

In association with the Purchasing Management Association of Canada

PMI signals moderate manufacturing expansion in June, with ongoing growth of output and new orders

Key findings:

- Both output and new orders increase solidly, but at weaker rates
- Suppliers' delivery times shorten for first time in 33-month series history
- Rate of input price inflation accelerates to three-month high

Business conditions in the Canadian manufacturing sector continued to improve at a moderate pace in June, reflecting ongoing growth of output and new orders. Although having eased since May, the latest expansions were nonetheless stronger than those registered at the beginning of the year. Reflecting increased new work, manufacturers continued to add to their workforces, hiring staff at a faster rate than the series average. Meanwhile, a stronger rise in input costs added pressure to margins, especially as output charges were unchanged from one month earlier.

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 52.4 in June, suggesting a moderate improvement in Canadian manufacturing business conditions. Although down from 53.2 in May to a level below the series average (53.3), the headline PMI index was the second-highest since last September.

Manufacturers received a larger volume of new orders in June, and generally attributed this to greater client demand. New export work also rose over the month, with firms particularly mentioning an increase in new orders from Europe. Overall, total new order growth was solid, but slower than the 11-month peak recorded in May.

Firms raised their production levels and depleted stocks of finished goods in light of higher new order requirements. Output increased for the second consecutive month in June, with the latest rise broadly in line with the series average. Meanwhile, backlogs of work fell, but the reduction mostly reversed an increase in May.

Concurrently, the quantity of inputs bought by manufacturing companies rose further during June. Stocks of purchases were meanwhile broadly the same as in May, with two-in-three panellists reporting no change in input inventories.

For the first time in the 33-month series history, lead times for inputs fell during June. A number of survey respondents suggested that vendors were less busy and were actively reducing the amount of work-in-hand. Nonetheless, suppliers' delivery times shortened only marginally.

Manufacturing employment in Canada continued to rise in June, with one-in-five surveyed firms hiring additional staff since May. Anecdotal evidence linked job creation to the recent expansion in new orders. Overall, the rate of employment growth was solid, but slightly weaker than the nine-month high recorded in the previous survey period.

Input costs faced by manufacturers increased in June, with higher raw material prices, particularly for steel, commonly reported by panellists. The rate of inflation was the strongest in three months, but remained weaker than the series average. Meanwhile, firms left their output charges unchanged from May. This ended a 14-month sequence of increases.

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



Components of the RBC Canadian Manufacturing PMI™

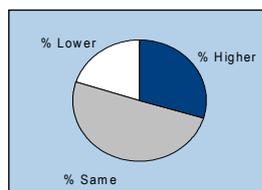
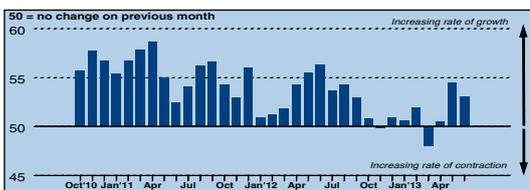
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

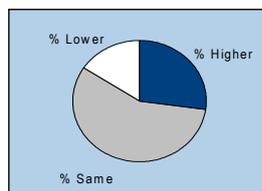
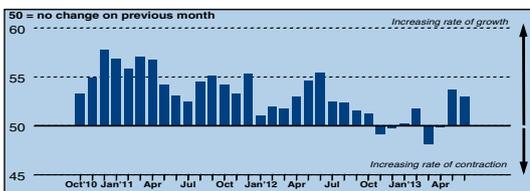
Q. Please compare the state of your new orders (in units) this month with one month ago.



Incoming new work at Canadian manufacturers increased for the third consecutive month in June. The rate of growth was solid, although slower than the 11-month high recorded in May. Approximately 30% of panellists reported larger new order volumes (while 20% recorded a reduction), and generally linked the increase to greater client demand.

Output Index (0.25)

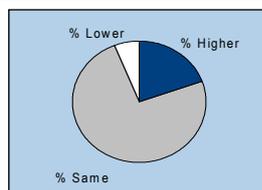
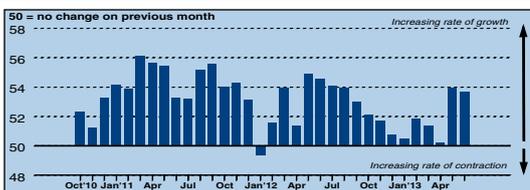
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output rose for the second month running in June. Moreover, the latest increase was the second-strongest for a year and broadly in line with the series average. A number of companies attributed higher output levels to greater new order volumes, although other firms also cited recent improvements to the production process.

Employment Index (0.20)

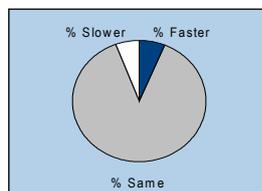
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Employment in Canada's manufacturing sector rose further during June, with almost one-in-five surveyed companies hiring additional staff since May. Anecdotal evidence attributed job creation to the recent expansion of incoming new work. Overall, the rate of employment growth was solid, albeit slightly weaker than the nine-month peak reached in May.

Suppliers' Delivery Times Index (0.15)

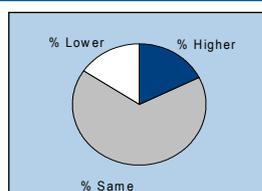
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



The seasonally adjusted Suppliers' Delivery Times Index rose above the 50.0 no-change mark for the first time in the 33-month series history during June. This indicated that lead times for inputs shortened compared with one month previously. However, the index posted only slightly above the neutral threshold, suggesting that vendor performance improved marginally.

Stocks of Purchases Index (0.10)

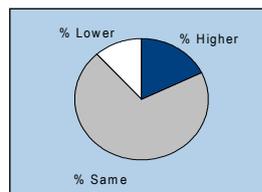
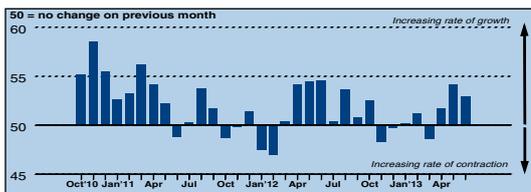
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



After adjusting for seasonal influences, the amount of inputs held as stock at manufacturing companies in June was broadly the same as that in May. The Stocks of Purchases Index rose to a reading broadly in line with the 50.0 no-change mark, its highest level since October 2012. The majority of survey respondents (two-in-three) reported no change in input inventories over the month.

New Export Orders Index

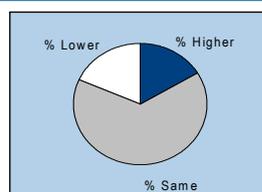
Q. Please compare the state of your new export orders (in units) this month with one month ago.



The volume of new export orders received by Canadian manufacturers increased for the third consecutive month in June. An increase in new work from Europe was particularly mentioned by a number of companies. Despite having eased from May, the latest rise in new export orders was moderate and stronger than the series average.

Stocks of Finished Goods Index

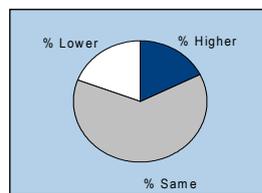
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Following two months of inventory accumulation, stocks of finished goods at manufacturing firms fell during June. Approximately 18% of panellists reported a reduction in post-production goods stock (while 16% registered an increase), citing a preference for leaner inventories. Overall, the rate of stock depletion was modest, albeit the strongest since February.

Backlogs of Work Index

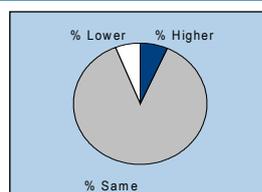
Q. Please compare the level of outstanding business in your company this month with one month ago.



The seasonally adjusted Backlogs of Work Index posted below the 50.0 no-change mark in June, signalling a reduction in the level of work-in-hand at manufacturers. Weaker new order growth and the completion of large projects were some of the reasons provided by panellists when explaining the decline. Overall, the rate of contraction was modest, but largely reversed an increase in May.

Output Prices Index

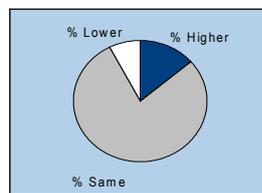
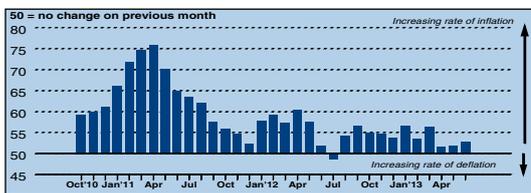
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



In June, average selling prices at manufacturing companies were unchanged from May. This was indicated by the seasonally adjusted Output Prices Index posting at the 50.0 no-change threshold that separates higher charges from a reduction. The stagnation in factory gate prices ended a 14-month sequence of inflation.

Input Prices Index

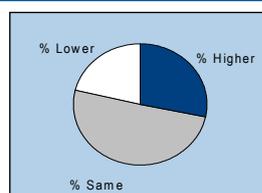
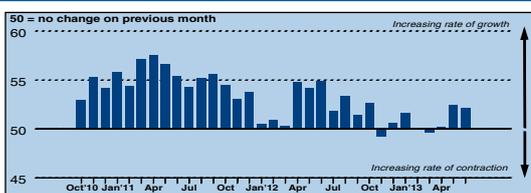
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input costs faced by Canadian manufacturers increased in June, taking the current sequence of inflation to 11 months. Approximately 14% of respondents reported larger cost burdens over the month, often citing higher raw material prices, particularly for steel. Overall, the rate of input price inflation was the strongest in three months, but remained 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.



Reflective of the increase in new orders, the quantity of inputs bought by manufacturers rose for the third successive month in June. Over 28% of surveyed firms reported larger purchasing volumes compared with one month previously, while 21% recorded a decline. Overall, the rate of growth was little-changed from May's modest pace.



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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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