

In association with the Purchasing Management Association of Canada

Strongest manufacturing expansion in five months, although growth only modest

Key findings:

- RBC PMI at highest level since last September, and signals modest improvement in business conditions
- Faster rates of output and new order growth, but both below respective series averages
- Input price inflation weakest in seven months

The Canadian manufacturing sector grew at its fastest pace in five months in February, although the rate of expansion was only modest. Both output and new orders increased over the month, partly reflecting greater demand and new client wins, and encouraged firms to hire additional staff. However, the rates of increase were weaker than their respective series averages, despite having strengthened since January. On the price front, the rate of input cost inflation slowed to a seven-month low and was modest in the context of historical data.

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 51.7 in February, the RBC PMI signalled the strongest expansion of Canada's manufacturing sector since last September. Although the PMI rose from the near survey-low of 50.5 in January, it nonetheless remained below the series average of 53.6 and indicated only a modest rate of growth overall.

The volume of new orders received by Canadian manufacturers increased for the third month running in February. Firms generally commented on new client wins, although greater global demand, particularly in the United States, Japan and China acted to boost new export work. Overall, the rise in total new orders was moderate and the strongest since last September.

Reflective of increased new orders, companies raised production in the latest survey period. Output growth was the fastest in six months, but weaker than the series average. Stocks of finished goods were meanwhile depleted for the second month running, and backlogs of work also fell further, although at the slowest rate in five months.

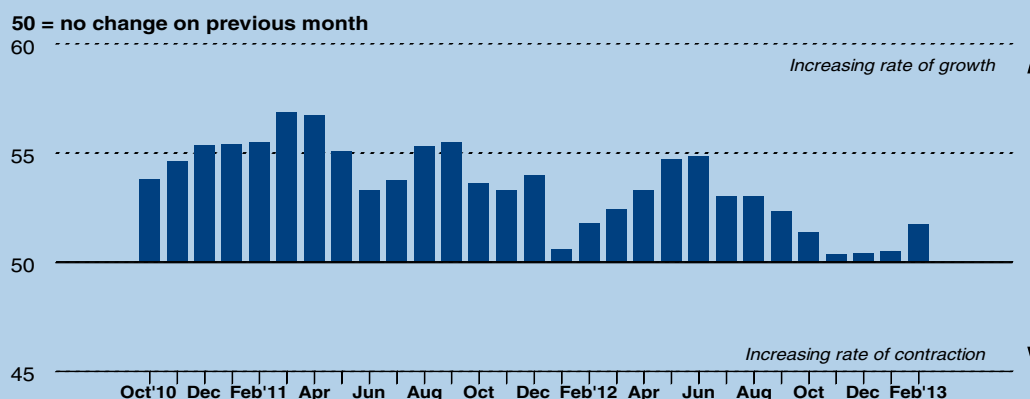
Manufacturing employment increased in February, with over 14% of surveyed firms hiring additional staff since January. Although a number of panellists linked job creation to the increase in new work, other respondents cited improved business confidence. Overall, the rate of employment growth quickened from January's one-year low to a four-month high.

The quantity of inputs bought by manufacturers was unchanged since January, while stocks of purchases were reduced for the fourth consecutive month in February. Concurrently, the latest lengthening of suppliers' delivery times was to the greatest extent in seven months, with a number of panellists commenting that vendors experienced transportation problems relating to the recent heavy snowfall.

Although input costs faced by Canadian manufacturing companies continued to increase in February, the rate of inflation was the weakest since July 2012 and modest in the context of historical data. Firms particularly mentioned raw materials such as metals, chemicals and resin as having increased in price over the month.

Output charges also rose in February, as higher costs were generally passed on to clients. Although the rise in selling prices was the greatest in ten months, it was weaker than the series average.

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



Components of the RBC Canadian Manufacturing PMI™

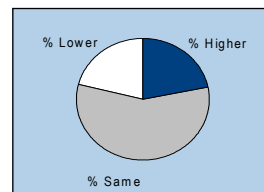
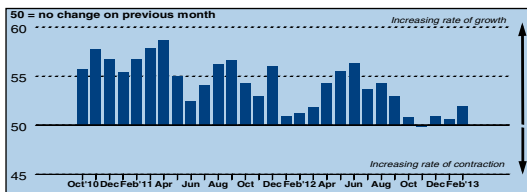
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

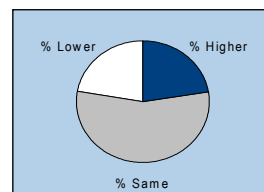
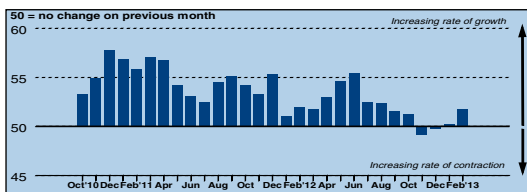
Q. Please compare the state of your new orders (in units) this month with one month ago.



After adjusting for usual seasonal variation, the volume of new work received by Canadian manufacturers increased in February. Higher new order levels have been reported for three months running, with the latest rise moderate and the greatest since last September. Firms that reported an increase in incoming new work (approximately 22%) generally cited new client wins in the latest survey period.

Output Index (0.25)

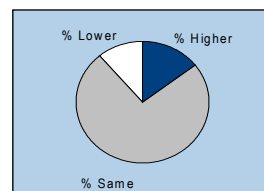
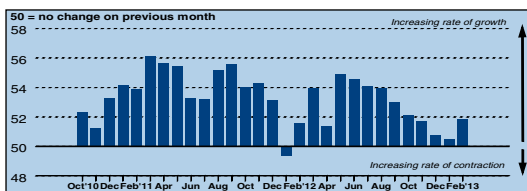
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output increased for the second successive month in February, as signalled by the seasonally adjusted Output Index remaining above the 50.0 no-change threshold. Moreover, the index was at its highest level since August 2012 and consistent with a modest increase in production. Where an increase in output was reported, companies generally cited greater new order requirements.

Employment Index (0.20)

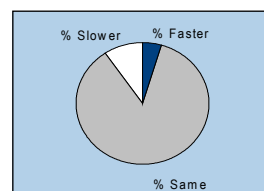
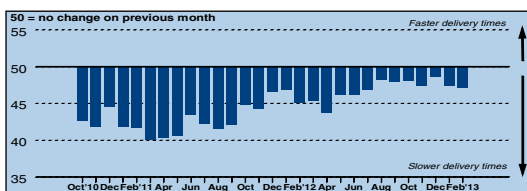
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in Canada's manufacturing sector rose further in February, taking the current sequence of job creation to 13 months. Approximately 15% of surveyed firms hired additional staff over the month, largely linking this to increased new orders and improved business confidence. Overall, the rate of employment growth quickened from January's one-year low to its fastest in four months.

Suppliers' Delivery Times Index (0.15)

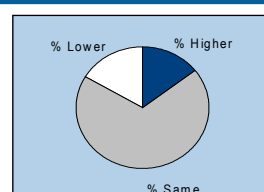
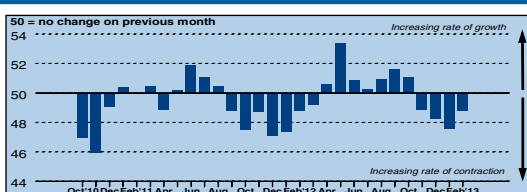
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index posted below the 50.0 no-change mark in February, signalling a lengthening of lead times. Moreover, the index was at a seven-month low and suggested that the extent to which delivery times lengthened was solid. Panellists commented that transportation problems relating to recent heavy snowfall contributed to the latest deterioration in vendor performance.

Stocks of Purchases Index (0.10)

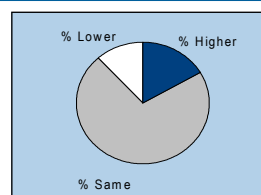
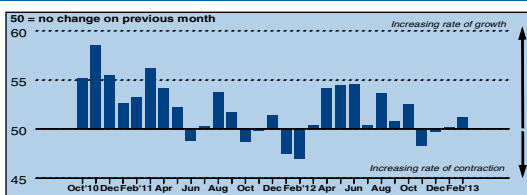
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Input inventories at manufacturing companies in Canada fell for the fourth consecutive month in February. Anecdotal evidence generally linked stock depletion to leaner inventory requirements in the latest survey period. Although the rate of decrease was stronger than the series average, it was nonetheless the weakest since last November.

New Export Orders Index

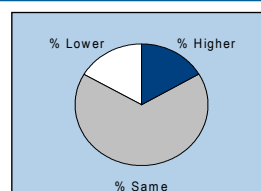
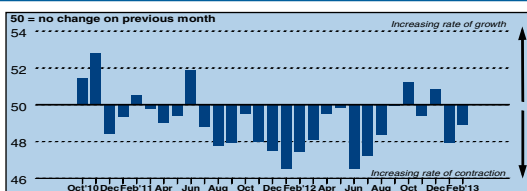
Q. Please compare the state of your new export orders (in units) this month with one month ago.



The volume of new export orders received by Canadian manufacturers rose for the second month running in February, with approximately 17% of surveyed firms reporting an increase since January. Greater client demand in the United States, Japan and China were often commented on by respondents. The rate of growth was the strongest since last October, although modest overall.

Stocks of Finished Goods Index

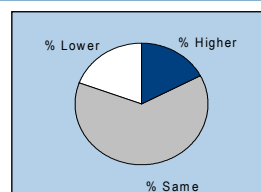
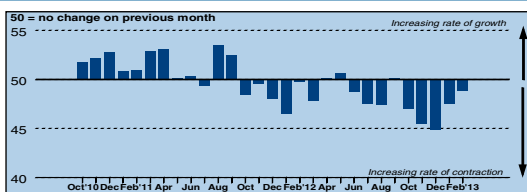
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



February data pointed to a modest reduction in the level of finished goods stock at manufacturing firms. Inventories of post-production goods have declined in three out of the previous four months, but the latest round of stock depletion was weaker than in January. A number of panellists that reduced their stocks of finished goods cited the weak trend for new orders.

Backlogs of Work Index

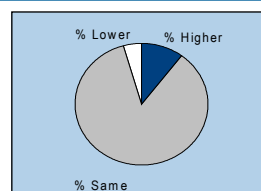
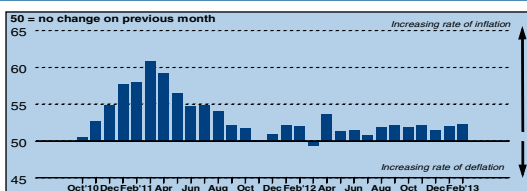
Q. Please compare the level of outstanding business in your company this month with one month ago.



Following the trend that has been recorded in each month since last October, the level of work-in-hand at manufacturers in Canada fell further during February. Approximately 19% of firms reported less outstanding business over the month, while 17% recorded an increase. Overall, the rate of backlog depletion was modest and the weakest in the current sequence of decline.

Output Prices Index

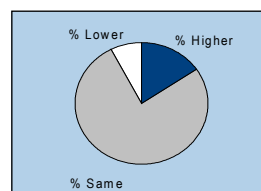
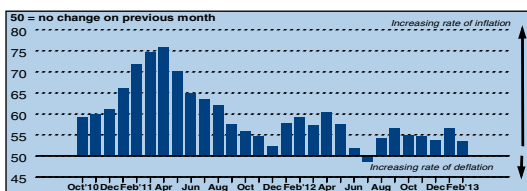
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Average selling prices of Canadian manufacturing companies increased in February, with one-tenth of panellists raising their output charges since January. Anecdotal evidence suggested that higher costs were passed on to clients in the latest survey period. The increase in factory gate prices was solid and the greatest in ten months, but nonetheless remained weaker than the series average.

Input Prices Index

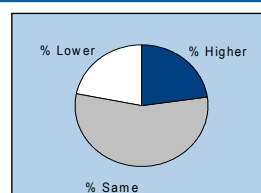
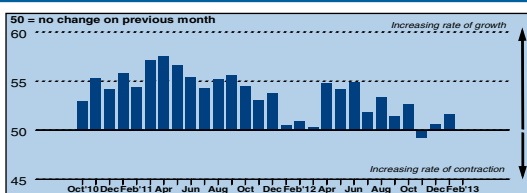
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input costs faced by manufacturers continued to increase in February. However, the rate of input price inflation was the weakest in seven months and only modest in the context of historical data. Firms that reported larger cost burdens in the latest survey period particularly mentioned raw materials including metals, chemicals and resin as having increased in price.

Quantity of Purchases Index

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



The seasonally adjusted Quantity of Purchases Index registered at the 50.0 neutral level in February, indicating no change in purchasing volumes since January. The index was the second-lowest in 29 months of data collection, only behind a sub-50 reading last November. Although a number of panellists raised their purchases reflective of higher new orders, other respondents instead depleted existing inventories.



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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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