

News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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Manufacturing business conditions continued to improve in September

RBC PMI registers slowest pace in three months

OCTOBER 1, 2014 – Canadian manufacturers cited further improvement in overall business conditions in September, reflecting higher levels of output, new orders and employment across the sector, according to the **RBC Canadian Manufacturing Purchasing Managers' Index™ (RBC PMI™)**. However, the strength of the upturn moderated during the latest survey period, in part thanks to stagnation in new export business.

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 53.5 in September, the seasonally adjusted RBC Canadian Manufacturing PMI eased from the nine-month high registered during August (54.8). The latest reading was the lowest since June, but remained well above the neutral 50.0 value and, overall, signalled a solid improvement in business conditions. The third quarter average for the headline index (54.2) was the highest it has been since Q4 2013.

*“While we did see a slight dip in the index after a nine-month high in August, Canada’s manufacturing sector continued to show strength,” said **Craig Wright, senior vice-president and chief economist, RBC.** “As we progress into the final months of 2014, we expect a further strengthening in the U.S economy will augment Canadian exports and set the stage for solid manufacturing business conditions overall.”*

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

Key findings from the September survey include:

- A slowdown in both output and new order growth
- New export work stagnated
- The solid pace of job creation was maintained

Survey respondents suggested that softer increases in production reflected a slowdown in new business gains. The latest rise in incoming new work was the weakest since May. This partly reflected a stagnation of new export orders in September, which ended a 17-month period of expansion. Anecdotal evidence suggested that increased demand from clients in the U.S. had been offset by subdued business conditions in other markets (especially the euro area).

A solid rate of job creation was maintained in September, with employment growth easing only slightly from August’s 11-month high. Increased staffing levels were attributed to rising volumes of new work in recent months and corresponding investments in additional capacity. Backlogs of work nonetheless increased for the eighth month running, albeit at a marginal pace.

In line with rising new business volumes and greater production schedules, the latest survey pointed to a solid upturn in purchasing activity across the manufacturing sector. However, stocks of purchases and inventories of finished goods were reduced in September. The latest survey also pointed to longer delivery times from suppliers, which has now been the case for 15 consecutive months. Some manufacturers commented that low stocks and delays in raw material shipments had resulted in longer lead-times from vendors.

Manufacturers pointed to a further robust rise in their average cost burdens, which was generally attributed to greater raw material prices and transportation costs. Although the rate of cost inflation accelerated since August, the latest rise was still much weaker than those seen in the first half of 2014. Meanwhile, factory gate price inflation eased for the fourth month running to only a marginal pace.

[Regional highlights](#) include:

- Alberta & British Columbia remained the best performing regions overall, followed by Ontario
- Quebec registered the slowest improvement in business conditions
- Alberta & British Columbia were the only regions to record expansion in new export orders
- Job creation was recorded in all four regions monitored by the survey

*“A solid rebound in Canada’s manufacturing sector continued at the end of the third quarter, despite a slight loss of momentum since August” said **Cheryl Paradowski, president and chief executive officer, SCMA.** “Improving business conditions helped sustain manufacturing jobs growth, as firms looked to build additional capacity amid a more favourable demand environment. Stagnating export sales were a notable setback in September, but an ongoing recovery in U.S. economic conditions should help boost the Canadian manufacturing sector during the final quarter of 2014.”*

The report is available at 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*[™] (RBC *PMI*[™]) 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.

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 services, insurance, investor services and capital markets products and services on a global basis. We employ approximately 79,000 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 40 other countries. For more information, please visit rbc.com.

RBC supports a broad range of community initiatives through donations, sponsorships and employee volunteer activities. In 2013, we contributed more than \$104 million to causes worldwide, including donations and community investments of more than \$69 million and \$35 million in sponsorships. Learn more at www.rbc.com/community-sustainability.

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.

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 3,000 people in 10 countries. Markit shares are listed on NASDAQ under the symbol "MRKT". For more information, please see www.markit.com.

About PMI

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 markit.com/economics.

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