

In association with the Purchasing Management Association of Canada

RBC PMI signals slowest manufacturing expansion since March

Key findings:

- Growth of both output and new orders slows sharply during July
- Solid increase in headcounts, but rate of job creation at three-month low
- Average input costs fall for first time in 22-month series history

July data signalled the weakest improvement in Canadian manufacturing business conditions in four months, with output and new order growth both slowing sharply from June. Employment increased at the weakest pace since April, but at a solid pace overall, while the average price paid for inputs fell for the first time since data collection began in October 2010.

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 July, signalling a further improvement in Canadian manufacturing operating conditions. At 53.1, the PMI indicated a solid expansion of the manufacturing sector. However, having fallen from 54.8 in June to a level below the series average, the headline index signalled the slowest rate of growth since March.

The volume of new orders received by Canadian manufacturers increased in July, continuing the trend that has been recorded in each month since the inception of the survey. Approximately 32% of firms reported an increase in new work, with this generally linked to greater client demand. However, new export orders rose only marginally, partly reflecting weakness in the global economy. Subsequently, total new work intakes grew at a sharply reduced rate

during the latest survey period.

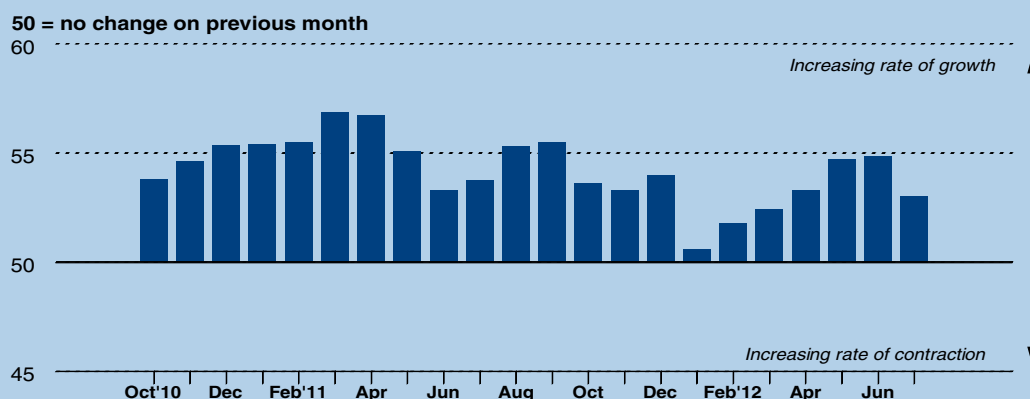
Reflective of the rise in new orders, production increased further during July. Although moderate overall, output growth was the slowest in four months. Meanwhile, firms depleted their stocks of finished goods, with a number of companies using existing inventories to fulfil some new order requirements. Concurrently, backlogs of work fell for the second month running and to a greater extent than in June.

Manufacturers raised their purchases and increased their input inventories in July. Firms have accumulated stocks of purchases for four months running, but the latest increase was the weakest in this sequence. Suppliers' delivery times meanwhile lengthened further during July. Panellists suggested that vendors struggled with capacity issues. The latest increase in lead times was moderate, but to a lesser extent than in the previous survey period.

Employment in Canada's manufacturing sector rose for the sixth consecutive month in July. Approximately 21% of firms hired additional staff since June, largely citing the increase in production. Although remaining solid, the rate of job creation nonetheless slowed to a three-month low.

The average price paid for inputs fell for the first time in the 22-month series history during July, albeit marginally. Survey respondents reported lower prices for raw materials such as steel and resin. Output charges meanwhile rose for the fourth consecutive month in July, but the increase in selling prices was the weakest in the current sequence of inflation.

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



Components of the RBC Canadian Manufacturing PMI™

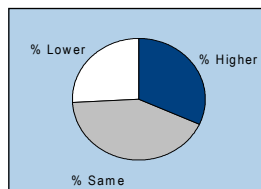
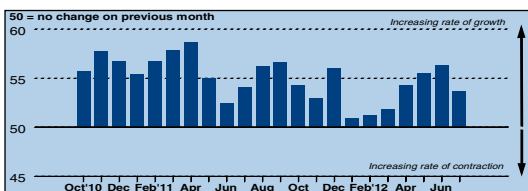
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

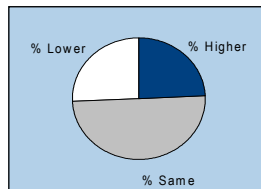
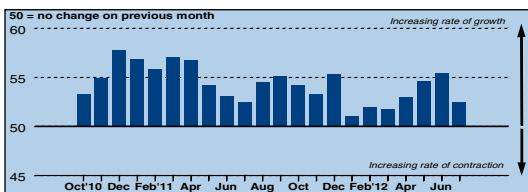
Q. Please compare the state of your new orders (in units) this month with one month ago.



Canadian manufacturers received a larger volume of new orders in July, continuing the trend that has been registered in each month since data collection began in October 2010. Approximately 32% of firms reported an increase in new work, largely linking this to greater demand. However, the rate of growth eased sharply to its slowest in four months, with some companies commenting on the fragility of the global economy.

Output Index (0.25)

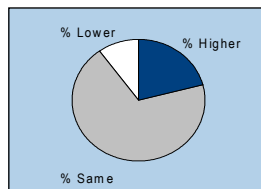
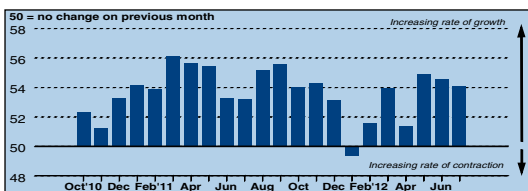
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output increased further in July, as signalled by the seasonally adjusted Output Index remaining above the 50.0 no-change mark. Where higher production was reported, panellists generally commented on the increase in new orders. That said, the index fell approximately three points from June to a level below the series average, and suggested the weakest output expansion since March.

Employment Index (0.20)

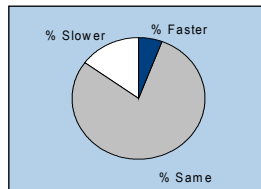
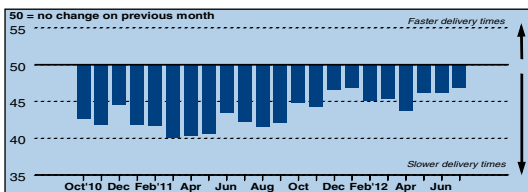
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in Canada's manufacturing sector increased for the sixth consecutive month in July. Approximately 21% of surveyed firms hired additional staff from June (while 10% reduced their workforces), and often attributed the increase to higher production requirements. Although remaining solid, the overall rate of job creation nonetheless slowed to the weakest in three months.

Suppliers' Delivery Times Index (0.15)

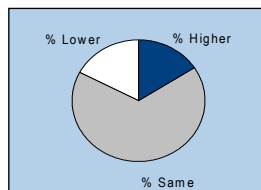
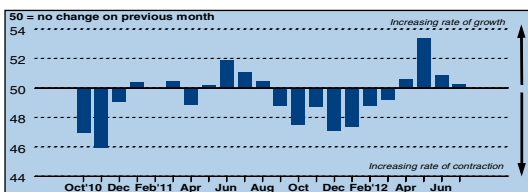
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index remained below the 50.0 no-change mark in July, indicating a further deterioration in vendor performance. Anecdotal evidence suggested that suppliers struggled with capacity issues and were generally working with leaner inventories. Notably, the index rose to its joint-highest reading in the series history, signalling a weaker increase in lead times overall.

Stocks of Purchases Index (0.10)

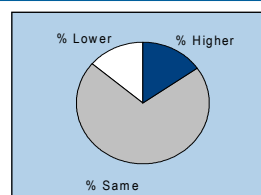
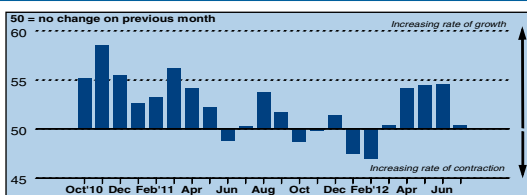
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



After adjusting for seasonal variation, the amount of inputs held as inventory by monitored companies increased for the fourth consecutive month in July. Firms generally linked the rise in stocks of purchases to higher production requirements. However, the rate of stock accumulation was only marginal, as indicated by the seasonally adjusted Stocks of Purchases Index posting only slightly above the 50.0 no-change threshold.

New Export Orders Index

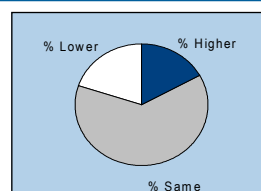
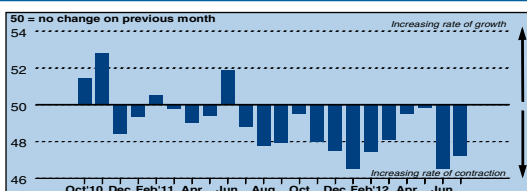
Q. Please compare the state of your new export orders (in units) this month with one month ago.



The volume of new export orders placed at Canadian manufacturers increased for the fifth consecutive month in July. Panellists generally attributed the latest rise to greater demand and some new client wins. However, the seasonally adjusted New Export Orders Index fell to the greatest extent in the 22-month series history (over four points), and signalled only a marginal rise in new export work.

Stocks of Finished Goods Index

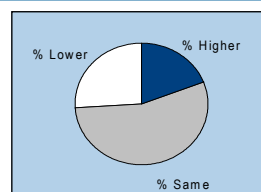
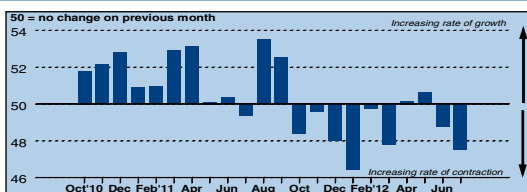
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Inventories of finished goods at monitored companies fell further during July, taking the current period of stock depletion to 13 months. Almost one in every five panellists reduced their stocks of finished goods, with the rate of decline moderate overall. A number of respondents reported using existing inventories to fulfil some new order requirements, while other panellists commented on leaner stock holding policies.

Backlogs of Work Index

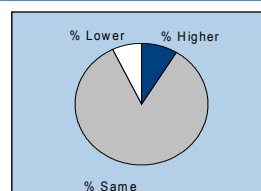
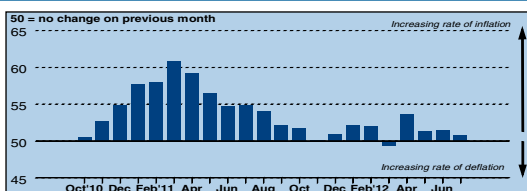
Q. Please compare the level of outstanding business in your company this month with one month ago.



Outstanding business at Canadian manufacturing firms fell for the second month running in July, as indicated by the seasonally adjusted Backlogs of Work Index remaining below the 50.0 no-change level. Notably, the index was at the second-lowest level in the 22-month series history (above only January's reading), and indicated a moderate reduction in the amount of work-in-hand at monitored companies.

Output Prices Index

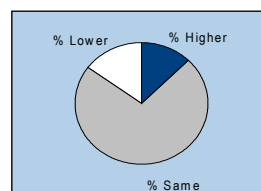
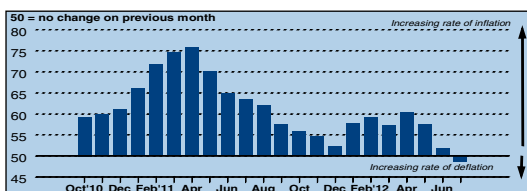
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Average selling prices charged by manufacturing companies in Canada increased in July. Higher output charges have been reported in each month since April. Panellists that raised their output prices (approximately 9%) generally attributed the increase to greater client demand. That said, selling prices rose only marginally over the month, with the latest rise the weakest in the current sequence of inflation.

Input Prices Index

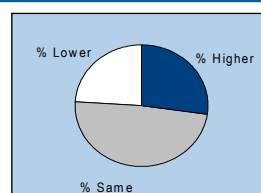
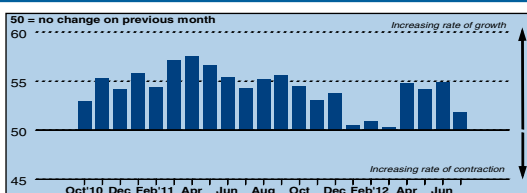
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



The seasonally adjusted Input Prices Index fell below the 50.0 no-change mark in July, indicating a reduction in average prices paid for goods. This was the first time the index has signalled a decline since data collection started in October 2010. A number of respondents reported that raw materials such as steel and resin had fallen in cost over the month.

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 during July. This was signalled by the seasonally adjusted Quantity of Purchases Index posting above the 50.0 no-change mark. However, having fallen approximately three points from June, the index was at a four-month low and indicated only a modest rise in purchases.



Royal Bank of Canada (RY on TSX and NYSE) and its subsidiaries operate under the master brand name RBC. We are Canada's largest banks as measured by assets and market capitalization, and are among the largest banks in the world, based on market capitalization. We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management services, insurance, corporate and investment banking and transaction processing services on a global basis. We employ approximately 74,000 full- and part-time employees who serve close to 16 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 51 other countries.

For more information, please visit

www.rbc.com



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

www.pmac.ca



Markit is a leading, global financial information services company with over 2,300 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 market place.

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

Markit Economics

Henley on Thames

Oxon RG9 1HG, UK

Tel: +44 1491 461000

Fax: +44 1491 461001

e-mail: 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.

The intellectual property rights to the RBC Canadian Manufacturing PMI provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited, RBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.