

RBC Canadian Manufacturing *Purchasing Managers' Index*™ holds ground in October amid global economic uncertainty

NOVEMBER 1, 2011 – Both output and new orders continued to increase solidly in October, albeit at slower rates, 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), which offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

The RBC PMI found that Canadian manufacturing business conditions improved further in October, with firms generally attributing higher output and new orders to greater demand and new client wins. Nevertheless, the respective rates of growth eased since September, as global economic conditions weakened. Notably, new export orders fell modestly during the latest survey period.

The headline **RBC PMI** – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – posted 53.7 in October, which is down from 55.0 in September and marks a three-month low. Index readings above 50.0 signal expansion from the previous month, readings below 50.0 indicate contraction.

*"The Canadian manufacturing sector has been weathering external macro events and market conditions reasonably well, and we expect to see modest economic growth for the remainder of the year," said **Craig Wright**, senior vice-president and chief economist, RBC. "It is encouraging to see the RBC PMI holding its ground, particularly in light of softening manufacturing conditions in other corners of the globe."*

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 October survey include:

- Incoming new work and production both increase solidly, albeit at a weaker pace
- Rate of job creation eases since September
- Inflationary pressures weaken further

Firms generally linked the improvement in business conditions to new order growth in October. Incoming new work rose solidly, with almost 30 per cent of monitored companies registering larger **new order** volumes compared with September. Anecdotal evidence provided by panellists largely attributed the increase to greater demand and new client wins. Nonetheless, the rate of growth was the weakest since July, as **new export orders** fell modestly in October.

Canadian manufacturers raised **production** during the latest survey period, as has been the case since the start of data collection in October 2010. Output increased robustly, but at a slower pace than in September. **Backlogs of work** fell modestly in October, meanwhile. **Stocks of finished goods** were reduced further, in some cases to meet higher new order requirements.

Reflective of higher output levels, the amount of **inputs purchased** in October increased. Surveyed firms also depleted **input inventories** for the second successive month, with a number of respondents citing leaner stock holding policies. Subsequently, suppliers' delivery times lengthened further in October, as input demand strengthened. That said, the latest increase in **lead times** was the weakest in the 13-month series history.

Employment in Canada's manufacturing sector rose further during the latest survey period. Approximately 22 per cent of survey respondents raised staffing levels, while 14 per cent reduced headcounts. Overall, the rate of job creation was solid, but slower than that registered in September.

Higher **input costs** were recorded by Canadian manufacturing companies in October. Fuel and raw materials such as metals were particularly mentioned as having increased in price. Although the rate of input price inflation remained solid, it continued to ease sharply from April's peak. Firms generally passed on greater cost burdens to clients by raising their selling prices. **Output charges** rose only modestly, however.

Regional highlights include:

- Regional PMI data signalled improvement in manufacturing business conditions across all four broad Canadian regions in October. **Alberta & British Columbia** continued to lead the latest expansion.
- Moreover, **Alberta & British Columbia** registered the fastest rate of new order growth.
- Three out of the four broad regions reported job creation in October. The only exception was **Quebec**.
- The fastest rate of input price inflation was recorded in **Alberta & British Columbia**.

"The Canadian manufacturing sector continued to grow solidly in October, albeit at a weaker pace" said Cheryl Paradowski, President and Chief Executive Officer, PMAC. "The volume of new work intakes received by Canadian manufacturers rose at the slowest rate in three months, with a fall in new export orders being a key contributor. Although both output and employment growth also eased during October, the rate of input price inflation slowed further from April's peak, thus alleviating some pressure on manufacturers' cost burdens."

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 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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