

In association with the Supply Chain Management Association

Canadian manufacturing PMI dips to nine-month low in January

Key findings:

- Slowest improvement in business conditions since April 2013
- Latest data indicates slower rates of output and new order growth
- Employment levels fall for first time in two years

January data pointed to a setback for the Canadian manufacturing sector at the start of 2014, with output and new business growth both the weakest for five months. Meanwhile, staffing levels were reduced for the first time in two years and manufacturers responded to the moderation in new order growth by cutting their input buying and pre-production inventory levels during the latest survey period.

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.

Adjusted for seasonal influences, the headline RBC PMI dipped from 53.5 in December to 51.7 in January. Although the index remained above the neutral 50.0 value, the latest reading pointed to the slowest overall improvement in business conditions since April 2013. All five components of the RBC PMI made a weaker contribution to the headline index than in the previous month, led by slower expansions of output and new business volumes.

Production levels in the Canadian manufacturing sector increased for the ninth successive month, but the rate of growth was the least marked since last August. Anecdotal evidence generally suggested that slower output growth reflected softer rises in demand, especially from domestic sources. January data pointed to a moderation in total new order growth, despite an acceleration in export sales. The latest

survey highlighted that new orders from abroad increased at the most marked pace since September 2013, with some manufacturers noting improved spending patterns in developed markets.

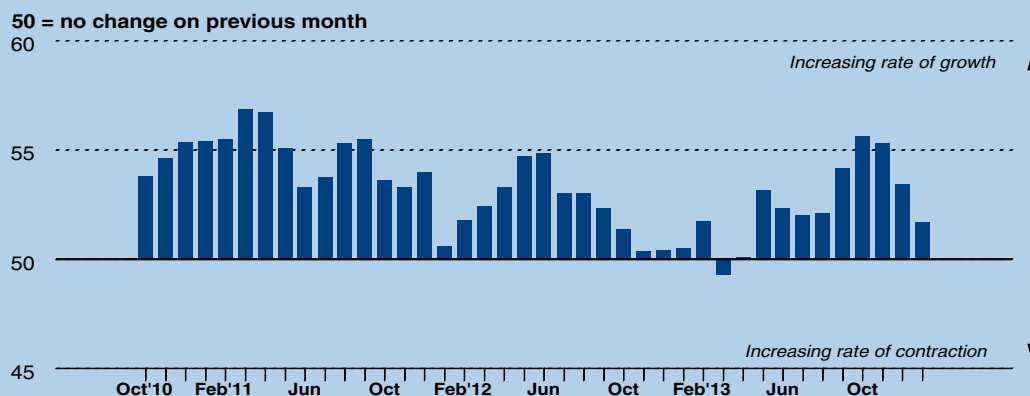
Weaker growth of overall new work contributed to a drop in unfinished business for the second month running, although the rate of decline remained only slight. Meanwhile, a general lack of pressure on operating capacity led to a marginal decrease in manufacturing employment levels during January. The reduction in staffing levels was the first for two years.

Manufacturers in Canada responded to softer new business growth by cutting their stocks of purchases at the start of 2014. Latest data signalled the joint-fastest decline in pre-production inventories for two years.

In line with the drop in input stocks, volumes of purchasing activity across the manufacturing sector decreased for the first time in ten months. However, average delivery times from suppliers continued to lengthen during January. Worsening vendor performance has been recorded in each month since July 2013.

Average cost burdens increased in the Canadian manufacturing sector during January, which extended the current period of continuous input price inflation to one-and-a-half years. Latest data indicated a robust and accelerated pace of cost inflation, with the overall rise in input prices the fastest since April 2012. Meanwhile, prices charged by manufacturers in Canada continued to increase in January, and the rate of inflation reached a three-month high.

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



Components of the RBC Canadian Manufacturing PMI™

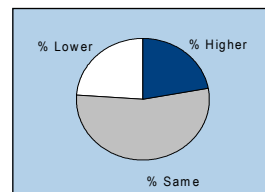
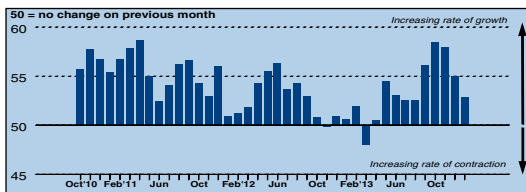
The RBC Canadian Manufacturing *Purchasing Managers' Index*™ (PMI™) is a composite index designed to show a convenient single-figure summary of the health of the manufacturing sector. The five individual indices used in the headline PMI and their weightings are:

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)

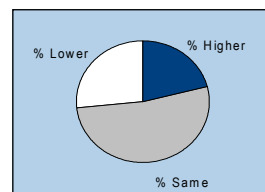
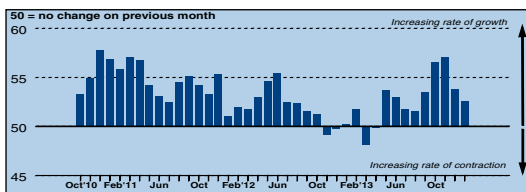
Q. Please compare the state of your new orders (in units) this month with one month ago.



Manufacturers in Canada signalled a further moderation in new business growth during January. Adjusted for seasonal influences, the New Orders Index dipped to its lowest level since August 2013. That said, the index has now posted above the neutral 50.0 value for ten consecutive months and the latest reading still pointed to a solid overall expansion of incoming new work.

Output Index (0.25)

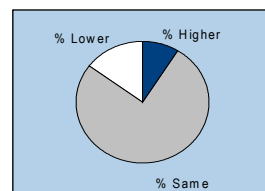
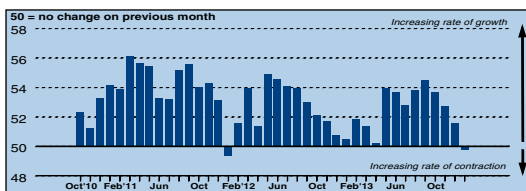
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index registered above the 50.0 no-change value in January, thereby extending the current period of production growth to nine months. In line with the trend for new orders, the latest expansion of Canadian manufacturing output levels was the slowest since August 2013.

Employment Index (0.20)

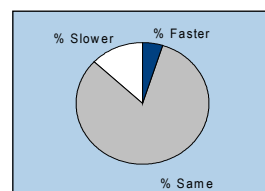
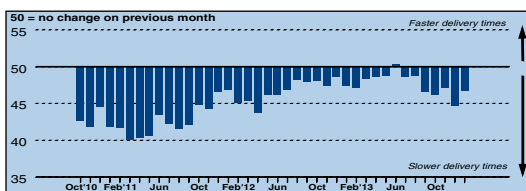
Q. Please compare the level of employment at your unit this month with the situation one month ago.



Workforce levels at Canadian manufacturers dipped fractionally at the start of 2014. Adjusted for seasonal factors, the Employment Index was below the 50.0 no-change mark for the first time in two years. Anecdotal evidence from survey respondents suggested that manufacturers had taken a cautious approach to staff hiring in response to softer new business growth at their plants.

Suppliers' Delivery Times Index (0.15)

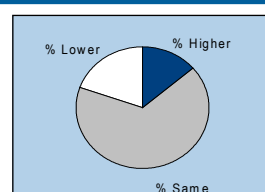
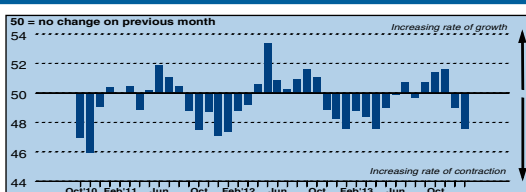
Q. Please compare your suppliers' delivery times (volume weighted) this month with one month ago.



January data indicated a further lengthening of average lead-times from vendors. The seasonally adjusted Suppliers' Delivery Times Index was below the 50.0 no-change value for the seventh successive month, but the latest reading signalled a less marked deterioration of vendor performance than that seen in December.

Stocks of Purchases Index (0.10)

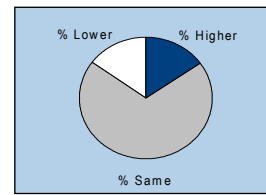
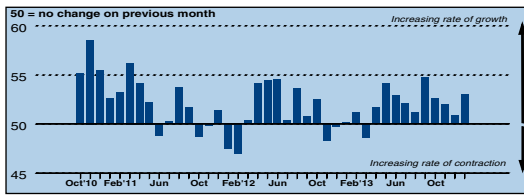
Q. Please compare your stocks of purchases (in units) this month with the situation one month ago.



Pre-production inventories continued to decline in the Canadian manufacturing sector during January. Moreover, the seasonally adjusted Stocks of Purchases Index pointed to the joint-fastest rate of contraction for two years. A number of panel members noted that weaker new business growth had resulted in efforts to reduce inventories of inputs at their plants.

New Export Orders Index

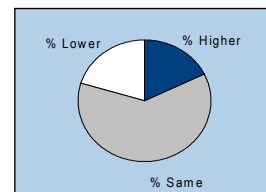
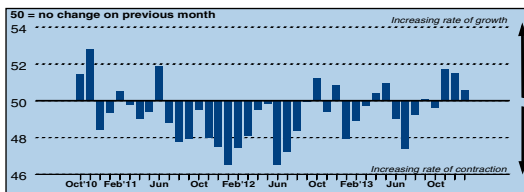
Q. Please compare the state of your new export orders (in units) this month with one month ago.



Volumes of new work from abroad continued to rise in January, which extended the current period of expansion to ten months. Adjusted for seasonal influences, the New Export Orders Index indicated a solid pace of growth that was the fastest since September 2013. Companies that reported an increase in new business from export clients generally noted an improvement in spending patterns across developed markets.

Stocks of Finished Goods Index

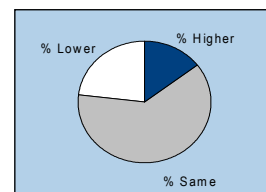
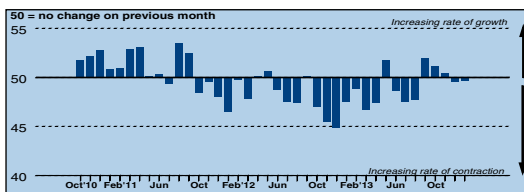
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Canadian manufacturers signalled a further rise in post-production inventories during January. However, the seasonally adjusted Stocks of Finished Goods Index pointed to only a moderate rate of inventory accumulation that was the slowest in the current three-month period of expansion.

Backlogs of Work Index

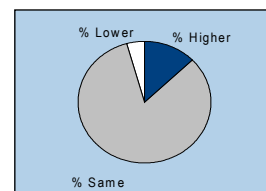
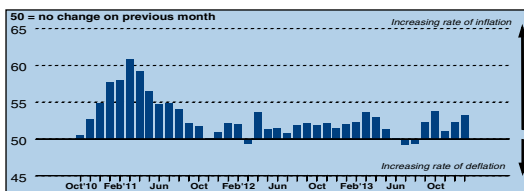
Q. Please compare the level of outstanding business in your company this month with one month ago.



Latest data pointed to a further slight decline in work-in-hand (but not yet completed) across the Canadian manufacturing sector. Adjusted for seasonal factors, the Backlogs of Work Index has now posted below the 50.0 no-change value in five of the past eight months. Reports from panel members mostly suggested that new business intakes during January had exerted little pressure on operating capacity.

Output Prices Index

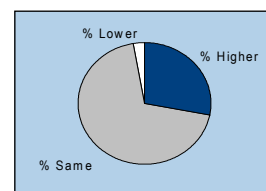
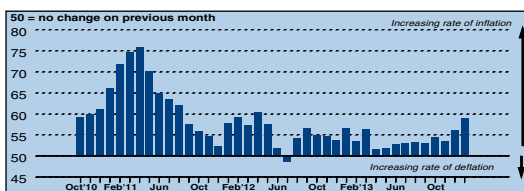
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago.



Factory gate price inflation accelerated for the second month running in January. Average prices charged by manufacturers in Canada have now increased for five consecutive months and the latest rise was the most marked since October 2013. Survey respondents widely attributed higher selling prices to a strong upturn in cost burdens at the start of the year.

Input Prices Index

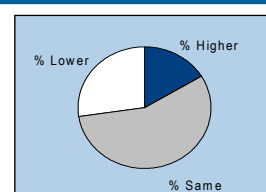
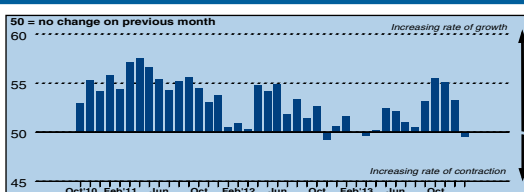
Q. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago.



January data highlighted a sharp and accelerated rise in average cost burdens across the Canadian manufacturing sector. The seasonally adjusted Input Prices Index increased for the second month running and signalled the fastest pace of cost inflation since April 2012. However, the latest reading remained well below the peaks seen in the first half of 2011.

Quantity of Purchases Index

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



Adjusted for seasonal influences, the Quantity of Purchases Index registered below the 50.0 no-change level in January, thereby ending a nine-month period of rising input buying in the Canadian manufacturing sector. That said, the latest reading signalled only a marginal reduction in purchasing activity. Some survey respondents attributed lower input buying to slower output growth at their plants in January.



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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.



As the leading and largest association in Canada for supply chain management professionals, the Supply Chain Management Association (SCMA) is the national voice for advancing and promoting the profession. SCMA sets the standard of excellence for professional skills, knowledge and integrity and was the first supply chain association in the world to require that all members adhere to a Code of Ethics.

With nearly 8000 members working across the private and public sectors, SCMA is the principal source of supply chain training, education and professional development in the country. Through its 10 Provincial and Territorial Institutes, SCMA grants the Supply Chain Management Professional (SCMP) designation, the highest achievement in the field and the mark of strategic supply chain leadership.

SCMA was formed in 2013 through the amalgamation of the Purchasing Management Association of Canada and Supply Chain and Logistics Association of Canada. With a combined history of more than 140 years, today the association embraces all aspects of strategic supply chain management, including: purchasing/procurement, strategic sourcing, contract management, materials/inventory management, and logistics and transportation.

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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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