

News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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RBC Canadian Manufacturing *Purchasing Managers' Index*™ finds overall conditions strengthen modestly in July with gains in new order growth

AUGUST 2, 2011 – The pace of new order growth in the Canadian manufacturing sector quickened during July, according to the **RBC Canadian Manufacturing *Purchasing Managers Index*™ (RBC PMI™)**, a newly launched monthly survey, conducted in association with Markit, a leading global financial information services company, and the Purchasing Management Association of Canada (PMAC), which offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

The RBC PMI indicated that overall business conditions in Canada's manufacturing sector improved further during July. Moreover, the rate of expansion remained solid and was slightly faster than that registered in June. The latest improvement largely reflected further new order growth and a concurrent rise in output. However, production increased only modestly during the latest survey period. Meanwhile, inflationary pressures eased further, with the rate of input price inflation the slowest in seven months.

At 53.1, up from 52.8 in June, the headline **RBC PMI** – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – signalled a solid improvement in operating conditions within Canada's manufacturing sector in July. The PMI has now posted above the 50.0 no-change threshold that separates growth from contraction for ten consecutive months.

*"The uptick in the New Orders Index that indicated a solid rate of expansion, coupled with improved business conditions across the country, bode well for Canada's manufacturing sector overall," said **Paul Ferley**, Assistant Chief Economist, RBC. "However, modest gains in production and the soaring loonie may offset some of the momentum in the sector as we move into the second half of the year."*

In addition to the [headline RBC PMI](#), the survey also tracks changes in output, new orders, employment, inventories, prices and supplier delivery times. Index readings above 50.0 signal expansion from the previous month, readings below 50.0 indicate contraction.

Key findings from the July survey include:

- Volumes of new work increased solidly
- Employment growth continued, albeit at slowest pace since November 2010
- Rate of input price inflation eased to seven-month low

The latest expansion in the Canadian manufacturing sector generally reflected further **new order** growth. Notably, the rise in new work intakes was solid and faster than that recorded in June. A number of firms commented on new client wins in both the Canadian and international markets in July.

In light of greater new order requirements, Canadian manufacturers increased **production** during the latest survey period. That said, output levels rose only modestly and at a broadly similar rate to that registered in June. Firms also depleted their **stocks of finished goods** to supplement increased production in July.

The amount of **outstanding work** recorded by firms operating in the Canadian manufacturing sector decreased during July. However, backlogs of work were depleted only slightly.



Reflective of output growth, the amount of **inputs bought** by respondents rose solidly during the latest survey period. **Input inventories** were also accumulated for the third consecutive month in July. Nevertheless, suppliers' delivery times lengthened further, with the latest increase in lead times remaining marked. Approximately 24 per cent of panellists reported longer **delivery times** in July. Anecdotal evidence suggested that vendors held lower stocks of inputs and struggled to cope with greater demand.

The number of people employed in the Canadian manufacturing sector increased during July. Almost 18 per cent of surveyed firms hired additional staff and generally linked **employment** growth to larger new order volumes. That said, the rate of job creation eased to the slowest since November 2010.

On the inflation front, **input prices** rose markedly during the latest survey period. Transportation, steel and plastics were all particularly mentioned by panellists as increasing in cost. However, the rate of input price inflation eased further to a seven-month low in July.

Monitored companies passed on part of their greater cost burdens to clients by raising factory gate prices in July. Although **output charges** rose solidly and at a slightly faster rate than that recorded in June, growth remained notably weaker than the overall rise in cost burdens.

Regional highlights include:

- At the regional level, PMI data signalled that business conditions in all four broad regions improved in July.
- **Quebec** recorded the slowest increase in new order growth in July.
- Manufacturing companies based in **Alberta and British Columbia** reported the strongest monthly rise in staffing levels during the latest survey period.
- The fastest rate of input price inflation was registered in **Quebec**, while survey respondents in **Ontario** raised their output charges to the greatest extent in July.

*"The Canadian manufacturing sector grew solidly in July, and at a slightly faster pace than in June. This largely reflected stronger new order growth," said **Cheryl Paradowski**, President and Chief Executive Officer, PMAC. "New work intakes generally rose on the back of stronger demand within Canada, as new export orders increased only marginally during the latest survey period. Meanwhile, although input price inflation eased to a seven-month low in July, surveyed firms particularly mentioned fuel and transport as increasing in cost."*

The report is available at www.rbc.com/newsroom/pmi

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Notes to Editors:

The RBC Canadian Manufacturing *PMI™* Report is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by Standard Industrial Classification (SIC) group, based on the industry contribution to GDP.

Survey responses 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 responding '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 indicates an overall increase in that variable, below 50 an overall decrease.

The RBC Canadian Manufacturing *Purchasing Managers' Index™* (RBC *PMI™*) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

The *Purchasing Managers' Index (PMI)* survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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About Purchasing Management Association of Canada

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 please see www.pmac.ca.

About Markit

Markit is a leading, global financial information services company with over 2,200 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 marketplace. For more information, see www.markit.com.

About PMIs

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.

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