

In association with the Purchasing Management Association of Canada

Manufacturing output stagnates, despite a marginal rise in new orders in April

Key findings:

- Output levels largely unchanged in April, following a reduction in March
- Marginal rise in total new work
- Slowest rate of input price inflation since July 2012

The Canadian manufacturing sector stagnated in April, but this was nonetheless an improvement from a contraction in March. Output was largely the same as one month previously, while new orders placed at manufacturers increased, albeit only marginally. Employment was also little-changed in April, seeing only a slight rise over the month. On the price front, the rates of increase for both input costs and output charges eased, with the rate of input price inflation, in particular, the slowest in nine months.

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 seasonally adjusted RBC PMI registered 50.1 in April and, posting only slightly above the neutral threshold, signalled broadly no change in overall manufacturing business conditions. However, the PMI nonetheless rose from a survey-low of 49.3 in March, which was consistent with a modest deterioration in operating conditions.

Incoming new work at Canadian manufacturers increased in April, with firms generally linking this to greater demand. Although the rate of growth was only marginal and weaker than the series average, it was nonetheless in contrast with a reduction in March. Overall, the rise in total new work also reflected larger volumes of new export orders, which rose at the strongest rate in six months during April.

Despite higher new order requirements, production levels were largely the same as one month previously. The stagnant output trend in April nevertheless follows a decline in March. Meanwhile, stocks of finished goods were accumulated for the first time in 2013 to date, albeit marginally, and backlogs of work continued to fall for the seventh consecutive month.

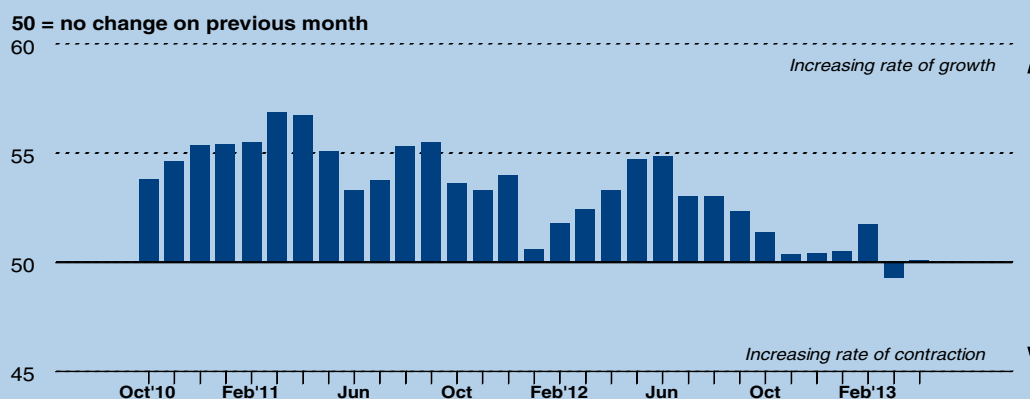
The quantity of inputs bought by manufacturers was also broadly the same as in the previous survey period, rising only fractionally over the month. Stocks of purchases, meanwhile, were depleted for the sixth consecutive month in April, and at the joint-fastest rate since January 2012.

Suppliers' delivery times continued to lengthen in April, with approximately 7% of panellists reporting a deterioration in vendor performance. That said, the latest increase in lead times was the weakest since last December.

After adjusting for seasonal variation, manufacturing employment in Canada was largely unchanged in April. The corresponding index fell further from February's four-month peak and was the second-lowest since data collection began in October 2010.

In April, manufacturers reported the weakest rise in cost burdens since July 2012. The modest increase in costs nonetheless partly reflected higher prices for raw materials, packaging and transportation. Firms passed on greater costs to clients by raising their selling prices. Output charges rose at a rate in line with the series average that was also stronger than the increase in input prices.

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



Components of the RBC Canadian Manufacturing PMI™

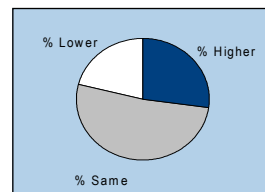
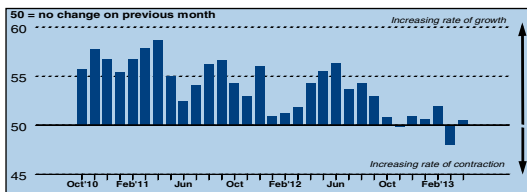
The RBC Canadian Manufacturing *Purchasing Managers' Index™ (PMI™)* is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

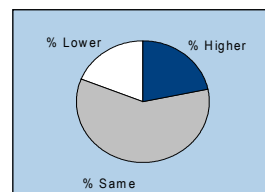
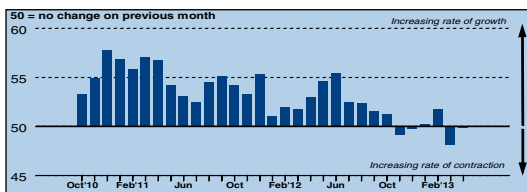
Q. Please compare the state of your new orders (in units) this month with one month ago.



Following a reduction in March, the volume of new work received by Canadian manufacturers increased in April. However, the rate of growth was only marginal and much weaker than the series average. Where an increase in new orders was reported, firms generally commented on greater client demand, as well as some new contract wins.

Output Index (0.25)

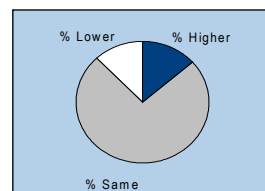
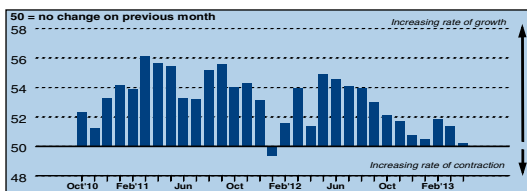
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index posted fractionally under the 50.0 no-change mark in April, suggesting that manufacturing production levels were largely the same as in March. Nonetheless, the stagnant output trend was an improvement from a modest reduction signalled one month previously. The majority of respondents (almost 60%) reported no change in output in the latest survey period.

Employment Index (0.20)

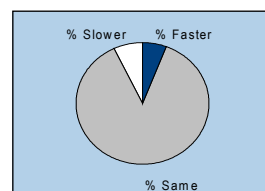
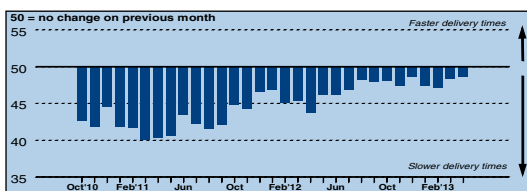
Q. Please compare the level of employment at your unit this month with the situation one month ago.



After adjusting for seasonal factors, manufacturing employment in Canada was broadly unchanged in April. This was indicated by the Employment Index posting only marginally above the 50.0 no-change mark. The index was the second-lowest since data collection began in October 2010, after a sub-50 reading in January 2012.

Suppliers' Delivery Times Index (0.15)

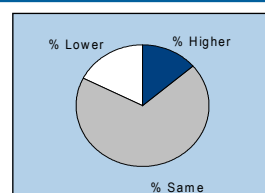
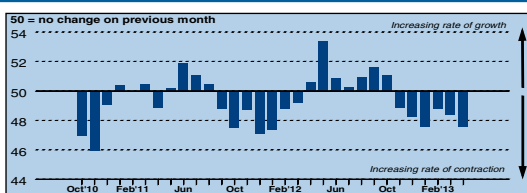
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Suppliers' delivery times lengthened further in April. Approximately 7% of panellists recorded longer lead times for inputs (while 6% registered shorter delivery times), with a number of respondents suggesting that vendors were busier and had leaner inventories. Overall, the latest increase in suppliers' delivery times was moderate, but to a lesser extent than one month previously.

Stocks of Purchases Index (0.10)

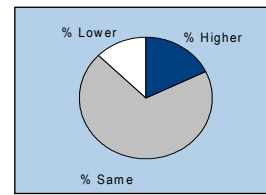
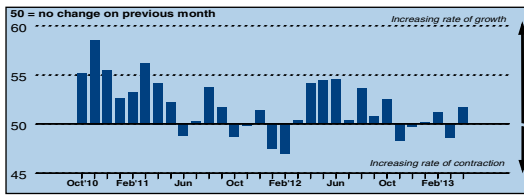
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Input inventories fell for the sixth consecutive month in April. The rate of stock depletion was solid and the joint-fastest in 15 months, on par with January's pace. Approximately 18% of surveyed manufacturers reported lower stocks of purchases over the month, with a number of companies citing a preference for leaner inventories.

New Export Orders Index

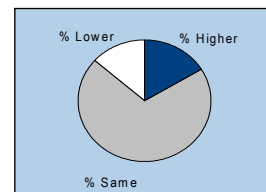
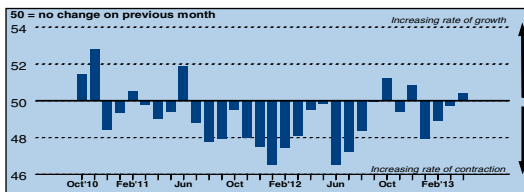
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Canadian manufacturing firms received a larger volume of new export orders in April, reversing a reduction recorded in March. The rate of growth was the strongest in six months and broadly in line with the series average. Firms that reported an increase in new export work generally attributed this to new client wins, particularly in the United States.

Stocks of Finished Goods Index

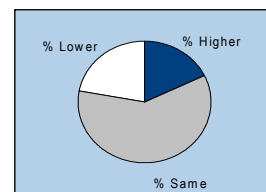
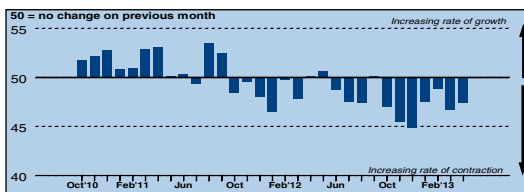
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index posted above the 50.0 no-change mark in April, suggesting an increase in inventories of post-production goods. Although only marginal, this was the first accumulation in 2013 to date. Approximately 16% of monitored companies reported an increase in stocks of finished goods, compared with 14% that registered a reduction.

Backlogs of Work Index

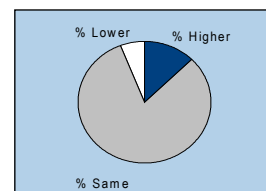
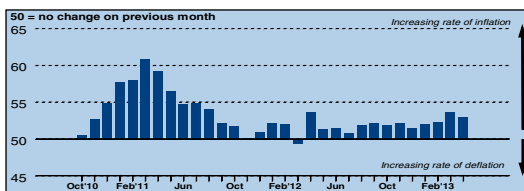
Q. Please compare the level of outstanding business in your company this month with one month ago.



Following the trend that has been registered in each month since last October, the amount of work-in-hand (but not yet completed) at manufacturing firms fell during April. Anecdotal evidence largely linked the latest decline in outstanding business to the weak trend in new orders. Overall, the reduction in backlogs of work was solid, albeit to a lesser extent than in the previous survey period.

Output Prices Index

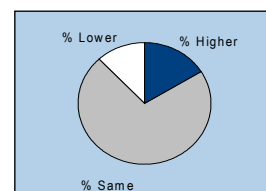
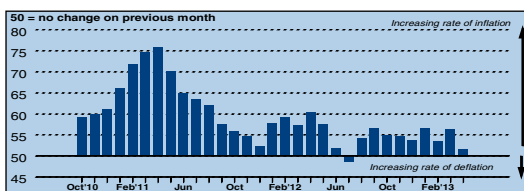
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Output charges at Canadian manufacturers rose for the thirteenth successive month in April. Despite the rate of inflation having eased from March's 11-month peak, it was broadly in line with the series average. One-in-eight firms raised their selling prices over the month, attributing this to higher costs which were passed on to clients.

Input Prices Index

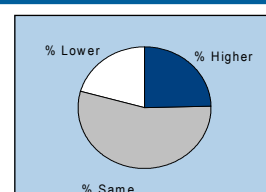
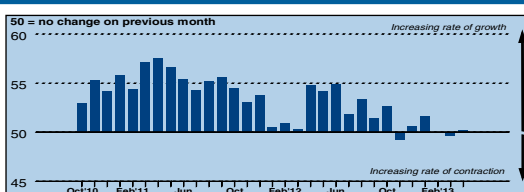
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



The seasonally adjusted Input Prices Index remained above the 50.0 no-change mark in April, indicating a further increase in cost burdens. However, having fallen sharply from March's reading to a nine-month low, the index was consistent with only a modest rate of inflation. Panellists nonetheless commonly reported higher prices for raw materials, packaging and transportation.

Quantity of Purchases Index

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



The amount of inputs bought by manufacturing companies in April was largely the same as the volume purchased in March. This was signalled by the seasonally adjusted Quantity of Purchases Index posting only slightly above the 50.0 no-change threshold. The broadly stagnant trend in purchasing activity was nonetheless an improvement from a marginal reduction recorded in the previous survey period.



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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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