

In association with the Purchasing Management Association of Canada

RBC PMI inches higher as new order growth strengthens to nine-month high

Key findings:

- Strongest rise in new work intakes since September 2011
- Export demand rises for the fourth consecutive month
- Slowest rate of input price inflation since data collection began in October 2010

June data indicated a further robust improvement in Canadian manufacturing business conditions. Both output and new orders rose strongly over the month, with the rates of growth strengthening to six- and nine-month highs respectively. Firms generally cited greater client demand. Concurrently, manufacturing employment increased for the fifth successive month, while the rate of input price inflation slowed sharply to its weakest pace in the 21-month survey history.

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 signalled a further strong improvement in Canadian manufacturing operating conditions in June. At 54.8, up fractionally from 54.7 in May, the PMI indicated the strongest improvement since September 2011. Moreover, the average PMI reading for the second quarter as a whole was 54.3, up from 51.6 in the first three months of 2012.

Canadian manufacturers received a larger volume of new orders in June, with greater client demand often cited. Approximately 37% of survey respondents reported an increase in new work intakes since May, while 18% recorded a decline. Overall, the rate of new order growth was strong and the fastest since last September. New export orders also increased for the fourth consecutive month, with incoming

new work from the U.S. particularly mentioned by panellists.

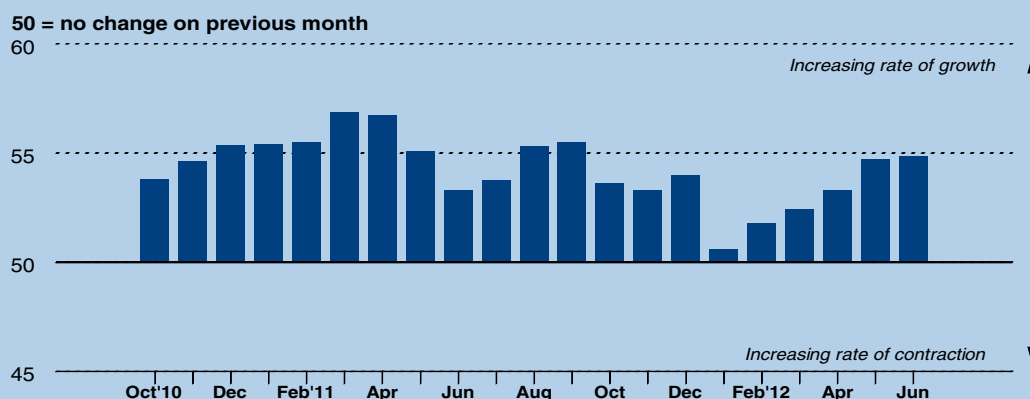
Reflective of the increase in new orders, firms raised production during June. Output has increased in each month since data collection began in October 2010, with the latest rise the strongest since last December. Backlogs of work, meanwhile, fell during the latest survey period, and stocks of finished goods were depleted at the sharpest rate in the 21-month series history.

The quantity of inputs bought by manufacturers increased strongly in June. Inventories of pre-production goods also rose, albeit marginally. Anecdotal evidence attributed the increase in purchases to larger output requirements. Concurrently, suppliers' delivery times lengthened further, with a number of monitored companies citing transportation problems.

Manufacturing employment in Canada increased for the fifth successive month in June, with one in every four panellists hiring additional staff since May. Although the rate of job creation slowed over the month, the latest increase in staff headcounts nonetheless remained strong overall.

Input costs faced by Canadian manufacturing firms rose further in June. However, the rate of input price inflation eased sharply to its weakest pace since data collection began in October 2010. Lower oil prices partly offset the overall rise in cost burdens in June. Firms passed higher input costs on to clients by raising their selling prices. Although charges rose modestly during the latest survey period, the increase was slower than the series average.

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



Components of the RBC Canadian Manufacturing PMI™

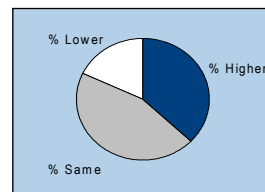
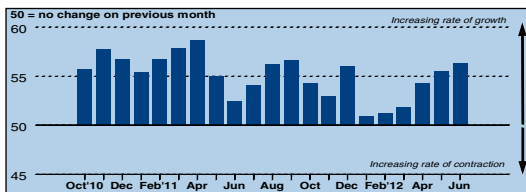
The RBC Canadian Manufacturing *Purchasing Managers' Index™ (PMI™)* is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

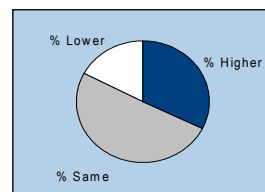
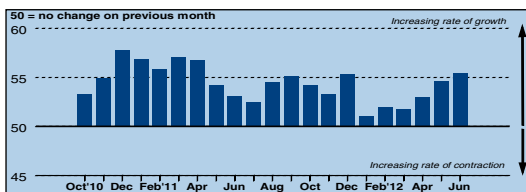
Q. Please compare the state of your new orders (in units) this month with one month ago.



The seasonally adjusted New Orders Index posted above the 50.0 no-change mark in June, signalling a further increase in incoming new work at Canadian manufacturers. Firms that received a larger volume of new work (approximately 37%) generally linked this to greater client demand. Overall, the latest expansion in new work intakes was strong and to the greatest extent in nine months.

Output Index (0.25)

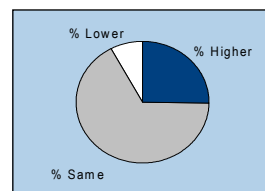
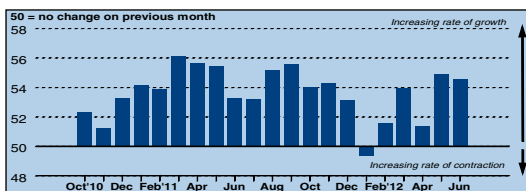
Q. Please compare your production/output this month with the situation one month ago.



Continuing the trend that has been registered in each month since data collection began in October 2010, manufacturing output in Canada rose further during June. The latest increase in production generally reflected larger new order requirements. Output rose strongly over the month, with the rate of growth strengthening to its fastest pace since last December.

Employment Index (0.20)

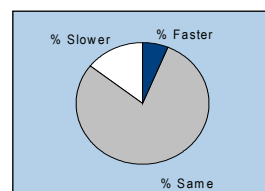
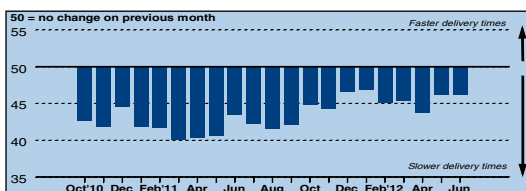
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in Canada's manufacturing sector rose for the fifth consecutive month in June, with one in every four panellists hiring additional staff since May. Anecdotal evidence attributed job creation to higher production requirements. The seasonally adjusted Employment Index signalled a strong rise in headcounts, but having fallen from May's eight-month high, the index indicated a slower rate of increase.

Suppliers' Delivery Times Index (0.15)

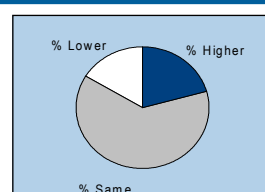
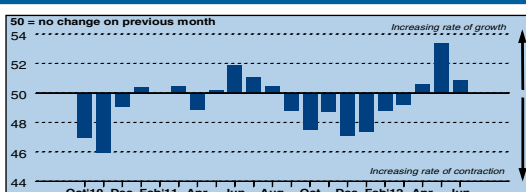
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



June data suggested a further deterioration in vendor performance. A number of panellists suggested that the latest lengthening of delivery times partly reflected transportation delays, while other respondents commented that input inventories at suppliers were low. The seasonally adjusted Suppliers' Delivery Times Index was unchanged from May, and signalled a solid increase in lead times during June.

Stocks of Purchases Index (0.10)

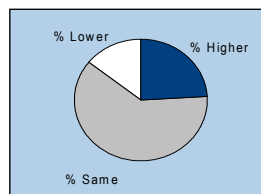
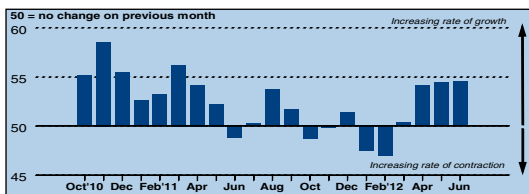
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Input inventories at manufacturers rose for the third month running in June, as indicated by the seasonally adjusted Stocks of Purchases Index remaining above the neutral threshold. Firms that reported larger stocks of purchases (approximately 21%) generally linked the accumulation to the increase in new orders. That said, the latest index fell sharply from that registered in May, suggesting a slower rate of increase overall.

New Export Orders Index

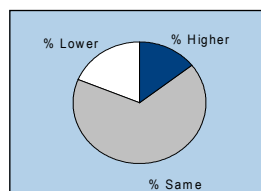
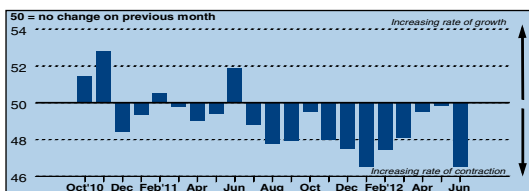
Q. Please compare the state of your new export orders (in units) this month with one month ago.



After adjusting for seasonal variation, the volume of new export orders received by Canadian manufacturers increased for the fourth consecutive month in June. Exactly 24% of surveyed firms reported an increase in new work intakes from abroad, with a rise in new orders from the U.S. particularly mentioned by panellists. The rate of growth quickened slightly over the month, with expansion the strongest since March 2011.

Stocks of Finished Goods Index

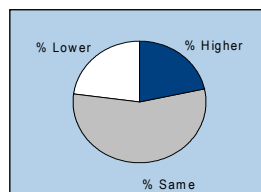
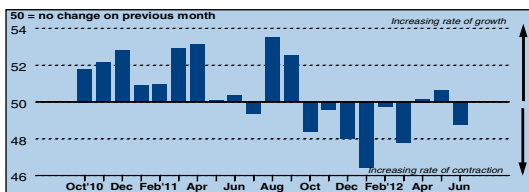
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Firms depleted their stocks of finished goods for the twelfth consecutive month in June. This was indicated by the seasonally adjusted Stocks of Finished Goods Index remaining below the 50.0 no-change mark. Notably, the index fell over three points since May to its lowest reading in the 21-month series history, indicating a marked reduction of post-production goods inventories in June.

Backlogs of Work Index

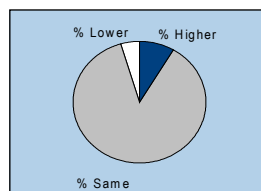
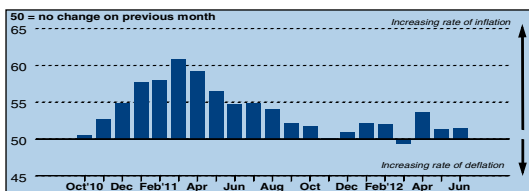
Q. Please compare the level of outstanding business in your company this month with one month ago.



In contrast to the increases reported in each of the previous two months, outstanding business at Canadian manufacturing firms declined in June. Approximately 23% of panellists registered lower backlogs of work compared with one month previously, with the rate of decline modest overall. Where a reduction in work-in-hand was recorded, a number of monitored companies commented on recent productivity improvements.

Output Prices Index

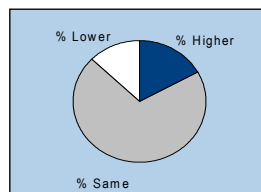
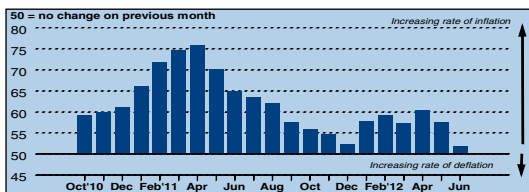
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



The average price charged by manufacturing companies in Canada increased for the third consecutive month in June. Output charges rose only modestly, however, with the rate of inflation weaker than the historic series average. Firms that raised their selling prices during the latest survey period generally indicated that they were passing larger cost burdens on to clients.

Input Prices Index

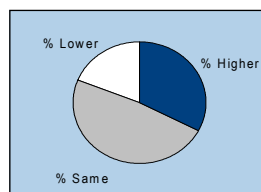
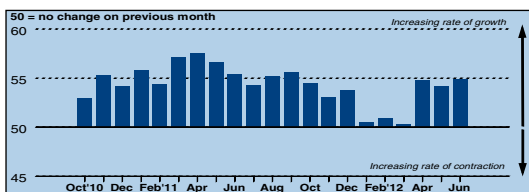
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



The seasonally adjusted Input Prices Index signalled a further rise in input costs during June. However, with the index falling sharply from May to its lowest level since data collection began in October 2010, the rate of input price inflation was only marginal. Although raw materials generally increased in price during the latest survey period, this was partly offset by lower oil prices.

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 output, firms bought a larger quantity of inputs in June. Approximately 33% of respondents purchased a larger amount of pre-production materials during the latest survey period, while almost 19% reduced their buying activity. Overall, the increase in purchases was strong, with the rate of growth strengthening to a nine-month high.



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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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