

In association with the Purchasing Management Association of Canada

PMI signals only marginal improvement in manufacturing business conditions in November

Key findings:

- RBC PMI falls to lowest level in 26 months of data collection
- Output declines in November, while new orders broadly unchanged from October
- Rate of job creation at seven-month low

The RBC PMI signalled the weakest manufacturing expansion since data collection began in October 2010, with the rate of growth only marginal in November. Incoming new work was broadly unchanged from October and output fell for the first time in 26 months of data collection as manufacturers faced weak market conditions. Nevertheless, firms continued to hire additional staff, although the rate of job creation was only modest and the slowest since April.

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.

Although having remained above the 50.0 no-change mark in November, the seasonally adjusted RBC PMI fell to its lowest level since data collection started in October 2010. At 50.4, down from 51.4 in October, the PMI was only slightly above the neutral threshold and indicated just a marginal improvement in overall business conditions.

The volume of new orders received by Canadian manufacturers was broadly unchanged from October, with panellists largely linking this to weak market conditions. New export orders meanwhile fell modestly and for the first time since February.

The flat new orders trend was one of the factors behind a fall in production during November. This was the first reduction in output

in 26 months of data collection, but the rate of decline was only marginal. Stocks of finished goods, meanwhile, were depleted, in contrast to accumulation one month previously, and backlogs of work fell sharply and for the second month running.

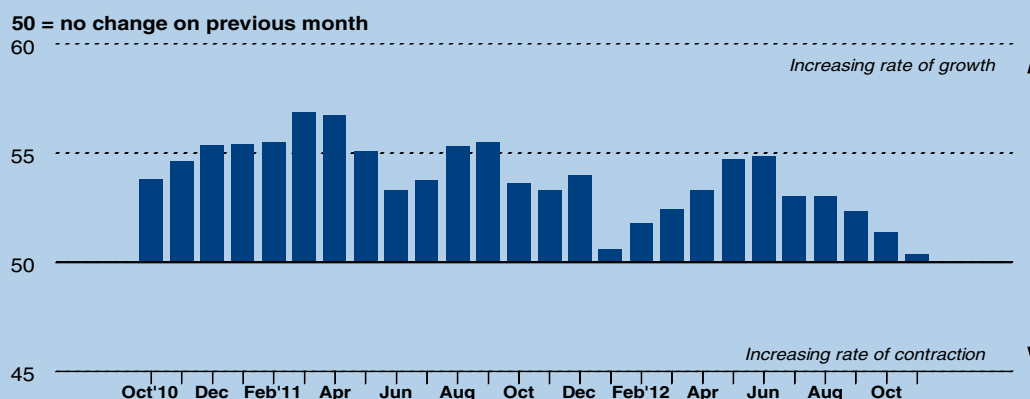
Reflective of lower output requirements, the quantity of inputs bought by manufacturing firms fell during the latest survey period. Stocks of purchases were also reduced, with a number of panellists attributing this to leaner inventory requirements.

Suppliers' delivery times nonetheless lengthened further in November, with approximately 11% of firms reporting increased lead times since October. Respondents suggested that suppliers were working with less stock and that some vendors were also affected by Hurricane Sandy.

Manufacturing employment in Canada increased for the tenth consecutive month in November. Where higher staffing levels were reported, firms commented on replacing employees who had recently left. However, the rate of job creation was only modest and the slowest since April.

Firms reported a further rise in cost burdens during the latest survey period, with this largely reflective of higher raw material prices. That said, the rate of input price inflation was the weakest in three months and slower than the series average. Manufacturers' selling prices also increased in November as panellists passed on greater costs to clients. Despite having quickened since October, the latest increase in output prices remained modest overall.

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



Components of the RBC Canadian Manufacturing PMI™

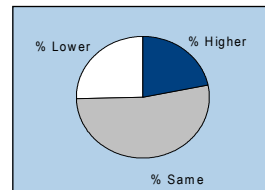
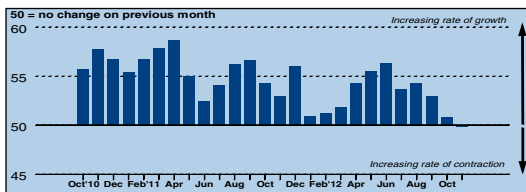
The RBC Canadian Manufacturing *Purchasing Managers' Index™ (PMI™)* is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

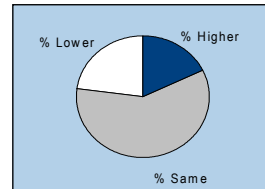
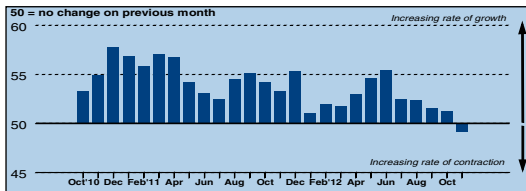
Q. Please compare the state of your new orders (in units) this month with one month ago.



November data suggested that incoming new work at Canadian manufacturers was broadly unchanged from October. The seasonally adjusted New Orders Index was only fractionally below the 50.0 no-change mark, but nonetheless the lowest since data collection began in October 2010. A number of monitored companies linked the flat new orders trend to weak market conditions in the latest survey period.

Output Index (0.25)

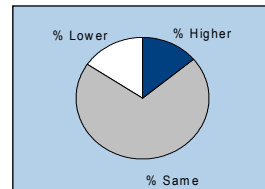
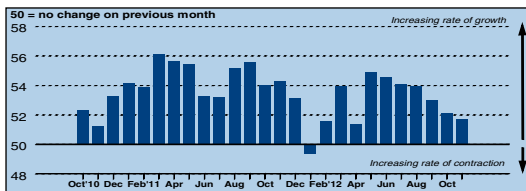
Q. Please compare your production/output this month with the situation one month ago.



For the first time in 26 months of data collection, manufacturing output in Canada fell during November. Weak market conditions and production problems at some companies were the main factors behind the overall reduction in output. Nevertheless, the seasonally adjusted Output Index was only slightly below the 50.0 neutral threshold, suggesting that the rate of contraction was only marginal.

Employment Index (0.20)

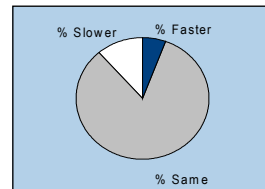
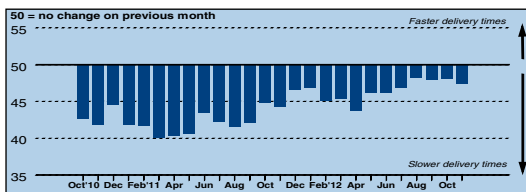
Q. Please compare the level of employment at your unit this month with the situation one month ago.



After adjusting for seasonal variation, employment in Canada's manufacturing sector increased for the tenth consecutive month in November. Where staffing levels were higher, a number of survey respondents commented on replacing employees who had recently left. However, the rate of job creation was only modest and the weakest since April.

Suppliers' Delivery Times Index (0.15)

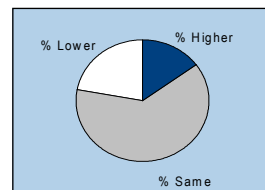
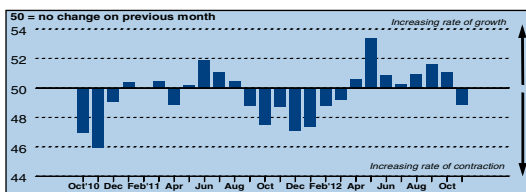
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Suppliers' delivery times lengthened further during November. Moreover, the latest increase in lead times was the greatest in four months. Approximately 11% of panellists reported a deterioration in vendor performance over the month, and generally attributed this to lower stock levels at suppliers. In addition, a number of respondents also suggested that some suppliers were adversely affected by Hurricane Sandy.

Stocks of Purchases Index (0.10)

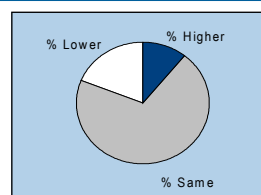
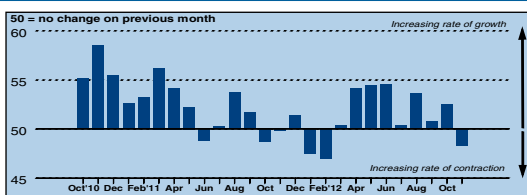
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



In contrast with stock accumulation that had been reported in each month since April, input inventories at Canadian manufacturers were depleted in November. Approximately 22% of panellists reported a reduction in stocks of purchases (while 15% registered an increase), with the overall rate of contraction modest. Respondents generally cited new stock holding policies as the main factor behind the inventory reduction.

New Export Orders Index

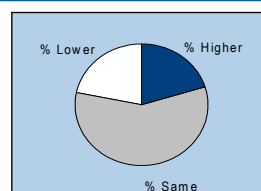
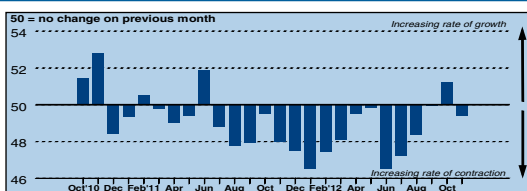
Q. Please compare the state of your new export orders (in units) this month with one month ago.



The volume of new export orders received by Canadian manufacturers fell during November. This was the first reduction in new work from abroad since February, with the rate of decline moderate overall. Firms that reported lower levels of new export orders (approximately 19%) generally cited weak client demand in key export markets such as the U.S., Eurozone and the UK.

Stocks of Finished Goods Index

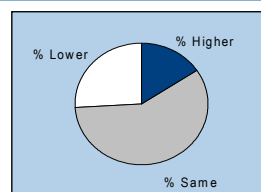
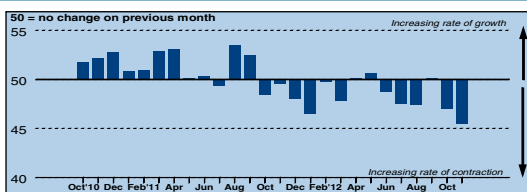
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index returned below the 50.0 no-change mark in November, signalling a renewed depletion of post-production goods inventories. However, the rate of contraction was only modest and weaker than the series average. Panellists largely linked the depletion of stocks of finished goods to leaner inventory requirements that have recently been implemented.

Backlogs of Work Index

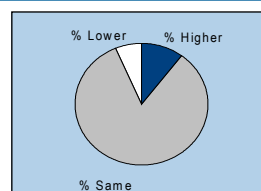
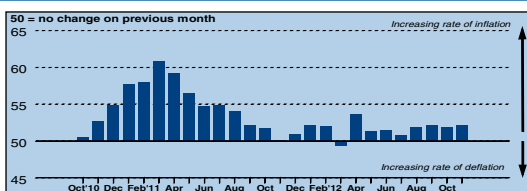
Q. Please compare the level of outstanding business in your company this month with one month ago.



Outstanding business at Canadian manufacturing companies fell for the second successive month in November. Moreover, the rate of decline quickened to its fastest in the 26-month series history. Exactly 26% of surveyed firms reported a reduction in backlogs of work compared with October, largely linking this to a combination of weak client demand and lower finished goods inventories.

Output Prices Index

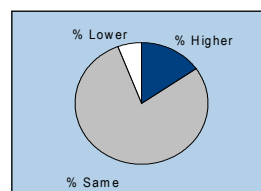
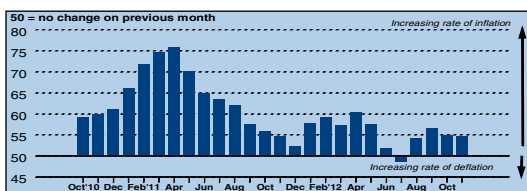
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Manufacturers in Canada raised their factory gate prices further in November, taking the current sequence of output price inflation to eight months. Higher average selling prices largely reflected firms passing on greater cost burdens to clients. That said, the latest increase in output charges was only modest and weaker than the series average.

Input Prices Index

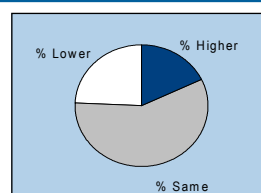
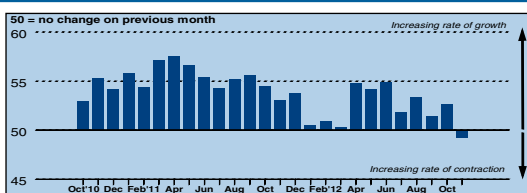
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input costs faced by monitored companies rose for the fourth consecutive month in November, with approximately 15% of firms registering an increase since October. Panellists largely attributed greater cost burdens to higher raw material prices. However, the rate of input price inflation was the slowest in three months and weaker than 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 Canadian manufacturing firms fell in November, as indicated by the seasonally adjusted Quantity of Purchases Index falling below the 50.0 no-change mark. Although the index signalled only a marginal reduction in input buying, it was nonetheless the first decline since data collection began in October 2010.



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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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