

In association with the Purchasing Management Association of Canada

RBC PMI signals first deterioration in manufacturing business conditions in two-and-a-half year survey history

Key findings:

- RBC PMI falls below the 50.0 no-change mark that separates growth from contraction
- Both output and new orders fall modestly in March
- Employment growth slows

The RBC PMI fell below the 50.0 no-change mark in March, signalling a deterioration in overall operating conditions in the Canadian manufacturing sector. This was the first sub-50 reading since data collection began in October 2010. Both the levels of output and new orders were lower than one month previously, with a number of firms linking this to weak client demand, and this contributed to a slower rate of job creation. On the price front, the rate of input cost inflation quickened in March, but nonetheless remained slower 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.

After adjusting for usual seasonal variation, the RBC PMI fell to 49.3 in March and, below the 50.0 no-change mark, pointed to the first deterioration in manufacturing sector business conditions since data collection started in October 2010. The PMI, down from 51.7 in February, was consistent with a marginal rate of contraction.

Canadian manufacturers received a lower volume of new orders in March. Firms generally linked the reduction to weak client demand, both at home and abroad, with new export work also having fallen since February. Although moderate, the rate of decline in total new orders was the sharpest in the 30-month series history.

Reflective of lower new work intakes, manufacturing firms reduced their output in the latest survey period. Production has fallen in three out of the past five months, with the latest reduction moderate. Concurrently, stocks of finished goods were depleted, albeit only marginally, and backlogs of work fell further and at a faster rate than one month previously.

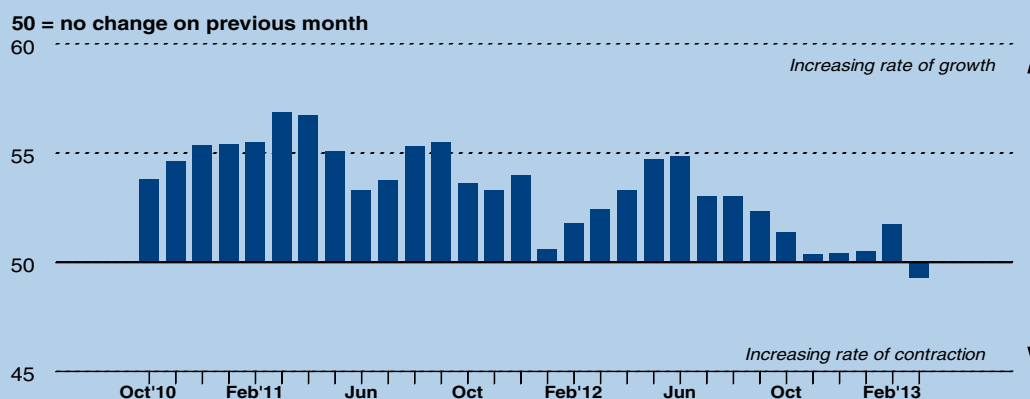
Following no change in purchasing volumes in February, the quantity of inputs bought by manufacturers fell in March. However, the rate of decline was only slight. Input inventories, meanwhile, fell for the fifth successive month, partly reflecting leaner stock holding requirements.

Suppliers' delivery times lengthened further in March. Anecdotal evidence suggested that vendors were working with lower inventories, with some suppliers also experiencing transportation problems. Overall, the increase in lead times was modest, but to a lesser extent than in February.

Manufacturing employment in Canada continued to increase in March. However, the rate of growth eased since hitting a four-month high in February. Approximately 14% of firms hired additional staff in the latest survey period, while 10% reduced their workforces.

Input costs faced by manufacturers rose further in March, with higher raw material prices and unfavourable exchange rates contributing to the latest increase. Overall, the rate of input price inflation was strong and faster than in February. Meanwhile, output charges also increased, with the latest rise the greatest for almost a year.

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



Components of the RBC Canadian Manufacturing PMI™

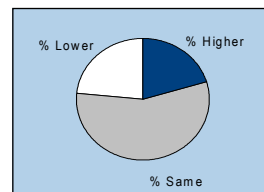
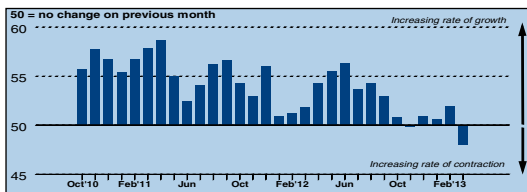
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

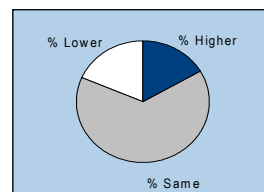
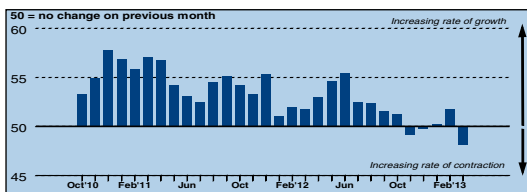
Q. Please compare the state of your new orders (in units) this month with one month ago.



Manufacturers received a lower volume of new work in March, as indicated by the seasonally adjusted New Orders Index falling below the 50.0 no-change mark. Although moderate, the decline was the fastest since data collection began in October 2010. Firms that reported lower levels of new work cited weak demand, although some companies also suggested that clients postponed orders as their inventories were high.

Output Index (0.25)

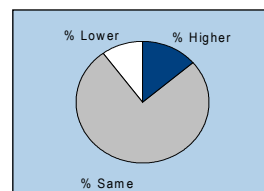
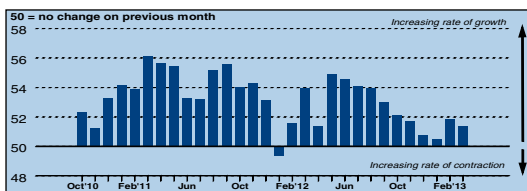
Q. Please compare your production/output this month with the situation one month ago.



After adjusting for usual seasonal factors, manufacturing output in Canada fell in March. Production levels have fallen in three out of the past five months, with the latest contraction the fastest in the 30-month series history. Approximately 19% of firms reported a monthly decline in output, linking this to a drop in new orders. A number of companies also commented on recent production problems.

Employment Index (0.20)

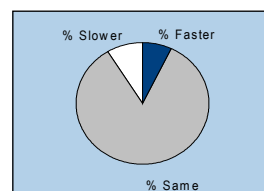
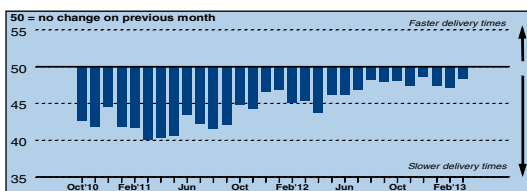
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in the manufacturing sector continued to increase in March, albeit at a reduced rate compared with February. Approximately 14% of panellists hired additional staff in the latest survey period, while 10% reduced their workforces. Overall, the rate of job creation was modest and weaker than the series average.

Suppliers' Delivery Times Index (0.15)

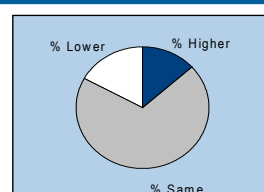
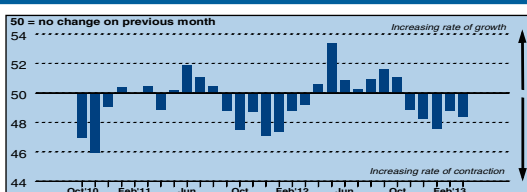
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Lead times for inputs lengthened further in March, as signalled by the seasonally adjusted Suppliers' Delivery Times Index remaining below the 50.0 no-change threshold. Anecdotal evidence suggested that vendors had lower inventories of key raw materials, as well as some suppliers also having transportation problems. The index was the highest in three months and consistent with a modest increase in delivery times.

Stocks of Purchases Index (0.10)

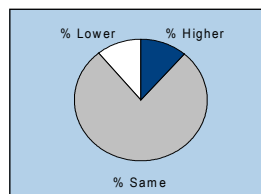
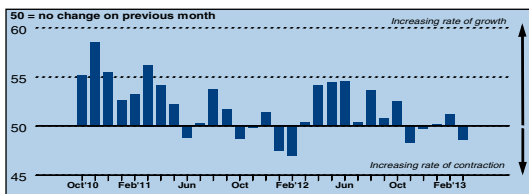
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Input inventories at manufacturing companies were depleted for the fifth successive month in March. The rate of decline was moderate and to a greater extent than in February. Where lower stocks of pre-production goods were signalled, firms generally attributed this to a combination of lower new order volumes and leaner inventory requirements.

New Export Orders Index

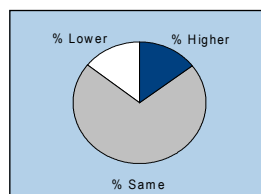
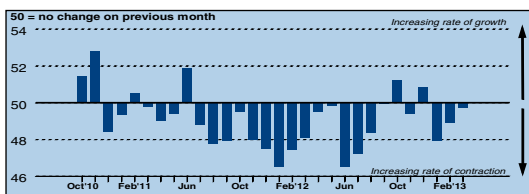
Q. Please compare the state of your new export orders (in units) this month with one month ago.



The seasonally adjusted New Export Orders Index returned below the 50.0 no-change mark in March, signalling a renewed decline in the volume of new export work received by Canadian manufacturers. The index reading was the lowest since last November and indicated a modest rate of contraction overall. Firms that reported a reduction in new export orders cited weak demand, particularly in the U.S. and the UK.

Stocks of Finished Goods Index

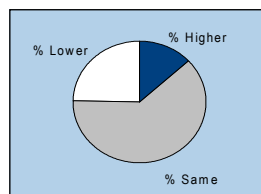
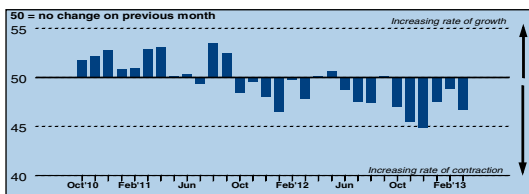
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods at manufacturing firms fell for the third consecutive month in March. However, the latest reduction in inventories of post-production goods was only marginal and the weakest in the sequence. A number of respondents depleted their stocks of finished goods to fulfil some new order requirements and, in some cases, to mitigate against production problems.

Backlogs of Work Index

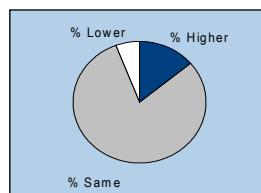
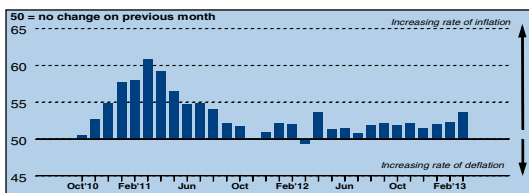
Q. Please compare the level of outstanding business in your company this month with one month ago.



Outstanding business at Canadian manufacturers fell further during March, taking the current sequence of backlog depletion to six months. One-in-four panellists reported lower levels of work-in-hand compared with February, often citing the reduction in new orders. Overall, the rate of contraction was solid and, with the seasonally adjusted Backlogs of Work Index having fallen over the month, the strongest in 2013 to date.

Output Prices Index

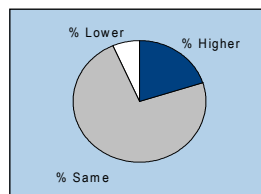
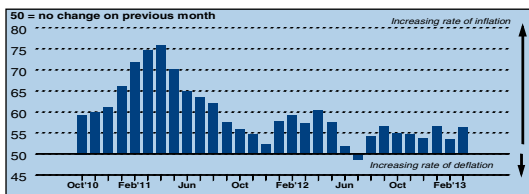
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



March data pointed to higher selling prices at Canadian manufacturers. The seasonally adjusted Output Prices Index rose to its highest reading in almost a year and indicated that the rate of inflation was solid overall. Approximately 14% of respondents raised their factory gate prices in March (while 6% reduced their charges), as greater costs were partly passed on to clients.

Input Prices Index

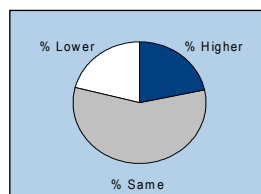
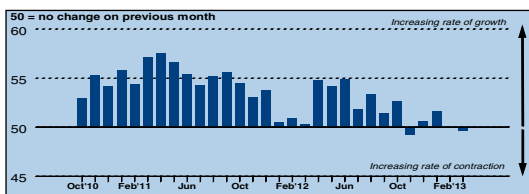
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input costs faced by manufacturing companies rose further in March. Higher raw material prices, particularly for chemicals, plastics and fuel, as well as unfavourable exchange rates contributed to the latest rise in cost burdens. The rate of input price inflation quickened from February's seven-month low.

Quantity of Purchases Index

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



Following the no change reported in February, the quantity of inputs bought by Canadian manufacturers fell in March. This was indicated by the seasonally adjusted Quantity of Purchases Index dropping below the 50.0 no-change mark and to a four-month low. That said, the index was only slightly below the neutral threshold, suggesting that the rate of decline was only marginal.



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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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