

In association with the Purchasing Management Association of Canada

## New order growth strengthens in August, leading to faster rise in output

### Key findings:

- Incoming new work increases at fastest rate in four months
- Firms raise production levels further
- Rate of input price inflation eases to eight-month low

Business conditions in the Canadian manufacturing sector improved in August. This was supported by stronger expansions of both output and new orders. Panellists attributed growth of new work to greater demand and new client wins. Subsequently, firms employed additional staff to cope with the increase in workloads. Meanwhile, price pressures eased in August, with both input costs and output charges rising at slower rates.

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.

In August, the headline PMI registered 54.9, up from 53.1 in July, and signalled a solid improvement in overall business conditions within the Canadian manufacturing sector. The index reading was the highest in four months, as both output and new order levels grew at sharper rates during the latest survey period.

Canadian manufacturers received a larger volume of new orders in August. Firms cited greater demand for their goods, as well as new client wins. Notably, the rate of expansion was the fastest in four months. Incoming new orders from abroad also increased, with a number of monitored companies highlighting the US as a key source of new export order growth.

In light of higher new order requirements, firms stepped up production

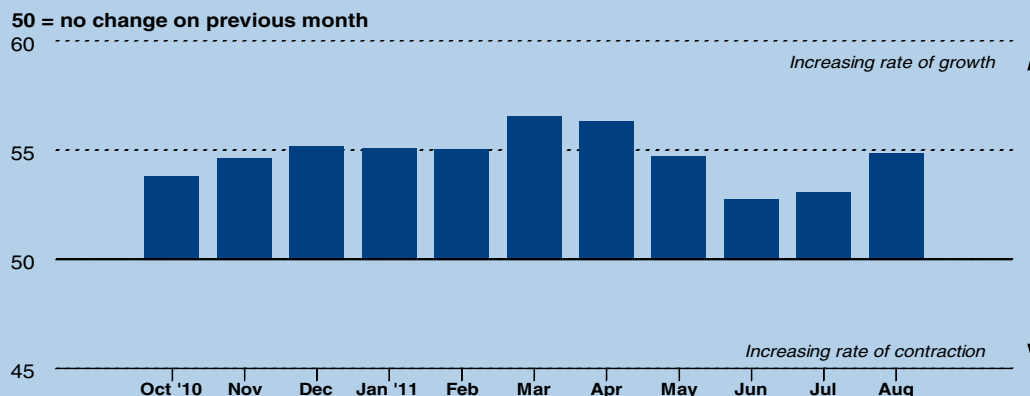
in August. Moreover, survey respondents also fulfilled some new orders by depleting their stocks of finished goods for the second consecutive month.

The amount of inputs bought by firms increased during the latest survey period. Stocks of purchases also rose, albeit only marginally. Meanwhile, the average time it took for suppliers to deliver inputs to Canadian manufacturers lengthened further in August. The latest deterioration in vendor performance was marked and the strongest since May. Anecdotal evidence provided by respondents suggested that delivery delays were frequently the result of backlogs at suppliers.

Employment in the Canadian manufacturing sector increased during August. Notably, the rate of growth was the fastest in three months. Almost 22% of surveyed firms hired additional staff, while 9% reported job losses. Job creation was generally linked to greater production requirements.

Manufacturing companies based in Canada recorded higher input costs in August. Raw materials such as metals and petroleum-based items were particularly mentioned by respondents as increasing in price. Nevertheless, the rate of input cost inflation eased since the previous survey period, and was the weakest in 2011 so far. Panellists passed on greater cost burdens to clients by raising their output charges in August. Factory gate prices rose solidly, albeit at the slowest rate since November 2010 and at a weaker pace than that registered for input costs.

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



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

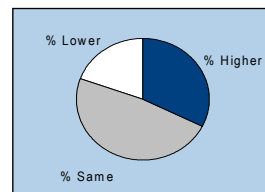
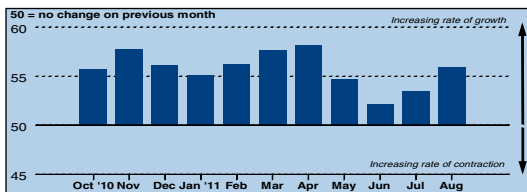
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)**

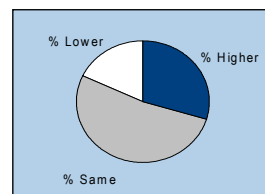
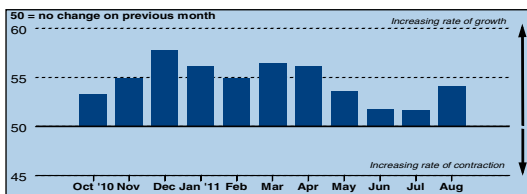
Q. Please compare the state of your new orders (in units) this month with one month ago.



Incoming new work at Canadian manufacturing companies grew at a marked pace in August. Panellists commented on greater demand for their products, as well as new client wins during the latest survey period. Subsequently, the rate of new order growth strengthened since July, as signalled by a higher seasonally adjusted index reading, to the fastest in four months.

**Output Index (0.25)**

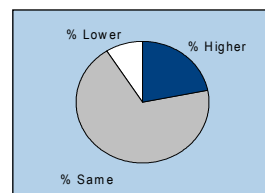
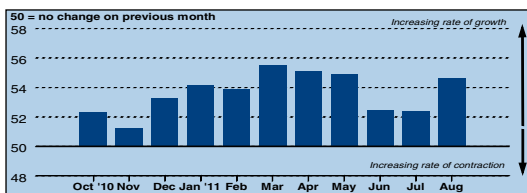
Q. Please compare your production/output this month with the situation one month ago.



In August, Canadian manufacturers reported a higher level of output compared with that registered in July. This was indicated by the seasonally adjusted Output Index posting above the 50.0 no-change threshold that separates growth from contraction during the latest survey period. Almost 30% of respondents recorded higher production levels and generally linked this to larger new work intakes.

**Employment Index (0.20)**

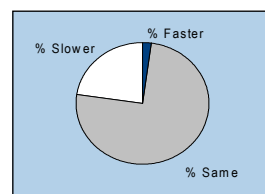
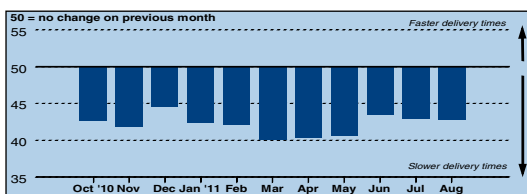
Q. Please compare the level of employment at your unit this month with the situation one month ago.



The number of people employed in the Canadian manufacturing sector increased solidly in August. Approximately 22% of monitored companies hired additional staff, compared with 9% that reduced their workforces. Job creation was largely attributed to greater production requirements. Overall, the rate of employment growth was the fastest since May.

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

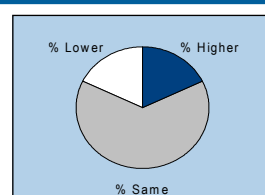
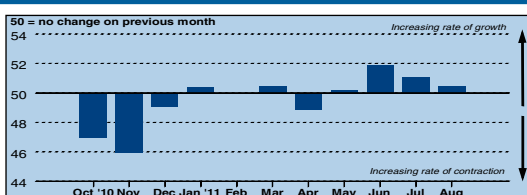
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The average time it took for suppliers to deliver inputs to Canadian manufacturers increased further in August. This was indicated by the seasonally adjusted Suppliers' Delivery Times Index posting below the 50.0 no-change mark that separates an improvement in vendor performance from a deterioration. Surveyed firms suggested that the latest lengthening of lead times reflected backlogs at suppliers.

**Stocks of Purchases Index (0.10)**

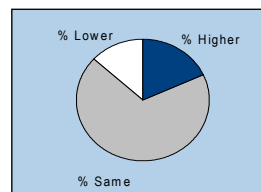
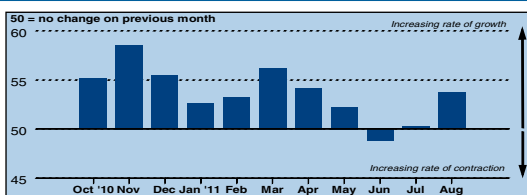
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Monitored companies built their input holdings for the fourth consecutive month in August. The accumulation was marginal, however, with the rate of increase the slowest in three months. Anecdotal evidence provided by panellists indicated that inventory levels increased as growth of purchasing activity continued. However, the latest rise was restricted by leaner stock policies at a number of firms.

**New Export Orders Index**

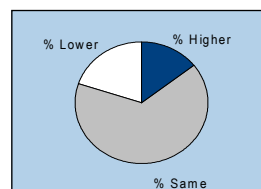
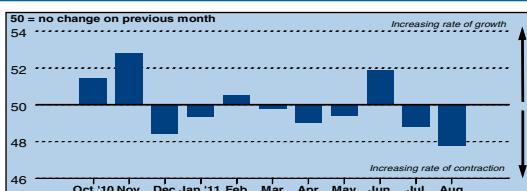
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Panellists received a larger volume of new export orders during August. Over 18% of surveyed firms reported a higher level of new work from abroad, and generally linked the rise to new client wins. In particular, a number of monitored companies suggested that the US remained an important source of new export order growth in August.

**Stocks of Finished Goods Index**

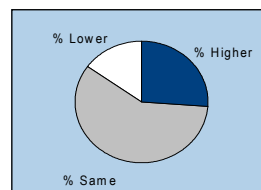
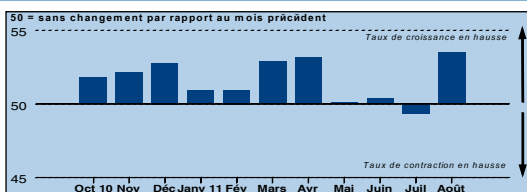
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index registered below the 50.0 no-change threshold for the second consecutive month in August. The latest index reading signalled a further depletion of inventories, with the rate of decline quickening since July. Firms reduced their stocks of finished goods to partly fulfil higher new order requirements.

**Backlogs of Work Index**

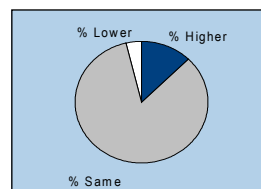
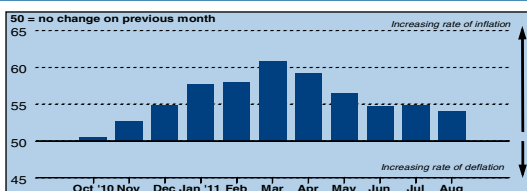
Q. Please compare the level of outstanding business in your company this month with one month ago.



In contrast to the marginal depletion recorded in July, outstanding work at Canadian manufacturers increased in August. Over 26% of survey respondents recorded a higher level of work-in-hand (but not yet completed), and largely attributed the accumulation to new order growth being stronger than that of output.

**Output Prices Index**

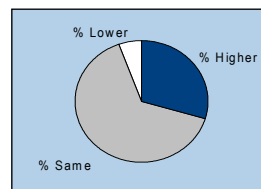
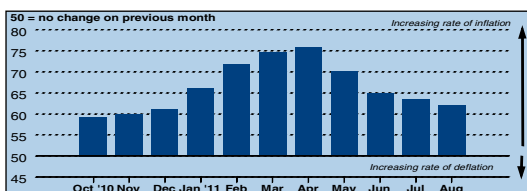
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Canadian manufacturing companies raised their factory gate prices further in August. The latest increase in charges was solid, despite being the weakest since November 2010. Panellists raised their output prices to pass on greater cost burdens, particularly from higher raw material prices, to clients.

**Input Prices Index**

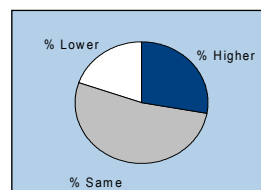
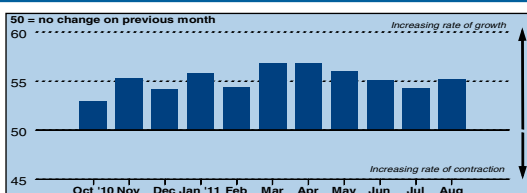
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Firms operating in the Canadian manufacturing sector reported higher input prices in August. A wide range of inputs were reported as increasing in cost, with metals and petroleum-based products particularly mentioned by respondents. The overall rate of input cost inflation remained strong, despite weakening since July to an eight-month low.

**Quantity of Purchases Index**

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



The amount of inputs bought by surveyed firms increased in August, as signalled by the seasonally adjusted Quantity of Purchases Index registering above the 50.0 no-change level that separates growth from contraction. Almost 28% of panellists stepped up their purchasing activity, commenting that this reflected further output 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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