

In association with the Purchasing Management Association of Canada

Production and new order growth strengthens further during September

Key findings:

- Output increases at fastest pace since April
- Strong rise in new work intakes
- Rate of job creation quickens to six-month high

Business conditions in Canada's manufacturing sector improved further in September. Both output and new order growth quickened since August, with panellists commenting on greater demand and new client wins. Meanwhile, the rate of job creation was strong and the fastest since March. However, supply-side pressures continued to build during the latest survey period, as firms reported further vendor delivery delays and a strong (albeit slower) rate of input price inflation.

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 September, the headline PMI registered 55.0, up fractionally from August's reading of 54.9, and signalled a solid improvement in Canadian manufacturing sector business conditions. The latest PMI reading was the highest since April and reflected further expansions of both output and new orders.

Canadian manufacturers received a larger volume of new work in September, as has been the case since data collection began in October 2010. Over one-third of survey respondents reported new order growth, with the pace of increase strong and the fastest in five months. Export orders also rose in September. Panellists linked the rise in total new work to greater demand and new client wins.

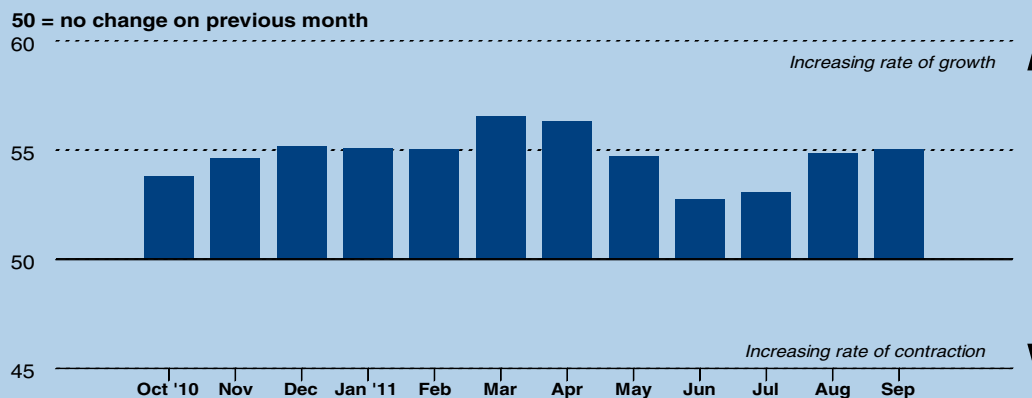
Reflective of the further increase in new orders, Canadian manufacturing companies raised production during the latest survey period. Moreover, firms depleted stocks of finished goods in September to partly fulfil new order requirements. Backlogs of work increased nonetheless, although the latest rise was weaker than that registered in August.

Employment in Canada's manufacturing sector rose further in September, with almost 21% of firms hiring additional staff. The rate of job creation quickened since the previous survey period and was the fastest in six months.

The amount of inputs purchased by surveyed firms increased during the latest survey period. Meanwhile, input inventories were depleted for the first time since April. Firms generally linked the rise in purchasing activity to higher production requirements in September. Subsequently, the average time it took for suppliers to deliver inputs lengthened at a marked pace. Anecdotal evidence provided by panellists largely attributed slower lead times to backlogs at vendors.

Monitored companies reported higher input prices in September, reflecting increased costs for certain raw materials. The rate of input price inflation remained strong, despite easing further from April's peak. Firms passed on greater cost burdens to clients by raising their output charges during the latest survey period. However, the latest rise in factory gate prices was only moderate and the weakest in 11 months.

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



Components of the RBC Canadian Manufacturing PMI™

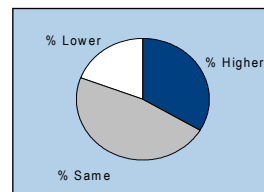
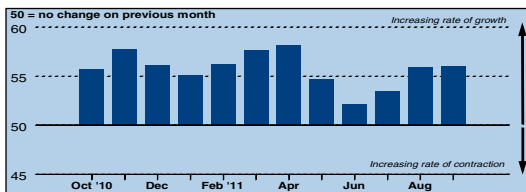
The RBC Canadian Manufacturing *Purchasing Managers' Index™ (PMI™)* is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

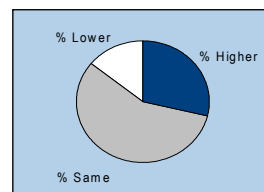
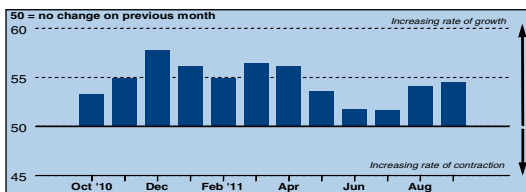
Q. Please compare the state of your new orders (in units) this month with one month ago.



The volume of new work received by Canadian manufacturers increased during September, as has been the case since data collection began in October 2010. Approximately one-third of panellists reported new order growth, which they generally linked to greater demand and new client wins. The latest rise in new orders was strong and the fastest since April.

Output Index (0.25)

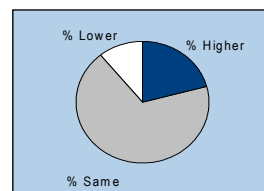
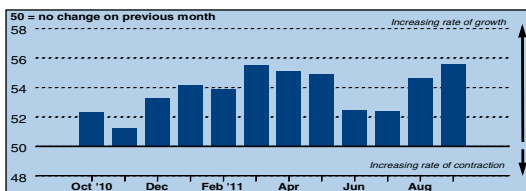
Q. Please compare your production/output this month with the situation one month ago.



Reflective of further new order growth, Canadian manufacturing companies stepped up production during September. Output rose solidly, with the rate of increase faster than that registered in August. A number of survey respondents also suggested that output levels were raised in an attempt to limit the build-up of backlogs.

Employment Index (0.20)

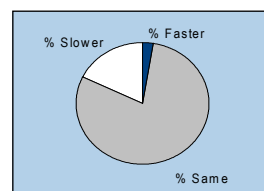
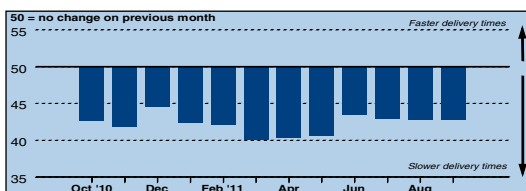
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in Canada's manufacturing sector increased in September, continuing the trend that has been registered since the start of the series. Almost 21% of firms hired additional employees (while 11% reduced their workforces), and largely linked job creation to higher workloads. Notably, employment growth was the fastest in six months.

Suppliers' Delivery Times Index (0.15)

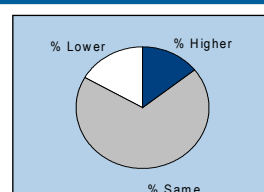
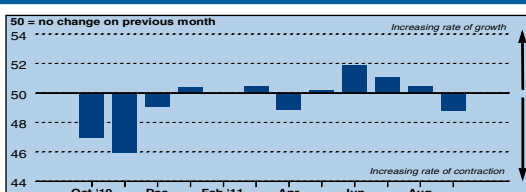
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Suppliers' delivery times lengthened further in September, as signalled by the seasonally adjusted Suppliers' Delivery Times Index posting below the 50.0 no-change threshold. Anecdotal evidence provided by panellists suggested that the latest deterioration in vendor performance was partly due to backlogs at suppliers.

Stocks of Purchases Index (0.10)

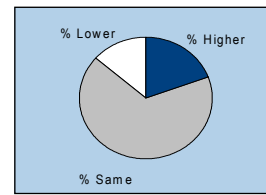
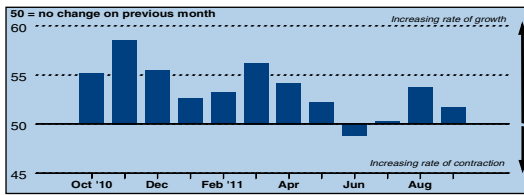
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



In contrast to the accumulations that had been registered in each of the previous four months, stocks of purchases were depleted by Canadian manufacturers in September. A number of monitored companies commented that input inventories were run down to fulfil larger production requirements during the latest survey period, particularly in light of further suppliers' delivery delays.

New Export Orders Index

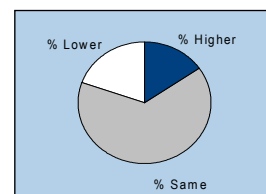
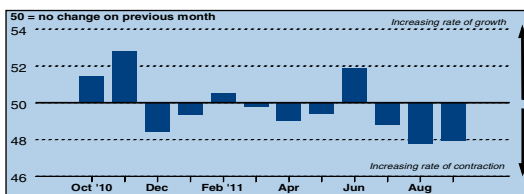
Q. Please compare the state of your new export orders (in units) this month with one month ago.



In September, the amount of new export orders placed at Canadian manufacturing companies increased for the third consecutive month. Over 19% of panellists reported a higher level of new export orders, compared with 14% that registered a lower amount, and attributed the increase to greater client demand, particularly from the US.

Stocks of Finished Goods Index

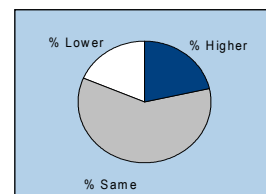
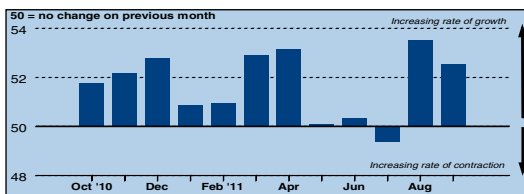
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Continuing the trend that has been registered since July, stocks of finished goods were depleted in September. However, the rate of decrease was fractionally slower than in the previous survey period, with the seasonally adjusted Stocks of Finished Goods Index marginally higher than in August. Panellists generally cited higher sales levels as the main contributor to lower finished goods inventories in September.

Backlogs of Work Index

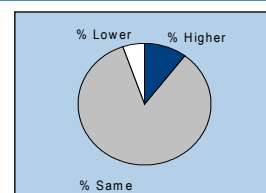
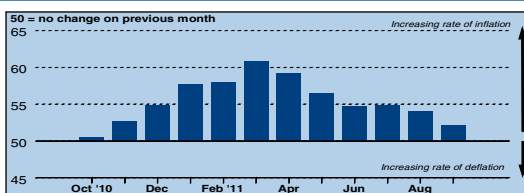
Q. Please compare the level of outstanding business in your company this month with one month ago.



Canadian manufacturers reported larger backlogs of work for the second month running in September. The latest increase in outstanding business was moderate and weaker than that registered in the previous survey period. Monitored companies attributed the rise in work-in-hand to higher new order volumes.

Output Prices Index

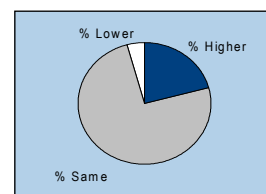
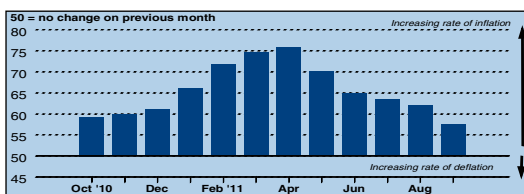
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



The seasonally adjusted Output Prices Index registered above the 50.0 no-change level that separates inflation from deflation in September. The latest index reading signalled a moderate increase in factory gate prices that was the weakest in 11 months. Firms generally raised their output prices to pass on greater cost burdens to clients.

Input Prices Index

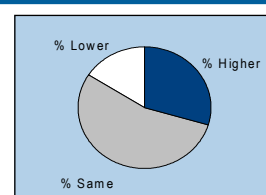
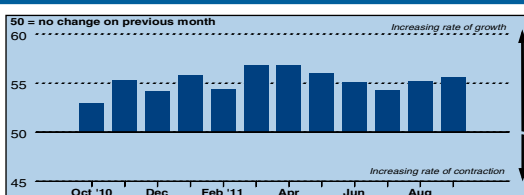
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Canadian manufacturers recorded higher input costs in September, as has been the case since data collection began in October 2010. The rate of input price inflation remained strong, despite easing further from April's peak. A range of inputs were reported as having increased in price during the latest survey period.

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 Canadian manufacturing companies increased further in September. The rate of growth quickened since August to the fastest in four months. Almost 30% of surveyed firms purchased a larger amount of inputs, compared with 16% that bought fewer, and generally linked the increase to greater production requirements.



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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



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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

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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