

News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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RBC PMI: Canadian manufacturing sector returns to growth in March

APRIL 1, 2016 – Canadian manufacturers indicated a positive end to the first quarter, with production and overall new orders returning to growth after a sustained period of decline, according to the latest RBC PMI survey.

Stronger export demand was a key driver behind the rebound in manufacturing conditions, with new work from abroad rising at the joint-fastest pace since November 2014. Survey respondents noted that exchange rate depreciation had encouraged greater focus on export markets, which helped to boost sales to U.S. clients in particular. At the same time, manufacturers continued to experience strong input price inflation as suppliers passed on higher imported raw material costs, in turn contributing to another solid rise in factory gate charges in March.

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 51.5 in March, up from 49.4 in February, the seasonally adjusted **RBC Canadian Manufacturing PMI** posted above the critical 50.0 no-change threshold for the first time in eight months. Moreover, although pointing to only a moderate improvement in business conditions, the index was the highest since December 2014.

“The low Canadian dollar contributed to further improvement in export volumes during the first quarter of 2016 and a return to growth in the manufacturing sector,” said Craig Wright, **senior vice-president and chief economist, RBC**. *“In the remainder of 2016, we expect manufacturing conditions to continue to improve, driven by firm U.S. domestic demand and a weaker Canadian dollar which will drive demand for exports of autos, consumer goods, machinery, equipment and lumber.”*

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

Key findings from the March survey included:

- Modest rebound in output and new business levels
- New export orders increase at faster pace
- Employment numbers stabilize, following eight-month period of decline

The upturn in manufacturing performance was underpinned by a modest rebound in production during March, which ended a seven-month period of falling output volumes. Reports from survey respondents suggested that a combination of stronger demand conditions and the desire to stabilize inventories had acted as a boost to production schedules. Some firms also noted that efforts to improve productivity at their plants had supported output growth in March.

Latest data highlighted an increase in overall levels of new work for the first time since August 2015 and, although only moderate, the pace of expansion was the fastest for 15 months. The main reasons cited were greater export sales, new product launches and competitive pricing strategies. Manufacturers also continued to report weak demand from clients in the energy sector. At the same time, new orders from abroad rose for the fifth month running, and the pace of expansion was the joint-fastest since November 2014.

Manufacturers continued to report cautious job hiring strategies at their plants. However, the latest survey indicated that overall payroll numbers stabilized in March, thereby ending an eight-month period of falling workforce levels. Meanwhile, a lack of pressure on operating capacity persisted as backlogs of work dropped again across the manufacturing sector.

Renewed production growth and a rebound in new work resulted in greater input buying during March. Although only marginal, the upturn in purchasing activity was the fastest since January 2015. Some firms also noted efforts to boost pre-production inventories amid lower stocks and longer lead-times from suppliers.

On the prices front, latest data pointed to a robust and accelerated pace of cost inflation. Despite reports of squeezed pricing power, manufacturers passed on a proportion of their higher costs to clients in March, with the rate of charge inflation picking up slightly since February.

Regional highlights include:

- Improved manufacturing conditions recorded in all regions except Alberta and B.C.
- Ontario remained the best performing area in terms of output and new order growth
- Alberta and B.C moved closer to stabilization in March amid slowest fall in export sales since January 2015

“March saw a decisive shift in momentum across Canada’s manufacturing sector. Goods producers are back in expansion mode for the first time since last summer and efforts to grow exports appear to have paid off.” said Cheryl Farrow, president and chief executive officer, SCMA. “New business rebounded in March driven by growth in new orders from abroad, the joint best month for exports since 2014. This has helped to stabilize employment and reignite purchasing activity across the manufacturing sector. Improving manufacturing conditions were spread across Canada. Ontario recorded the biggest growth in new orders since 2011, and Quebec moved back into positive territory for the first time since October 2015. Alberta and B.C were the only regions to experience an overall decline, but falling production is showing signs of levelling off and export sales were closer to stabilization.”

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 by company workforce size 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, insurance, investor services and capital markets products and services on a global basis. We have over 80,000 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 37 other countries. For more information, please visit rbc.com.

RBC helps communities prosper, supporting a broad range of community initiatives through donations, community investments, sponsorships and employee volunteer activities. In 2015, we contributed more than \$100 million to causes around the world.

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 SCMA.com.

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 approximately 4,000 people in 11 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 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.

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