

In association with the Purchasing Management Association of Canada

New order growth slows to three-month low in October

Key findings:

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

Canadian manufacturing business conditions improved further in October. Both output and new orders increased solidly, with firms generally citing 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 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 53.7, the headline PMI posted above the 50.0 no-change mark to signal a solid improvement in Canadian manufacturing business conditions in October. The PMI has registered improvement in every month since the survey started in October 2010. However, down from 55.0 in September, the latest improvement was the weakest in three months.

Firms generally linked the improvement in business conditions to new order growth in October. Incoming new work rose solidly, with almost 30% 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, with new work intakes from abroad falling modestly in October.

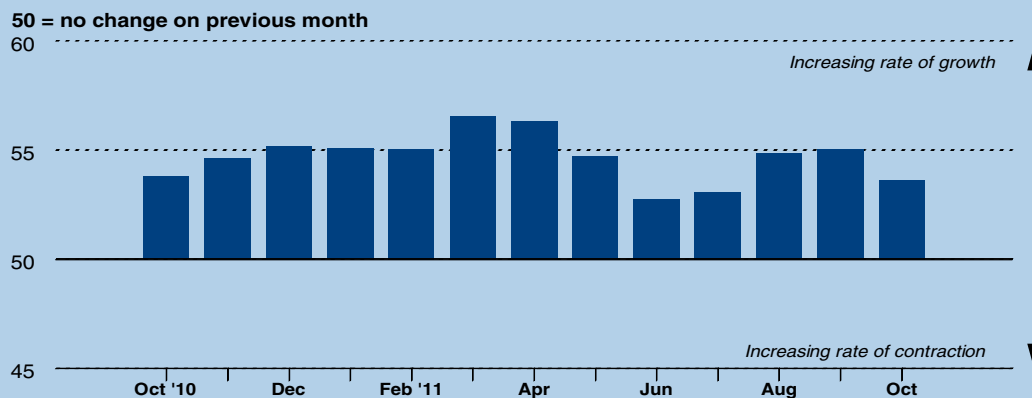
Canadian manufacturers raised production during the latest survey period, as has been the case since the start of data collection in October 2010. Output increased robustly, but at a slower pace than in September. Backlogs of work fell modestly in October, meanwhile. Stocks of finished goods were reduced 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% of survey respondents raised staffing levels, while 14% 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.

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



Components of the RBC Canadian Manufacturing PMI™

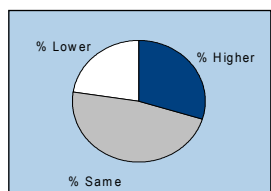
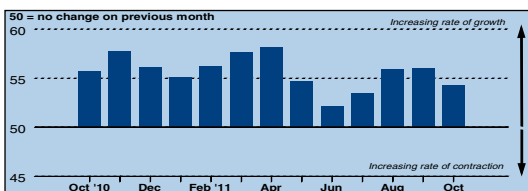
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

| | |
|--------------------------------------|------|
| 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)

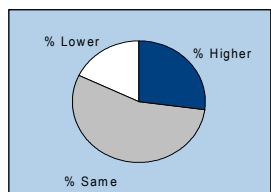
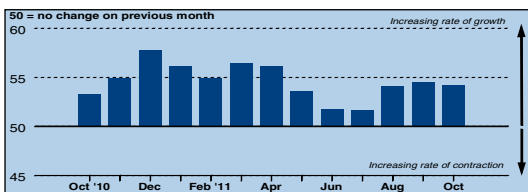
Q. Please compare the state of your new orders (in units) this month with one month ago.



Canadian manufacturers received a greater volume of new orders in October, continuing the trend that has been registered since data collection began in October 2010. Anecdotal evidence provided by panellists generally attributed new order growth to greater demand and new client wins. Although the latest rise in new work intakes remained solid, it was the slowest in three months.

Output Index (0.25)

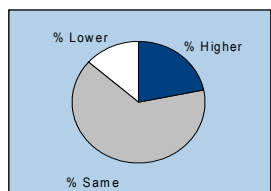
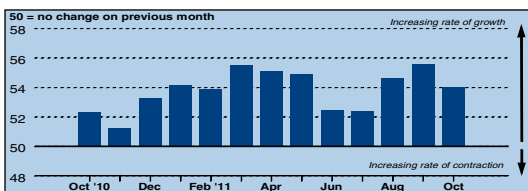
Q. Please compare your production/output this month with the situation one month ago.



Production increased further in October, as signalled by the seasonally adjusted Output Index posting above the 50.0 no-change mark that separates growth from contraction. Over 27% of firms reported a higher level of output, compared with 18% that registered a decrease, and largely linked the rise to higher new orders. Nevertheless, output growth eased since September, as indicated by a lower index reading.

Employment Index (0.20)

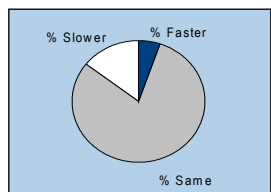
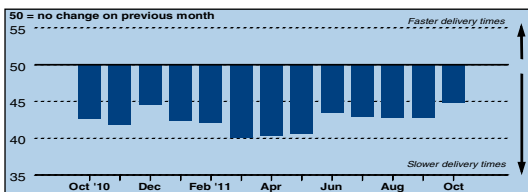
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in Canada's manufacturing sector rose further during October. Job creation has been recorded in each of the 13 survey periods to date. The latest rise in staffing levels was solid, albeit the weakest since July, with approximately 22% of monitored companies enlarging their workforces during the latest survey period.

Suppliers' Delivery Times Index (0.15)

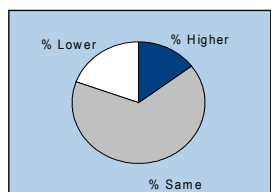
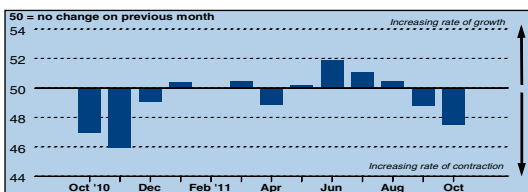
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index posted below the 50.0 no-change mark in October to indicate a further lengthening of lead times. Firms suggested that vendors struggled to meet greater input demand and also experienced difficulty in sourcing some raw materials. The deterioration in supplier performance was solid, but nonetheless the weakest in the 13-month series history.

Stocks of Purchases Index (0.10)

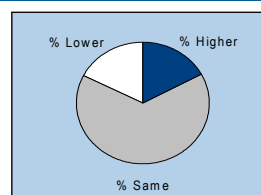
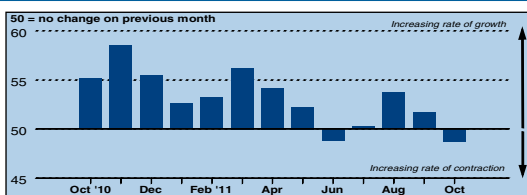
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Canadian manufacturing companies depleted stocks of purchases for the second month running in October. The rate of decline quickened since September to the fastest in 11 months. A number of monitored companies commented that inventories were reduced as leaner stock holding policies were introduced.

New Export Orders Index

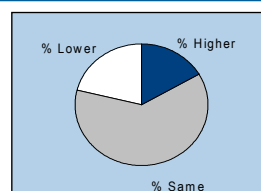
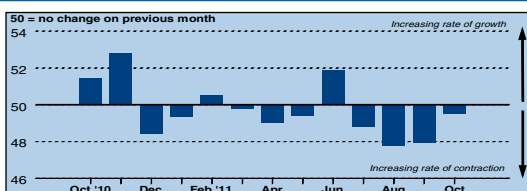
Q. Please compare the state of your new export orders (in units) this month with one month ago.



The volume of new export orders received by firms operating in Canada's manufacturing sector decreased in October, thereby ending a three-month period of growth. However, the fall in new work intakes from abroad was only modest. Survey respondents commented that foreign clients had postponed orders as global economic conditions continued to weaken in October.

Stocks of Finished Goods Index

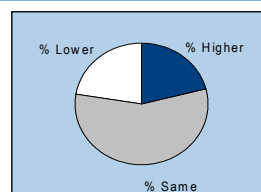
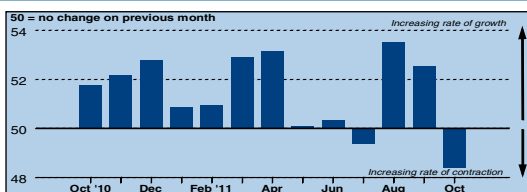
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Following the trend that has been registered since July, stocks of finished goods declined during October. Inventory reduction was only marginal however, with the seasonally adjusted Stocks of Finished Goods Index posting only slightly below the 50.0 no-change level. Firms depleted inventories to fulfil higher new order requirements in October. Meanwhile, a number of panellists commented on leaner stock holding policies.

Backlogs of Work Index

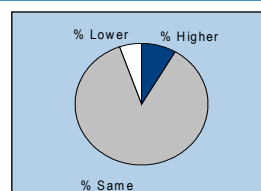
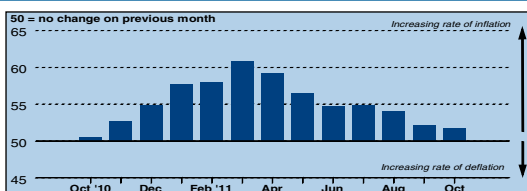
Q. Please compare the level of outstanding business in your company this month with one month ago.



In contrast to the accumulations recorded in August and September, backlogs fell moderately in October. Over 22% of Canadian manufacturers reduced work-in-hand, and generally linked this to slower new order growth. Notably, the seasonally adjusted Backlogs of Work Index fell by over four points since the previous survey period.

Output Prices Index

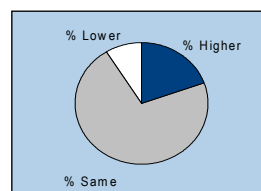
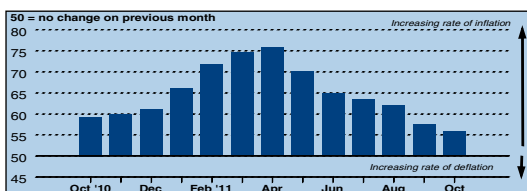
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Factory gate prices increased further during October, as has been the case throughout the 13-month series history. Panellists generally passed on higher input costs to clients by raising output charges during the latest survey period. Nevertheless, the rate of output price inflation was slower than that registered in September, with the latest rise in average selling prices only modest.

Input Prices Index

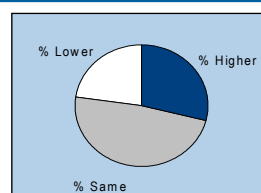
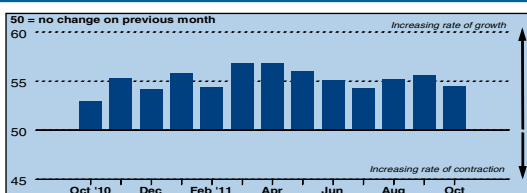
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input costs faced by Canadian manufacturers rose strongly in October. Almost one-fifth of survey respondents recorded higher input prices, while 9% registered a reduction. Fuel and raw materials such as steel were particularly mentioned as having increased in cost. That said, the rate of input price inflation continued to slow sharply from its peak in April, and was the weakest in the 13-month series history.

Quantity of Purchases Index

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



Reflective of higher output and new orders, the amount of inputs purchased by Canadian manufacturing companies increased during October. This was signalled by the seasonally adjusted Quantity of Purchases Index registering above the 50.0 no-change threshold that separates growth from contraction. Purchasing activity rose solidly in October, albeit at the slowest pace in three months.



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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 1HG, 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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