

News Release

RBC PMI™ signals expansion in September, but at weakest pace in six months

OCTOBER 1, 2012 – Growth of Canada’s manufacturing sector lost further momentum in September, with the weakest pace of expansion recorded since March, according to the **RBC Canadian Manufacturing Purchasing Managers’ Index™ (RBC PMI™)**. A monthly survey, conducted in association with Markit, a leading global financial information services company, and the Purchasing Management Association of Canada (PMAC), the **RBC PMI** offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

The headline **RBC PMI** – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – registered 52.4 in September, which is evidence of a modest expansion in Canada’s manufacturing industry. However, having fallen from 53.0 in August, the rate of growth was the slowest for six months. The weaker performance of the sector was further highlighted by the quarterly average PMI reading falling from 54.3 in the three months to June, to 52.8 in the three months to September.

The **RBC PMI** signalled that both output and new orders increased during September, partly reflecting greater client demand. The rates of growth eased since August, however, with the latest expansion in production the second-weakest in the two-year survey history. The rate of job creation also eased, slowing to a five-month low. Inflationary pressures meanwhile picked up in September, with input prices rising strongly since August.

*“All things considered, particularly within the context of the relatively weak global economic and manufacturing data, the fact that Canada’s manufacturing sector continues to expand is noteworthy,” said **Craig Wright**, senior vice-president and chief economist, RBC. “While it hasn’t been entirely smooth sailing for Canada’s broader economy in recent months, continued business spending and improving labour market conditions, among other generally positive factors, will help set the stage for GDP growth of 2.1 per cent in 2012.”*

In addition to the [headline RBC PMI](#), the survey also tracks changes in output, new orders, employment, inventories, prices and supplier delivery times.

Key findings from the September survey include:

- growth of output and new orders slows to eight- and six-month lows respectively;
- moderate rise in employment, but rate of job creation weakest since April; and
- input prices increase strongly over the month.

Incoming new work received by Canadian manufacturers rose further in September, with a number of monitored companies attributing this to greater client demand. The volume of **new export orders** also increased over the month, albeit only marginally. Overall, **total new orders** rose moderately since August, but the rate of growth was the slowest in six months and weaker than the series average.

Manufacturing **production** rose in response to larger new order requirements. However, the latest increase in output levels was the second-weakest in two years of data collection. **Backlogs of work** and **stocks of finished goods**, meanwhile, were both broadly unchanged from one month previously.

The **quantity of inputs** bought by Canadian manufacturing firms rose further during September. Panellists commented on raising their purchases to meet the increase in output and also to rebuild **input inventories**, which rose at the fastest rate for four months. Concurrently, **suppliers’ delivery times** lengthened during the latest survey period. The latest increase in lead times on inputs was only modest, however.

Employment in Canada's manufacturing sector increased in September, with approximately 17 per cent of firms hiring additional staff from August. Anecdotal evidence generally linked the increase in employee numbers to greater production requirements. That said, exactly 14 per cent of companies reduced their workforces over the month. Overall, the rate of job creation slowed further to its weakest in five months.

Input costs rose further in September, with fuel and raw materials such as metals and plastics particularly mentioned as having increased in price. Moreover, the rate of inflation was strong and the fastest in four months. Firms passed on greater cost burdens to clients by raising their **output charges**. Average selling prices rose modestly over the month, with the latest increase the strongest since April.

Regional highlights include:

- **Ontario** saw the weakest improvement in manufacturing business conditions during September.
- New order growth slowed in all four regions, with the weakest expansion recorded for **Ontario**.
- The rate of job creation accelerated slightly in **Alberta and British Columbia**, was broadly unchanged in **Quebec**, but eased elsewhere.
- **Alberta and British Columbia** posted the strongest rate of input price inflation in September.

*"The slowdown in Canada's manufacturing sector was partly reflective of production problems at some companies, with output increasing at the slowest pace since January," said **Cheryl Paradowski**, President and Chief Executive Officer, PMAC. "However, weaker growth trends for new orders and employment, and in particular new export work, also contributed and suggest that Canada continued to be hit by ongoing weakness in the global economy."*

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 geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Canadian 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 does 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 2,500 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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