

News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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RBC PMI: Slowest deterioration in manufacturing conditions for six months

MARCH 1, 2016 – Overall business conditions across the manufacturing sector moved another step closer to stabilization in February, according to the latest RBC PMI survey, with output and new orders both continuing to fall at slower rates than those seen at the end of 2015.

Greater export sales remained a key factor in providing support to Canadian manufacturers, as highlighted by a rise in new work from abroad for the fourth consecutive month. At the same time, the weaker exchange rate resulted in another robust increase in average cost burdens, with survey respondents widely commenting on higher prices for imported materials and a corresponding rise in factory gate 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.

Adjusted for seasonal influences, the **RBC Canadian Manufacturing PMI** registered 49.4 in February, up fractionally from 49.3 in January, but below the neutral 50.0 threshold for the seventh month running. Nonetheless, the latest reading was the highest since August 2015, largely reflecting a softer decline in production levels during February.

*“The U.S. expansion alongside a more competitive Canadian dollar is continuing to drive stronger export sales and stabilize manufacturing conditions,” said **Craig Wright, senior vice-president and chief economist, RBC.** “At a regional level, the sharp improvement in Ontario’s manufacturing sector during February was a key factor in raising the Manufacturing PMI to its highest level since August 2015”.*

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

Key findings from the February survey included:

- Manufacturing PMI rose to its highest level since August 2015
- Production levels dropped only slightly in February
- New export orders picked up for the fourth month running

Manufacturing output has now declined for seven months running, but the latest fall was only marginal and the slowest over this period. Where a drop in production levels was reported, survey respondents commented on falling new business intakes and, in some cases, efforts to streamline stocks of finished goods.

Volumes of new work dropped for the sixth consecutive month in February, which is the longest continuous period since the survey began in late-2010. Anecdotal evidence pointed to subdued underlying client spending and an ongoing decline in sales to energy sector clients. Stronger export sales helped to offset some of the reduction in domestic demand in February. A number of manufacturers noted that exchange rate depreciation against the U.S. dollar had boosted new business intakes from export clients.

Canadian manufacturers remained cautious in terms of input buying in February, although the latest drop in purchasing activity was the slowest for eight months. Stocks of purchases increased for the first time since November 2014, but a number of firms linked this to weaker than expected demand patterns. Suppliers' delivery times lengthened slightly during the latest survey period, with worsening vendor performance partly linked to capacity cutbacks. Meanwhile, a robust pace of input cost inflation persisted in February, while factory gate charges increased for the second month running.

Payroll numbers dropped again in February and the rate of job shedding accelerated slightly from that recorded at the start of 2016. Survey respondents generally noted that a lack of pressure on operating capacity had resulted in hiring freezes and the non-replacement of voluntary leaves. At the same time, manufacturers reduced their stocks of finished goods in February, in part reflecting efforts to improve cash flow through tighter inventory management.

Regional highlights include:

- Alberta and B.C. experienced the steepest deterioration in manufacturing sector performance, while Ontario registered an accelerated upturn in February
- Higher levels of manufacturing employment in Ontario contrasted with sustained job shedding in Alberta and B.C and Quebec
- Price discounting persisted among manufacturers in Alberta and B.C, while factory gate charges increased in all other areas monitored by the survey

*“Ontario’s manufacturing sector continues to lead the way in Canada. The weak Loonie is powering export growth, but also contributing to the biggest growth in output costs in the province since 2011. The West of Canada continues to find it tough under the burden of low oil prices. Surprisingly Quebec continues to struggle despite good export growth due to weak domestic demand,” said **Cheryl Farrow, president and chief executive officer, SCMA**. “In Canada as a whole business conditions in manufacturing have now almost stabilized. Manufacturers still appear cautious about the near-term business outlook, with hiring freezes and efforts to chip away at inventories of finished goods persisting.”*

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 81,000 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, 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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