

News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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Manufacturing sector hits four-month low in August: RBC PMI

SEPTEMBER 1, 2015 – The latest RBC PMI survey pointed to a renewed downturn in the manufacturing sector, though the overall deterioration in business conditions was only marginal. August data indicated a decline in output levels for the first time in four months, while payroll numbers decreased at the joint-fastest rate since the survey began in October 2010. Meanwhile, the weaker exchange rate contributed to a modest rise in new export work. However, manufacturers reported a marked increase in imported raw material costs, which contributed to the fastest rate of price inflation in just over a year and placed additional pressure on operating margins.

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.

Adjusted for seasonal influences, the **RBC Canadian Manufacturing PMI** registered 49.4 in August, down from 50.8 in July and the lowest reading since May. Moreover, the headline index was below the neutral 50.0 mark for the first time in three months.

*"This month's data suggests that several sectors within the Canadian manufacturing industry continue to face headwinds, with the PMI registering at a four month low," said **Craig Wright, senior vice-president and chief economist, RBC.** "We remain confident that, as the U.S. economy continues to strengthen and the Canadian dollar remains competitive, there will be an uptick in exports for Canadian manufacturers, offsetting some of the momentum lost in August."*

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

Key findings from the August survey included:

- Business conditions deteriorated for the first time since May
- Output and employment both decreased in August
- Strongest rate of input cost inflation since July 2014

Canadian manufacturers signaled a marginal reduction in output levels at their plants in August, which ended a three-month period of expansion. Lower production volumes were linked to subdued demand patterns and efforts to reduce inventories in August. Reflecting this, the latest survey pointed to the fastest decline in stocks of finished goods since May. A number of manufacturers noted that concerns regarding the global economic outlook and falling levels of work-in-hand had contributed to inventory reduction policies at their plants.

New business volumes continued to rise in August, supported by another modest upturn in export sales. That said, the latest improvement in overall new order levels was only marginal and the weakest since the upturn began in June. Anecdotal evidence suggested that sharp declines in capital spending among energy sector clients had dampened demand during August, especially for manufacturers of investment goods.

Ongoing pressures on operating margins, alongside expectations of subdued client spending patterns, contributed to a decline in manufacturing employment for the seventh time in the past eight months. Survey respondents mainly noted that payroll numbers had been lowered through the non-replacement of voluntary employee departures.

Manufacturers also lowered their purchasing activity in August, reflecting reduced production requirements and efforts to rein in stocks of inputs. Latest data indicated a decline in pre-production inventories for the ninth successive month, with the rate of contraction the fastest since May.

Average cost burdens increased across the manufacturing sector in August, which extended the current period of rising input prices to 37 months. Moreover, the rate of cost inflation picked up to its fastest since July 2014. However, factory gate charges rose only moderately and the pace of inflation eased from July's five-month high, with pressure on margins linked to intense competition for new work.

Regional highlights include:

- Alberta and British Columbia recorded a sharp and accelerated downturn in business conditions...
- ...while Ontario and Quebec continued to register overall manufacturing sector growth
- Manufacturing job cuts were most prevalent in Alberta and British Columbia
- All regions recorded strong input cost inflation in August

*“Canada’s manufacturing sector continues to face growth headwinds from heightened global economic uncertainty and sharp falls in energy sector capex plans” said **Cheryl Paradowski, president and chief executive officer, SCMA.** “Overall manufacturing output fell for the first time in four months, with softer demand for investment goods appearing to offset a gradual export-led recovery in consumer goods production. The inventory cycle acted as an additional drag on business conditions in August, as manufacturers opted to fulfill orders from existing stocks and cut back on their own input buying in response to the uncertain demand outlook.”*

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 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 38 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 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.

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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