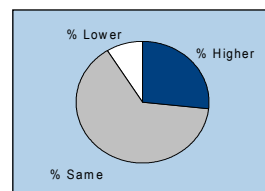
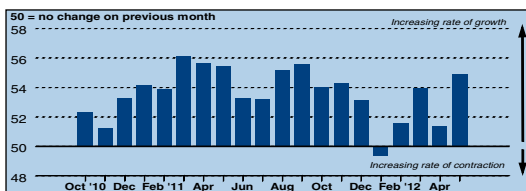
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production in Canada rose further in May, as has been the case in each month since data collection began in October 2010. Panellists largely linked higher output to recent increases in new orders. Notably, production rose solidly over the month, as indicated by the seasonally adjusted Output Index rising to a level which was both above the series average and the highest in 2012 to date.

Employment Index (0.20)

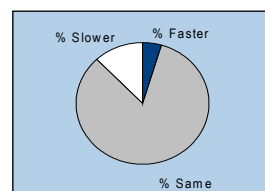
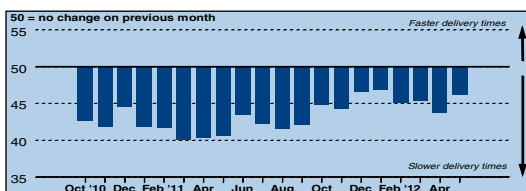
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Continuing the trend that has been registered since February, employment in Canada's manufacturing sector increased further in May. Nearly 27% of surveyed firms hired additional staff during the latest survey period (while 9% reduced their headcounts), and generally attributed higher staffing levels to larger production requirements. Notably, the overall rate of job creation was strong and the fastest since September 2011.

Suppliers' Delivery Times Index (0.15)

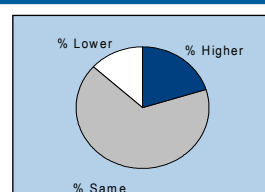
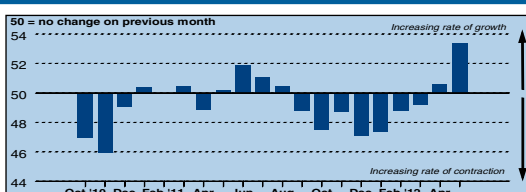
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index remained below the 50.0 no-change level in May, suggesting a further lengthening of lead times. Survey respondents commented that vendors struggled with greater demand for inputs, particularly as their stocks remained low. Although the latest index was at a four-month high in May, it nonetheless signalled a solid deterioration in vendor performance overall.

Stocks of Purchases Index (0.10)

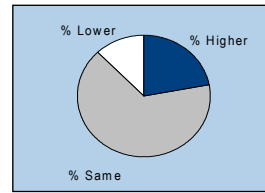
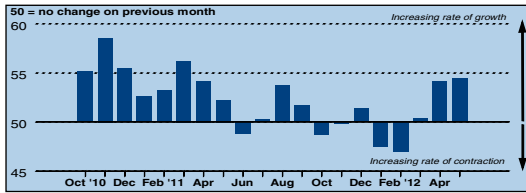
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Input inventories at Canadian manufacturers increased for the second consecutive month in May. Anecdotal evidence generally attributed stock accumulation to larger new order requirements. Notably, the seasonally adjusted Stocks of Purchases Index rose to its highest level in the 20-month series history in May, and signalled a solid rise in inventories of pre-production goods overall.

New Export Orders Index

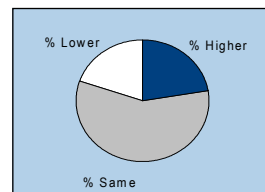
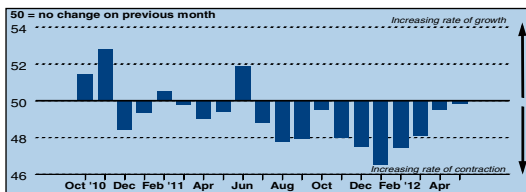
Q. Please compare the state of your new export orders (in units) this month with one month ago.



The volume of new export orders received by Canadian manufacturing firms increased for the third month running in May. Exactly 22% of companies reported an increase in new work from abroad, with greater client demand, particularly from the U.S. and Asia, often commented on by panellists. The latest expansion in new export orders was solid, with the rate of growth accelerating since April to its fastest in 14 months.

Stocks of Finished Goods Index

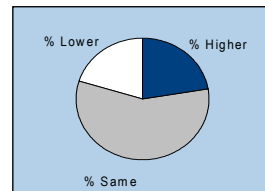
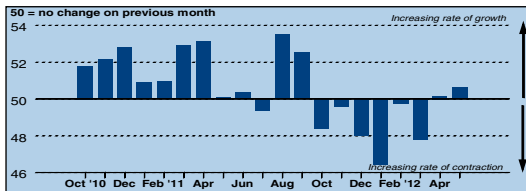
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Surveyed firms reported a further depletion of stocks of finished goods in May. This was indicated by the seasonally adjusted Stocks of Finished Goods Index posting below the 50.0 no-change mark. Panellists reduced their inventories of pre-production goods in order to fulfil some new order requirements in May. That said, the overall depletion of stocks was only marginal, with the index only slightly below the neutral level.

Backlogs of Work Index

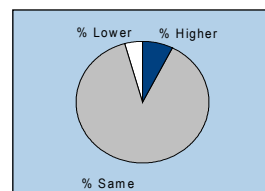
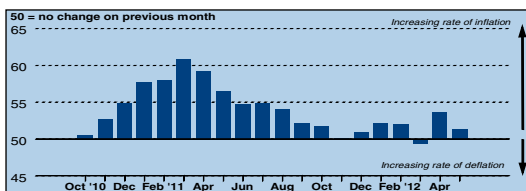
Q. Please compare the level of outstanding business in your company this month with one month ago.



Outstanding business at monitored companies increased in May. Approximately 22% of surveyed firms reported larger backlogs of work (while one-fifth of respondents recorded a decline), with this generally linked to the increase in new orders. A number of respondents also commented on suppliers' delivery delays. However, overall work-in-hand (but not yet completed) rose only marginally in May.

Output Prices Index

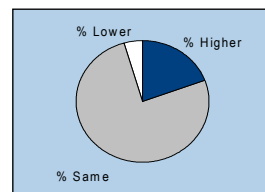
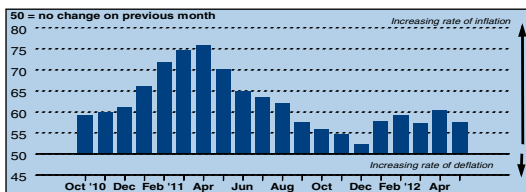
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Canadian manufacturers raised their selling prices for the second consecutive month in May. That said, the average price charged rose only modestly and at a rate weaker than the series average. Respondents that increased their factory gate prices during the latest survey period (approximately 7%) generally commented that larger cost burdens were passed on to clients.

Input Prices Index

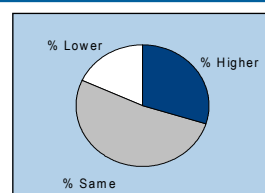
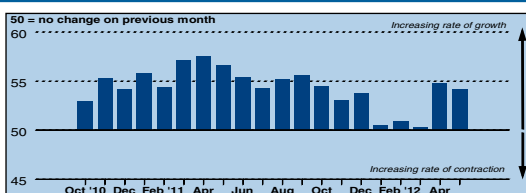
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input costs faced by monitored companies increased further in May. Raw materials such as metals, wood and fuel were particularly mentioned as having increased in price since April. Moreover, unfavourable exchange rates also contributed to the overall rise in cost burdens. Although the rate of input price inflation remained marked in May, it had eased since April and was slower than the series average.

Quantity of Purchases Index

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



The quantity of inputs bought by Canadian manufacturing firms increased in May, as indicated by the seasonally adjusted Quantity of Purchases Index remaining above the 50.0 no-change threshold. Panellists attributed the increase in purchases to larger new order volumes. The latest index signalled a solid rise in buying activity over the month but, having fallen slightly since April, suggested a slower rate of growth.



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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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