

## News Release

**Purchasing Managers' Index™**  
**MARKET SENSITIVE INFORMATION**  
**EMBARGOED UNTIL: 09:30 EDT 1 June 2015**

### Canadian manufacturing output rises for the first time in four months in May

**JUNE 1, 2015** – the latest **RBC Canadian Manufacturing Purchasing Managers' Index™ (RBC PMI™)** survey highlighted that manufacturing production grew in May, ending a three-month period of back-to-back declines. A stabilization in export orders provided support to the manufacturing sector during the latest survey period, although overall volumes of new work continued to decrease. Meanwhile, input cost inflation eased to its lowest since January, despite widespread reports that exchange rate depreciation contributed to upward pressure on imported raw material prices.

A monthly survey, conducted in association with Markit, a leading global financial information services company, and the Supply Chain Management Association (SCMA), the **RBC PMI** offers a comprehensive and early indicator of trends in the Canadian manufacturing sector.

At 49.8 in May, up slightly from 49.0 in April, the **RBC Canadian Manufacturing PMI** reached its highest level since January, but still signaled a fractional deterioration in overall business conditions. A modest increase in production levels was the main positive influence on the headline index in May.

*"It's encouraging to see a slight improvement in business conditions for Canada's manufacturing in May, even though significant improvements didn't generate enough traction to shift the sector into positive growth territory," said **Craig Wright, senior vice-president and chief economist, RBC.** "Moving into the second half of the year, we expect a strengthening U.S. economy and a weakening in currency will fuel demand for Canada's exports, which should have a positive effect on manufacturers."*

The [headline RBC PMI](#) reflects changes in output, new orders, employment, inventories and supplier delivery times.

Key findings from the May survey include:

- A modest rebound in production volumes
- Export sales stabilized, but overall new orders decreased at modest pace
- A slight drop in manufacturing employment numbers

Anecdotal evidence suggested that signs of stabilization in client spending patterns, especially in export markets, encouraged manufacturers to boost their output levels. Although total new work dropped in May, the rate of decline moderated from the survey-record pace seen in April. Survey respondents noted that exchange rate depreciation helped to support export order wins at their plants. However, a number of firms continued to report that falling capital spending among clients in the energy sector weighed on overall demand conditions in May.

The latest data indicated a further slight reduction in manufacturing payroll numbers, which extended the current period of net job shedding to five months. Companies that lowered their staffing levels generally cited restructuring efforts in response to reduced workloads. May data signaled a fall in backlogs of work across the manufacturing sector for the sixth month running.

Softer underlying demand contributed to cautious inventory policies at manufacturing firms in May. Stocks of finished goods and pre-production inventories both continued to decrease during the latest survey period. Moreover, the rate of decline in input stocks was the second-fastest since November 2010.

Average lead times from suppliers lengthened again in May, despite a further reduction in input buying across the manufacturing sector. That said, deterioration in vendor performance was the least marked in nearly two years.

On the prices front, average cost burdens increased for the thirty-fourth month running in May. Manufacturers commented on higher prices for a range of raw materials, especially steel. However, the overall rate of input cost inflation moderated to its lowest level since January. Factory gate charges rose at a marginal pace in May, with a number of firms commenting that strong competitive pressures had contributed to an erosion of operating margins. Nonetheless, the overall rate of output charge inflation across the manufacturing sector edged up to a three-month high in May.

**Regional highlights** include:

- Deteriorating overall business conditions were largely confined to Alberta and British Columbia
- Manufacturers in Alberta and British Columbia posted sharp falls in output, new orders and employment
- Business conditions were broadly stable in Quebec, and improved markedly in Ontario and the 'Rest of Canada'
- In Ontario, output expanded at a robust pace, helped by the fastest rise in new export work for just over four years

*"The manufacturing sector downturn is starting to reverse course in Canada, with the latest survey indicating a modest rebound in production volumes and an overall stabilization in export sales. While lower levels of energy sector capex continued to weigh on manufacturing performance, exchange rate depreciation has helped boost competitiveness and offset some of the weakness in domestic demand" said **Cheryl Paradowski, president and chief executive officer, SCMA**. "A regional breakdown of the manufacturing PMI indicates particularly strong output and export sales growth in Ontario, while all regions except Alberta and BC recorded net job creation. Even in Alberta and BC, the overall downturn in business conditions was less marked than April's survey-record low."*

The report is available at [www.rbc.com/newsroom/pmi](http://www.rbc.com/newsroom/pmi).

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#### **Notes to Editors:**

The RBC Canadian Manufacturing PMI™ Report 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 responses 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 responding '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 indicates an overall increase in that variable, below 50 an overall decrease.

The RBC Canadian Manufacturing *Purchasing Managers' Index*<sup>™</sup> (RBC PMI<sup>™</sup>) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

The *Purchasing Managers' Index* (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

Markit does 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact [economics@markit.com](mailto:economics@markit.com).

#### **About RBC**

Royal Bank of Canada is Canada's largest bank, and one of the largest banks in the world, based on market capitalization. We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management, insurance, investor services and capital markets products and services on a global basis. We employ approximately 78,000 full- and part-time employees who serve more than 16 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 39 other countries. For more information, please visit [rbc.com](http://rbc.com).

RBC supports a broad range of community initiatives through donations, sponsorships and employee volunteer activities. In 2014, we contributed more than \$111 million to causes worldwide, including donations and community investments of more than \$76 million and \$35 million in sponsorships.

#### **About Supply Chain Management Association**

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. For more information, please visit [scmanational.ca](http://scmanational.ca).

#### **About Markit**

Markit is a leading global diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ over 3,500 people in 10 countries. Markit shares are listed on NASDAQ under the symbol MRKT. For more information, please see [www.markit.com](http://www.markit.com).

#### **About PMI**

*Purchasing Managers' Index*<sup>™</sup> (PMI<sup>™</sup>) surveys are now available for over 30 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 [markit.com/economics](http://markit.com/economics).

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