

In association with the Purchasing Management Association of Canada

PMI points to strongest improvement in manufacturing business conditions for almost a year in May

Key findings:

- New order growth accelerates sharply to 11-month high
- First increase in output for three months
- Strongest rate of job creation since last August

Canadian manufacturing business conditions improved at the strongest pace for almost a year in May. A much faster expansion of new orders, partly reflecting greater client demand, supported a return to growth for output. Moreover, the solid rise in new work contributed towards the first increase in backlogs of orders for eight months and encouraged firms to hire additional staff. On the price front, input costs rose modestly in May, with the rate of inflation little-changed from April's nine-month low.

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 rose to an 11-month high in May. At 53.2, up sharply from 50.1 in April to a level broadly in line with the series average, the headline PMI index was consistent with a solid improvement in Canadian manufacturing operating conditions.

The volume of new work received by Canadian manufacturers rose for the second month running in May. Firms generally reported greater client demand and new contract wins, as well a further increase in new export order volumes. Overall, the rate of total new order growth accelerated sharply since April to an 11-month high.

The solid rise in incoming new work contributed to an increase in

production during May. Notably, this was the first rise in output in three months, with the rate of growth faster than the series average.

Concurrently, both the levels of work-in-hand and stocks of finished goods at manufacturing companies increased in the latest survey period. Although the rate of accumulation was modest, it was the first increase in backlogs of work for eight months.

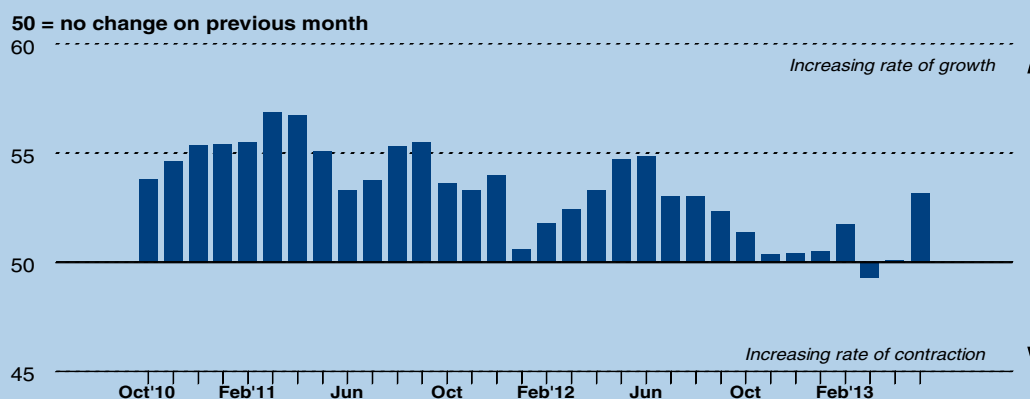
The quantity of inputs bought by manufacturers rose for the second month running in May. Meanwhile, stocks of purchases were depleted further, albeit at the weakest pace in the current seven-month sequence of contraction. A number of companies cited a preference for leaner inventories in the latest survey period.

Suppliers' delivery times lengthened further in May, partly reflecting raw material shortages at some vendors. However, the latest increase in lead times was only modest, with the corresponding index unchanged from April's joint-survey record high.

Manufacturing employment in Canada increased in May, with approximately 22% of firms hiring additional staff since April. The rate of job creation strengthened to a nine-month high and was faster than the series average.

Manufacturers reported higher input costs over the month, with raw materials including wood and metals commonly recorded as having increased in price. However, the rate of inflation was only modest and much weaker than the series average. Panellists passed on greater costs to clients by raising their output charges, but the increase was nonetheless the weakest since last July.

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



Components of the RBC Canadian Manufacturing PMI™

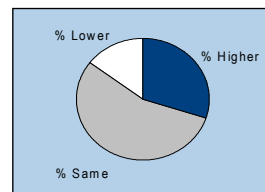
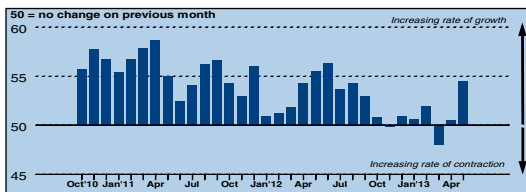
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

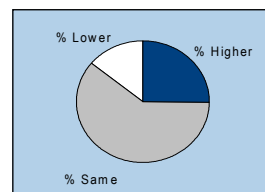
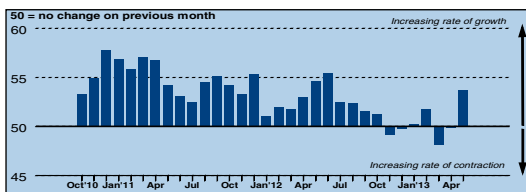
Q. Please compare the state of your new orders (in units) this month with one month ago.



After adjusting for seasonal variation, the volume of new work received by Canadian manufacturers rose solidly in May. Exactly 30% of surveyed firms reported an increase in new orders, generally linking this to greater client demand and new contract wins. Notably, the rate of growth was much sharper than a marginal expansion in April, with the New Orders Index rising four points over the month.

Output Index (0.25)

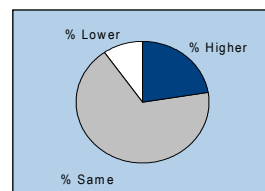
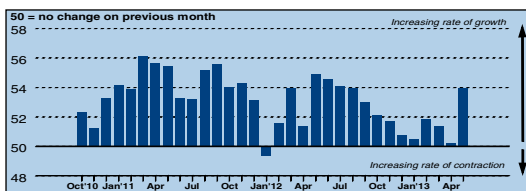
Q. Please compare your production/output this month with the situation one month ago.



For the first time in three months, production at manufacturing companies in Canada increased in May. Moreover, the rate of output growth was solid and the fastest since June 2012. Firms that reported higher output levels (one-in-four respondents) generally commented on larger volumes of new work in the latest survey period.

Employment Index (0.20)

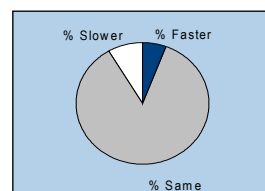
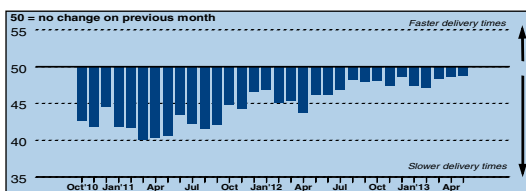
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Manufacturing employment in Canada rose for the sixteenth consecutive month in May. Moreover, the rate of job creation accelerated sharply to a nine-month high, and was faster than the series average. Approximately 22% of survey respondents hired additional staff since April (while 10% reduced their workforces), and largely linked this to increased new work.

Suppliers' Delivery Times Index (0.15)

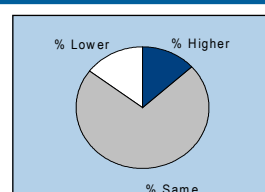
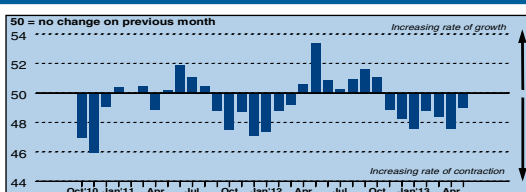
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index remained below the 50.0 no-change mark in May, suggesting a further lengthening of lead times for inputs. The latest increase in delivery times partly reflected raw material shortages at some suppliers. That said, unchanged from April's joint-record high, the index nonetheless indicated only a modest deterioration in overall vendor performance.

Stocks of Purchases Index (0.10)

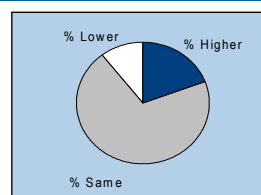
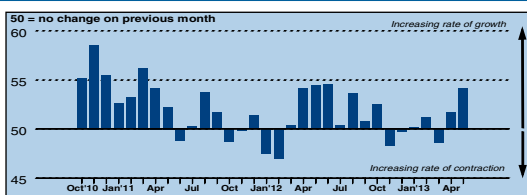
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Input inventories at manufacturing firms were depleted for the seventh consecutive month in May. Where lower levels of pre-production goods stock were reported, a number of companies cited a preference for leaner inventories. Nonetheless, the rate of decline was modest and the weakest in the current sequence of contraction.

New Export Orders Index

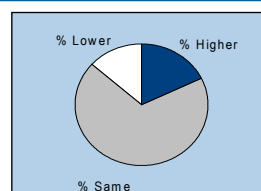
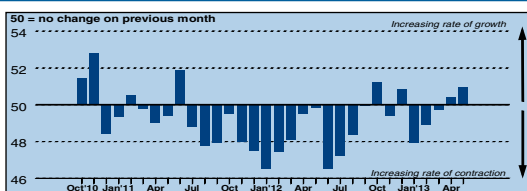
Q. Please compare the state of your new export orders (in units) this month with one month ago.



The volume of new export orders received by Canadian manufacturing companies rose solidly in May. The seasonally adjusted New Export Orders Index has increased almost six points since March, reaching its highest level in 11 months. Firms commented on improving economic conditions in some key export markets, particularly the United States.

Stocks of Finished Goods Index

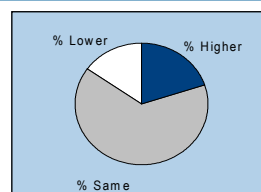
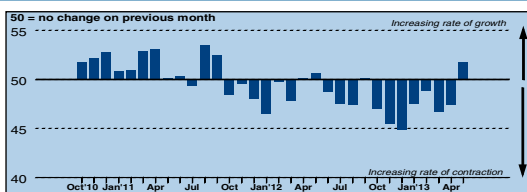
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods at monitored companies increased for the second month running in May. Although only marginal, the rate of inventory accumulation was the fastest in seven months. Anecdotal evidence provided by panellists suggested that stocks of finished goods were rebuilt in anticipation of further new order growth in the coming months.

Backlogs of Work Index

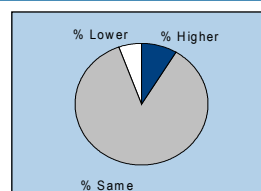
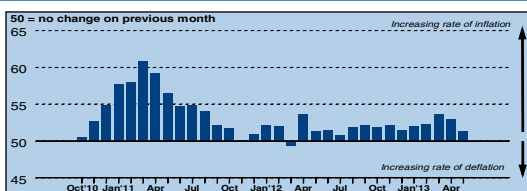
Q. Please compare the level of outstanding business in your company this month with one month ago.



Manufacturers reported higher levels of outstanding business in May, as signalled by the seasonally adjusted Backlogs of Work Index rising above the 50.0 no-change mark. This was the first increase in work-in-hand since last September, with panellists linking the rise to larger volumes of new orders. Overall, the rate of backlog accumulation was moderate and the strongest in 20 months.

Output Prices Index

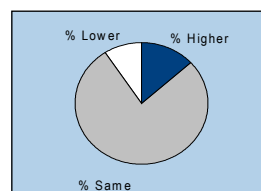
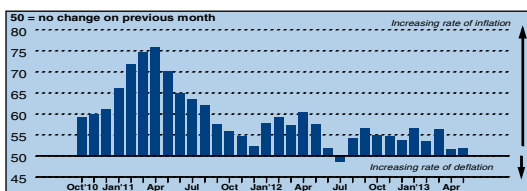
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Average selling prices at manufacturing companies rose further in May, taking the current sequence of increases to 14 months. Firms generally passed on higher input costs to clients by raising their charges in the latest survey period. That said, the latest rise in output prices was modest and the weakest since last July.

Input Prices Index

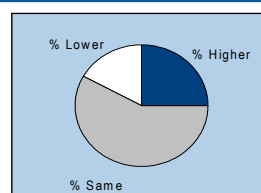
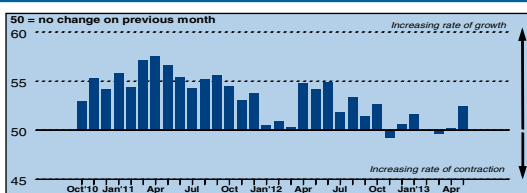
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input costs faced by manufacturers rose further in May, with panellists commonly reporting higher prices for raw materials including wood and metal, as well as packaging. However, the overall rate of input price inflation was little-changed from the modest pace recorded in April and remained much 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 manufacturers rose for the second consecutive month in May. One-in-four surveyed companies increased their purchasing volumes since April, citing higher new order requirements. Overall, the rate of growth of buying activity was moderate and, having quickened over the month, the fastest since last October.



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The Purchasing Management Association of Canada (PMAC) is the leading, and the largest, association in Canada for supply chain management professionals. With 7,000 members working across private and public sectors, PMAC is the principal source of supply chain training, education and professional development in the country, requiring all members to adhere to a Code of Ethics. Through its 10 Provincial and Territorial Institutes, PMAC grants the SCMP (Supply Chain Management Professional) designation, the highest achievement in the field and the mark of strategic leadership.

For more information, contact:

Cori Ferguson
416 542-9129
cferguson@pmac.ca
www.pmac.ca



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Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

Markit Economics
Henley on Thames
Oxon RG9 1HG, UK
Tel: +44 1491 461000
Fax: +44 1491 461001
e-mail: economics@markit.com

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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