

In association with the Purchasing Management Association of Canada

## Production rises only modestly, despite new order growth strengthening in July

### Key findings:

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

Business conditions in the Canadian manufacturing sector improved further during July. Moreover, the rate of expansion was solid and 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.

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.

At 53.1, up from 52.8 in June, the headline PMI signalled a solid improvement in overall business conditions within Canada's manufacturing sector in July. The latest expansion reflected further new order growth, where the rise in new work intakes strengthened since the previous survey period. 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.

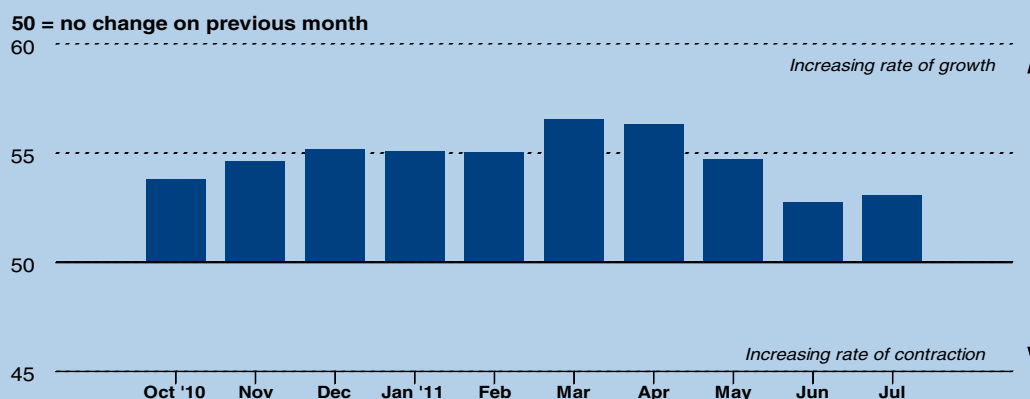
Reflective of output growth, the amount of inputs bought by respondents rose solidly during the latest survey period. Input inventories were also accumulated for the third consecutive month in July. Nevertheless, suppliers' delivery times lengthened further, with the latest increase in lead times remaining marked. Approximately 24% 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% 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.

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



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

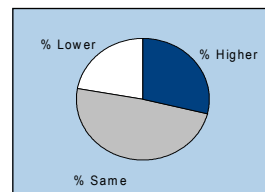
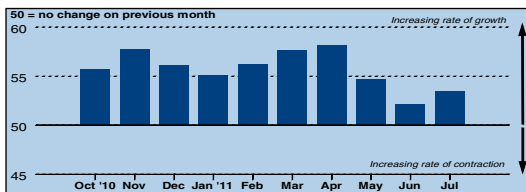
The RBC Canadian Manufacturing *Purchasing Managers' Index™ (PMI™)* is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)**

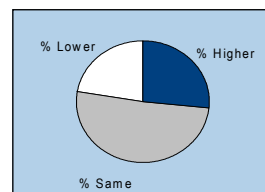
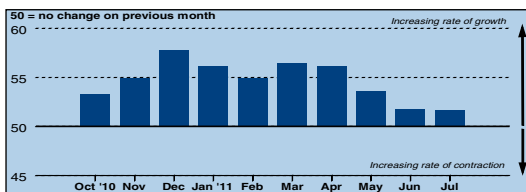
Q. Please compare the state of your new orders (in units) this month with one month ago.



Canadian manufacturers received a larger volume of new work in July, as signalled by the seasonally adjusted New Orders Index posting above the 50.0 no-change threshold that separates growth from contraction. The latest index reading was higher than that recorded in June, and indicated a faster rate of new order growth. Panellists commented on new client wins during the latest survey period.

**Output Index (0.25)**

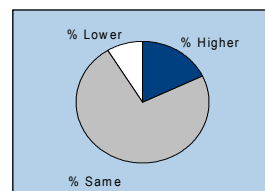
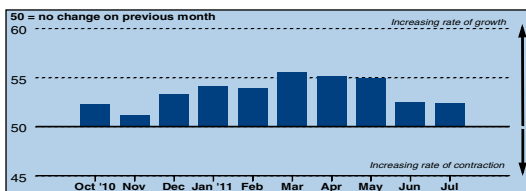
Q. Please compare your production/output this month with the situation one month ago.



Monitored companies stepped up production to support the rise in new work intakes during July. Almost 27% of surveyed firms registered a higher level of output compared with the previous survey period, while 22% reported a decline. Subsequently, the overall increase in production remained moderate and was broadly unchanged from that recorded in June.

**Employment Index (0.20)**

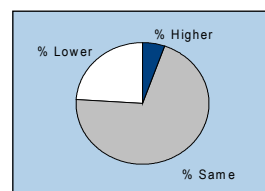
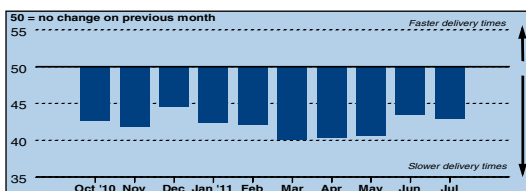
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in Canada's manufacturing sector increased further during July, with almost 18% of respondents employing additional staff. However, the rate of job creation eased to the slowest since November 2010. Anecdotal evidence provided by panellists attributed employment growth to greater production requirements and larger new order volumes in July.

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

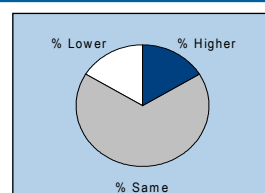
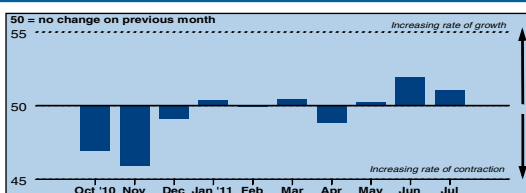
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



In July, the time it took for suppliers to deliver inputs to Canadian manufacturing companies lengthened. The latest deterioration in vendor performance was marked, with approximately 24% of firms reporting longer lead times. A number of respondents suggested that suppliers held lower inventories during the latest survey period, and struggled to fulfil greater input demand.

**Stocks of Purchases Index (0.10)**

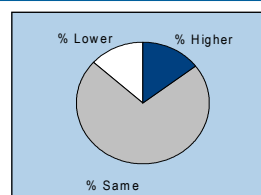
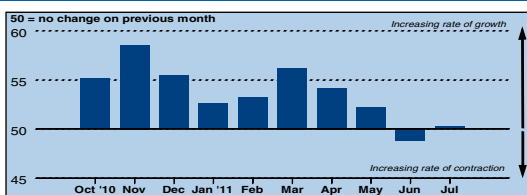
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Purchases Index posted above the 50.0 no-change level that separates inventory accumulation from depletion for the third consecutive month in July. The latest rise in stock levels was modest, but slower than that recorded in June. Monitored companies rebuilt input inventories in response to further output and new order growth.

**New Export Orders Index**

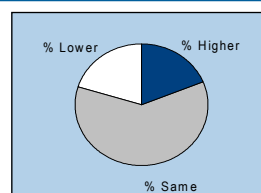
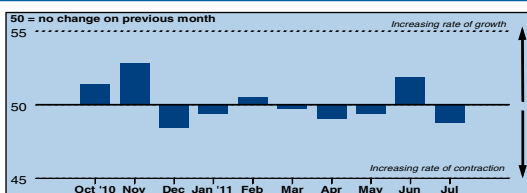
Q. Please compare the state of your new export orders (in units) this month with one month ago.



In contrast to the slight contraction registered in June, the volume of new export orders received by Canadian manufacturers increased in July. However, the rise in new work from abroad was only fractional, with the seasonally adjusted New Export Orders Index hovering near the 50.0 no-change mark. A number of respondents particularly highlighted new clients from China and Japan in July.

**Stocks of Finished Goods Index**

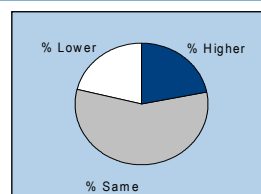
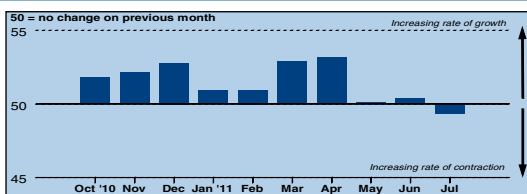
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Panellists depleted stocks of finished goods during July, reversing some of the accumulation registered in the previous survey period. Approximately 20% of respondents reduced their inventories of post-production goods, and generally linked the decline to higher new order requirements being met directly through stocks.

**Backlogs of Work Index**

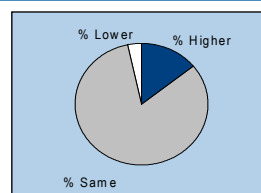
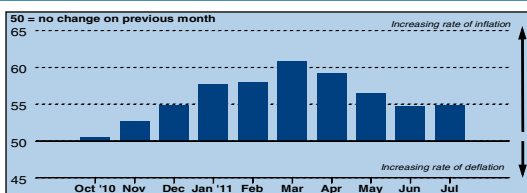
Q. Please compare the level of outstanding business in your company this month with one month ago.



The amount of work-in-hand at Canadian manufacturing companies fell during July. However, backlogs of work decreased only marginally. Respondents commented that greater output levels and the depletion of finished goods stocks helped reduce outstanding work during the latest survey period.

**Output Prices Index**

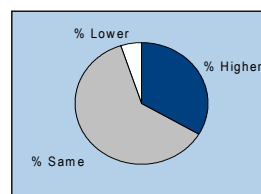
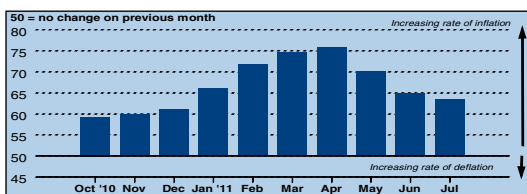
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



The average price charged by companies operating in Canada's manufacturing sector increased solidly in July. Over 14% of surveyed firms raised their output prices, and largely attributed this to passing on higher raw materials costs to clients. Although the rate of output price inflation quickened since June, it nonetheless remained slower than the highs recorded in Q1 2011.

**Input Prices Index**

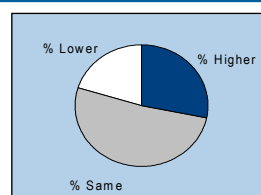
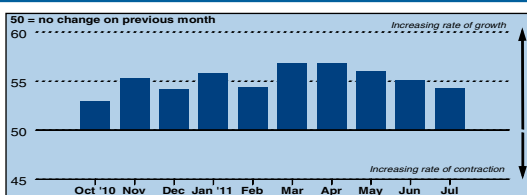
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Canadian manufacturers recorded a further rise in overall cost burdens in July. The rate of input price inflation remained marked, despite being slower than that registered in June. Over one-third of survey respondents reported higher input costs, with transportation particularly highlighted as increasing in cost. Moreover, a number of firms commented that cost burdens rose as a result of unfavourable exchange rates.

**Quantity of Purchases Index**

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



In July, the amount of inputs purchased by monitored companies increased solidly. This was signalled by the seasonally adjusted Quantity of Purchases Index posting comfortably above the 50.0 no-change level that separates growth from contraction during the latest survey period. More than 28% of panellists bought a larger amount of inputs in July, and largely linked the increase to greater production requirements.



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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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Markit Economics

Henley on Thames

Oxon RG9 1EL, 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 the regional and industry contribution to 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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