

In association with the Purchasing Management Association of Canada

PMI indicates weakest manufacturing expansion since January

Key findings:

- PMI falls to nine-month low in October, signalling only a modest improvement in overall business conditions
- Slower rates of output and new order growth
- Input price inflation remains weaker than series average

October PMI data indicated the weakest expansion in Canada's manufacturing sector for nine months, with both output and new orders increasing only modestly from September. In particular, the rate of total new order growth slowed over the month, posting the weakest expansion since January, despite a stronger rise in new export orders. Meanwhile, input prices continued to increase solidly in October, but the rate of inflation nonetheless remained weaker than the series average.

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.

The RBC PMI remained above the 50.0 no-change mark in October, signalling an improvement in Canadian manufacturing business conditions. However, having fallen from 52.4 to 51.4, the PMI was the lowest since January and indicated only a modest improvement in overall operating conditions.

The volume of new orders received by Canadian manufacturers increased at the weakest pace in nine months in October. Although greater client demand, particularly from key export markets such as the U.S. and Asia, contributed to the rise in total new orders, the rate of growth was only modest overall.

Manufacturing production also increased at a weaker pace in the

latest survey period. Output rose only modestly over the month, with the rate of increase at a nine-month low. Firms meanwhile accumulated stocks of finished goods for the first time since June 2011, and reduced the level of outstanding business at the fastest pace since January.

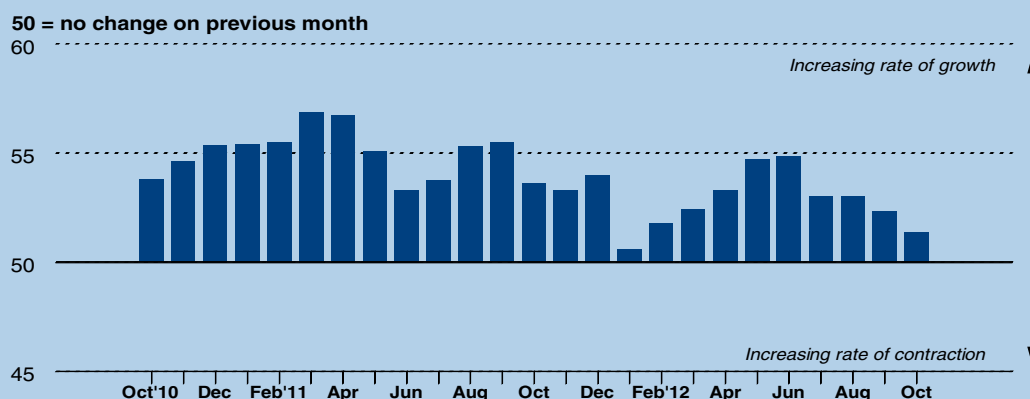
Employment in Canada's manufacturing sector continued to increase in October, with one-in-five surveyed firms hiring additional staff since September. Greater workloads were often cited by panellists as the main factor behind the latest rise in headcounts. However, the rate of job creation was modest overall and the slowest for six months.

The quantity of inputs bought by monitored companies increased further in the latest survey period, with some of the rise in purchasing volumes being used to build stocks. Input inventories have grown for seven consecutive months, although the latest expansion was weaker than that registered one month previously.

Concurrently, suppliers' delivery times lengthened again in October. Anecdotal evidence suggested that some vendors had capacity issues in the month. The latest increase in lead times was only modest and weaker than the series average.

Firms reported that a wide range of raw materials had increased in price in October, with resin, fuel and oil-related products particularly highlighted. That said, the rate of input price inflation slowed since September and remained weak in the context of historical data. The rate of increase for output charges also eased over the month, with average selling prices rising only modestly from September.

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



Components of the RBC Canadian Manufacturing PMI™

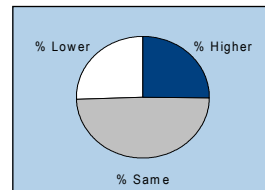
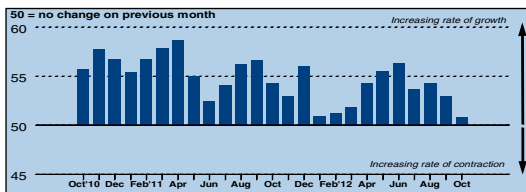
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

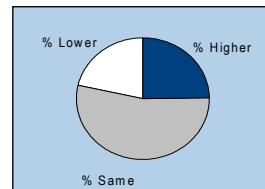
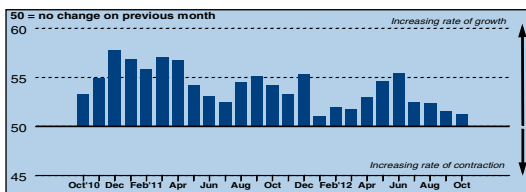
Q. Please compare the state of your new orders (in units) this month with one month ago.



After adjusting for seasonal variation, incoming new work at Canadian manufacturing firms increased in October. Companies largely linked the rise in new order volumes to greater client demand. That said, the rate of growth slowed to only a modest pace, as indicated by the New Orders Index falling to its lowest level since January.

Output Index (0.25)

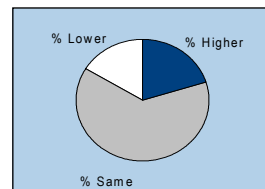
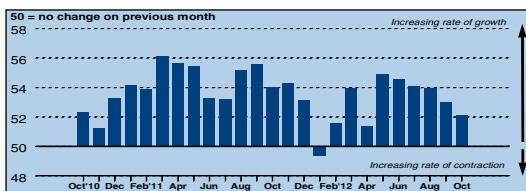
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output rose further during October, with one-in-four surveyed firms reporting higher production compared with September. Panelists generally raised output in response to greater new order requirements. However, the seasonally adjusted Output Index fell to a nine-month low, suggesting a slower rate of output growth.

Employment Index (0.20)

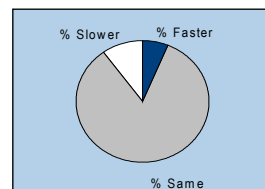
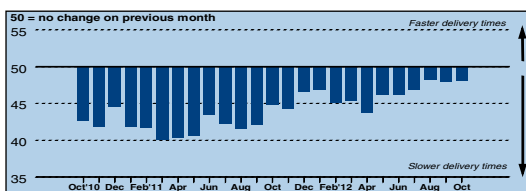
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in Canada's manufacturing sector increased for the ninth consecutive month in October. One-in-five monitored companies hired additional staff since September, while approximately 16% reduced their employee numbers. Greater workloads were often cited by firms as the main factor behind the latest hirings. That said, the rate of job creation was moderate overall and the weakest since April.

Suppliers' Delivery Times Index (0.15)

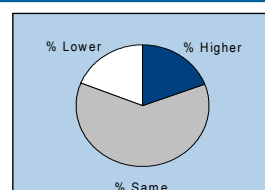
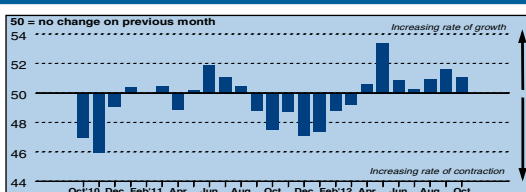
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index remained below the 50.0 no-change mark in October, indicating a further increase in input lead times. Anecdotal evidence suggested that vendors had capacity issues and struggled to source key raw materials in the latest survey period. The index was broadly unchanged from September and signalled a modest deterioration in vendor performance overall.

Stocks of Purchases Index (0.10)

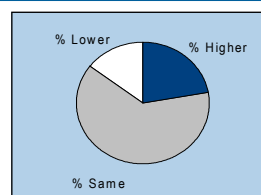
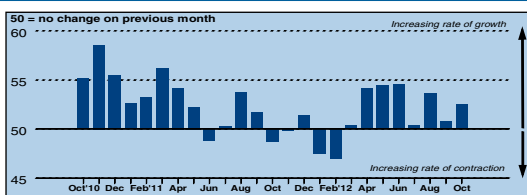
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Input inventories at monitored companies increased for the seventh successive month in October. Firms that reported an accumulation of stocks of purchases (approximately 19%) generally attributed this to recent growth of new orders. That said, inventories of pre-production goods rose only modestly over the month, with the rate of increase weakening since September.

New Export Orders Index

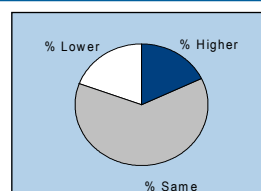
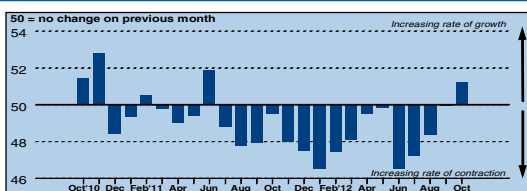
Q. Please compare the state of your new export orders (in units) this month with one month ago.



The volume of new export orders received by Canadian manufacturers increased in October, continuing the trend that has been registered in each month since March. Panellists generally cited greater demand from key export markets, with the U.S. and Asia particularly highlighted. Moreover, the rate of growth strengthened since September and was slightly faster than the series average.

Stocks of Finished Goods Index

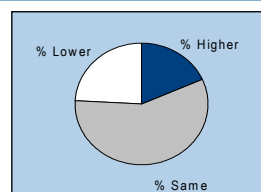
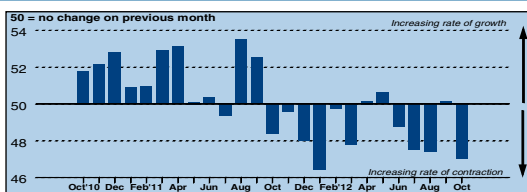
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



In contrast to the stock depletions that have been registered in each month since July 2011, inventories of finished goods increased during October. This was signalled by the seasonally adjusted Stocks of Finished Goods Index registering above the 50.0 no-change mark. A number of monitored companies linked the increase in stocks of finished goods to delivery delays over the month.

Backlogs of Work Index

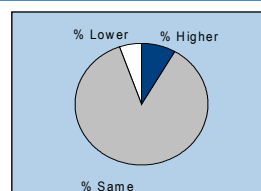
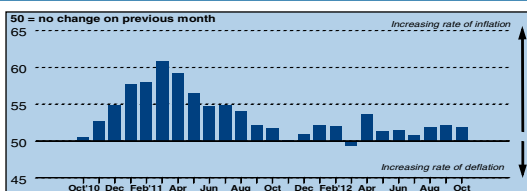
Q. Please compare the level of outstanding business in your company this month with one month ago.



Following the marginal rise in backlogs of work in September, the level of outstanding business at Canadian manufacturing firms fell during October. Work-in-hand has declined in four out of the past five months, with the latest reduction the greatest since January. Panellists that reported lower backlogs compared with one month previously (approximately 24%) largely linked this to slower growth of new orders.

Output Prices Index

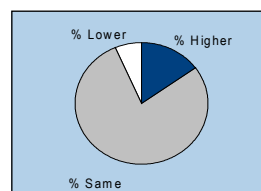
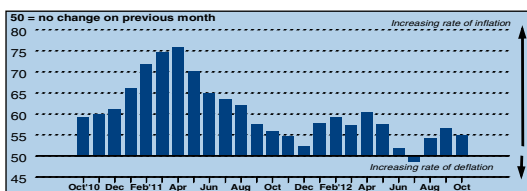
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Canadian manufacturing companies raised their average selling prices further in October. Anecdotal evidence suggested that higher output charges generally reflected increased costs. However, the rate of inflation was only modest, with the seasonally adjusted Output Prices Index remaining below the series average.

Input Prices Index

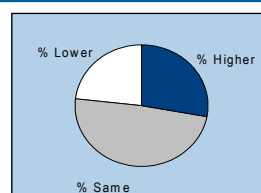
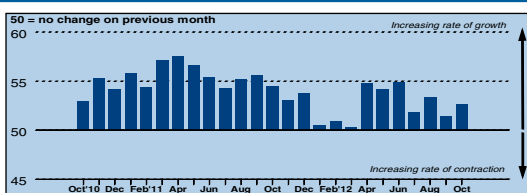
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input costs faced by manufacturers working in Canada increased for the third month running in October. A wide range of raw materials were mentioned as having risen in price by panellists, with resin, fuel and oil-based products particularly highlighted. Although the seasonally adjusted Input Prices Index signalled a solid rate of inflation in October, it remained below the series average.

Quantity of Purchases Index

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



The quantity of inputs bought by manufacturing firms increased in October, as has been the case since data collection began in October 2010. Exactly 28% of survey respondents reported larger purchasing volumes, while approximately 23% registered a reduction. Overall, the rate of increase was faster than that recorded in September, as indicated by a higher seasonally adjusted Quantity of Purchases Index reading.



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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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