

In association with the Purchasing Management Association of Canada

PMI signals modest improvement in manufacturing business conditions

Key findings:

- Output and new order growth continues in August
- Strongest rise in employment since May
- Input price inflation picks up to five-month high

Canadian manufacturing business conditions continued to improve in August, with output and new orders both rising at modest rates since July. This generally reflected greater client demand in both the domestic and export markets. Concurrently, firms hired additional staff, with the rate of employment growth accelerating to a three-month high. On the price front, input cost inflation picked up further, while output charges fell for the second month running.

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 accounting for usual seasonal variation, the RBC PMI posted 52.1 in August, little-changed from July's reading of 52.0, and signalled a further improvement in operating conditions. The PMI has indicated growth of the manufacturing sector for five consecutive months, although the latest expansion was modest and weaker than the series average.

Manufacturers received a larger volume of new orders in August, as has been the case in each month since April. New work intakes grew in both the domestic and export markets, with the United States particularly highlighted as a source for the latter. Overall, total new order growth was solid, albeit unchanged from a three-month low recorded in July.

Reflective of increased new work, firms raised production and depleted existing inventories of finished goods. Output rose modestly in August, despite the rate of growth being the weakest in the current four-month sequence.

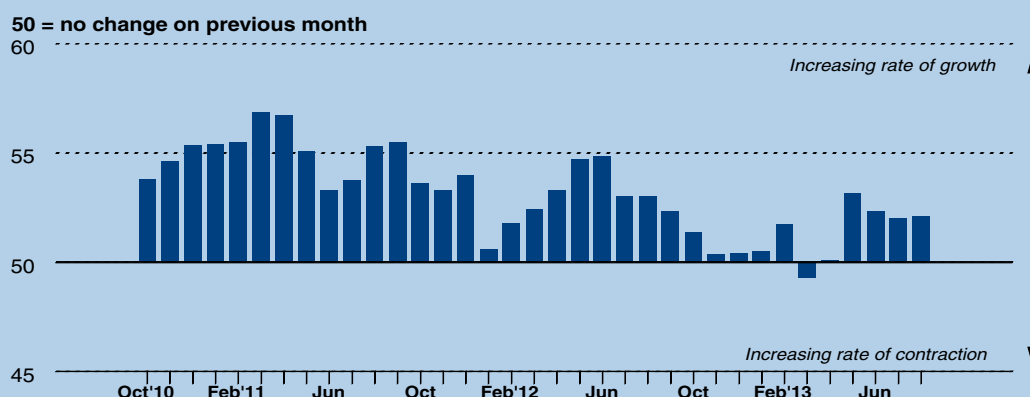
The quantity of inputs bought by Canadian manufacturers rose marginally in the latest survey period. Stocks of purchases also fell, albeit slightly, having increased one month previously. The reduction in input inventories partly reflected a preference for leaner stocks, but was also to mitigate against longer suppliers' delivery times. Lead times for inputs, on average, increased for the second month running in August.

Employment in the Canadian manufacturing sector rose further in August, taking the current sequence of growth to 19 months. Approximately 18% of surveyed firms hired additional staff since July (while 7% reduced their staff numbers), and often cited increased business activity. Overall, the rate of job creation was solid and the second-fastest in a year.

Input costs faced by manufacturers continued to rise in August. Panellists commonly reported higher prices for commodities, including oil and metals. Although the rate of inflation accelerated for the fourth month running to its fastest since March, it nonetheless remained weaker than the historic average.

In contrast, average selling prices at manufacturing firms fell for the second month running. This was the first back-to-back reduction in output charges since data collection began in October 2010.

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



Components of the RBC Canadian Manufacturing PMI™

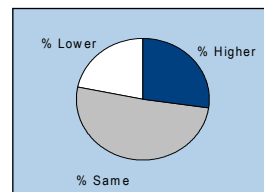
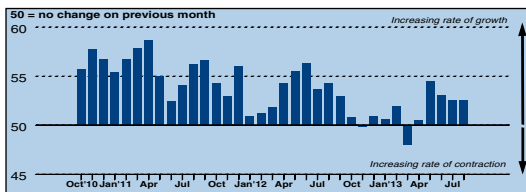
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

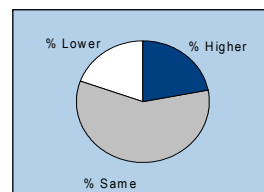
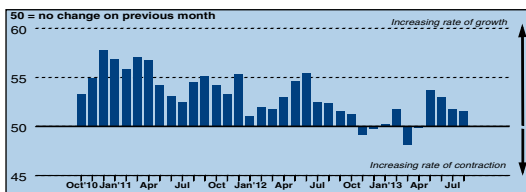
Q. Please compare the state of your new orders (in units) this month with one month ago.



The seasonally adjusted New Orders Index remained above the neutral threshold of 50.0 in August, signalling a further increase in new work intakes at Canadian manufacturers. The index, unchanged from July, was consistent with a modest rate of growth that was weaker than the series average. The increase in new order volumes largely reflected greater client demand according to survey respondents.

Output Index (0.25)

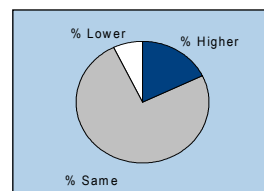
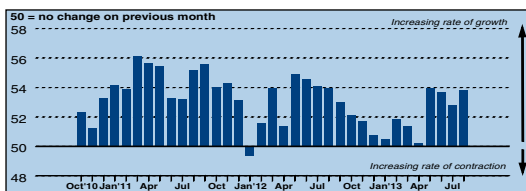
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output in Canada increased for the fourth consecutive month in August. Almost 22% of monitored companies reported higher production levels compared with July, often linking this to increased new order volumes. That said, the rate of output growth was the weakest in the current sequence of expansion.

Employment Index (0.20)

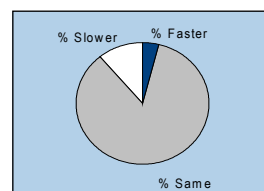
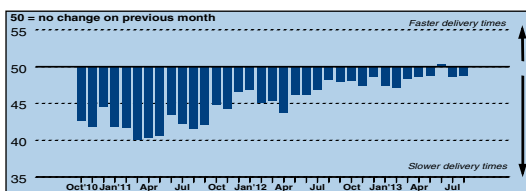
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Following the trend that has been registered in each month since February 2012, employment in the Canadian manufacturing sector increased in August. Approximately 18% of panellists hired additional staff since July, while 7% reduced their headcount. Overall, the rate of job creation was solid and, having quickened over the month, the fastest since May.

Suppliers' Delivery Times Index (0.15)

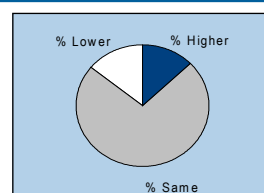
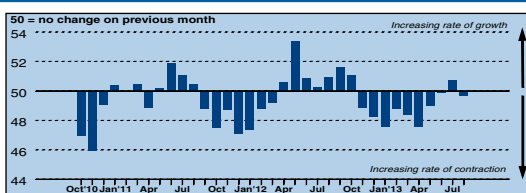
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



Lead times for inputs lengthened for the second successive month in August. This was signalled by the seasonally adjusted Suppliers' Delivery Times Index posting below the 50.0 no-change mark. Anecdotal evidence attributed the latest deterioration in vendor performance to greater market activity, as well as a shortage of key raw materials at some suppliers.

Stocks of Purchases Index (0.10)

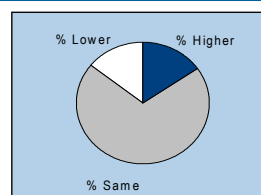
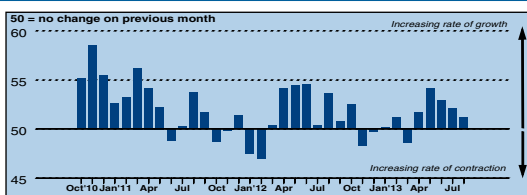
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Stocks of purchases at manufacturing companies were depleted during August. Although the rate of contraction was only marginal, it followed an accumulation of inventories one month previously. A number of panellists cited a preference for leaner inventories in the latest survey period. Nonetheless, other respondents reported that existing stocks of inputs were used to offset longer suppliers' delivery times.

New Export Orders Index

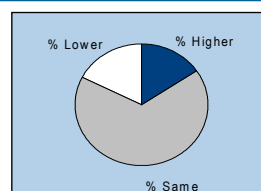
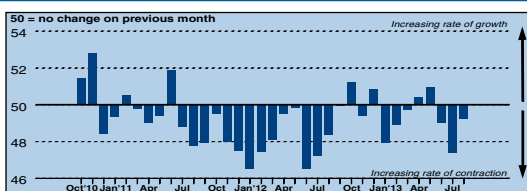
Q. Please compare the state of your new export orders (in units) this month with one month ago.



New export orders received by Canadian manufacturers increased for the fifth consecutive month in August. Greater client demand, particularly from the United States, was commonly reported by a number of firms. That said, the latest rise in new export work was only modest and the weakest in the current sequence.

Stocks of Finished Goods Index

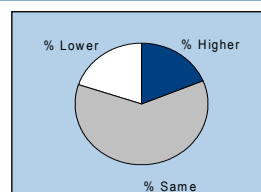
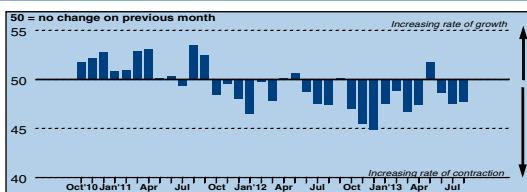
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



After adjusting for seasonal variation, the level of finished goods stocks at manufacturing companies fell for the third consecutive month in August. Approximately 18% of firms reported lower inventories of finished goods, often attributing this to larger volumes of new orders. Overall, the rate of inventory depletion was marginal and much weaker than the one-year peak recorded in July.

Backlogs of Work Index

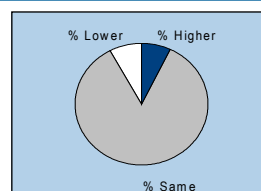
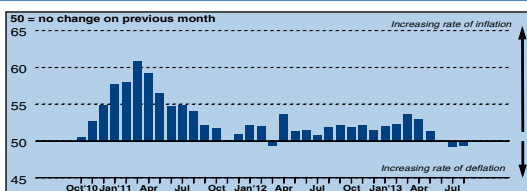
Q. Please compare the level of outstanding business in your company this month with one month ago.



Outstanding business at manufacturing firms declined during August, as has been the case in ten out of the past 11 months. The rate of backlog depletion was moderate, albeit slightly weaker than that registered one month previously. Approximately one-in-five companies reported lower levels of work-in-hand in the latest survey period.

Output Prices Index

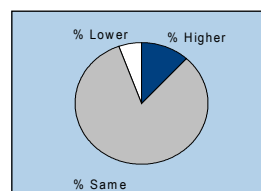
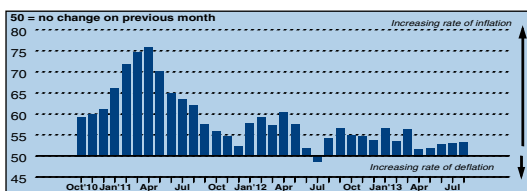
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Average selling prices in the Canadian manufacturing sector fell for the second month running in August. Although the rate of decline was marginal, this was the first back-to-back reduction in output charges since data collection started in October 2010. A number of panellists lowered their output prices in an attempt to win new business.

Input Prices Index

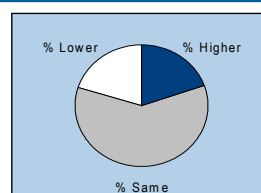
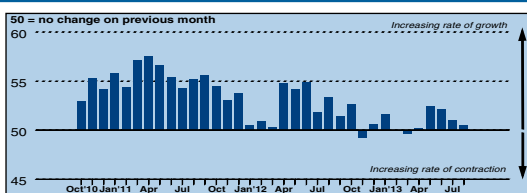
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



Input prices continued to rise in August, with almost 12% of survey respondents recording an increase since July. Commodities including oil and steel were commonly reported as having risen in price over the month. Overall, the rate of inflation accelerated for the fourth month running, reaching its fastest pace since March. However, it remained much slower 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 higher new order requirements, the quantity of inputs bought by manufacturers increased in August. This was indicated by the seasonally adjusted Quantity of Purchases Index posting above the 50.0 no-change threshold. Purchasing activity has risen in each month since April, although the latest increase was marginal and the weakest in four months.



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RBC supports a broad range of community initiatives through donations, sponsorships and employee volunteer activities. In 2012, we contributed more than \$95 million to causes worldwide, including donations and community investments of more than \$64 million and \$31 million in sponsorships.



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.

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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

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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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