

News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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RBC Canadian Manufacturing *Purchasing Managers' Index*™ finds weaker growth of output and new orders

Newly launched index, conducted in association with Purchasing Management Association of Canada, offers an early trends indicator for Canadian manufacturing sector

JUNE 2, 2011 - Royal Bank of Canada (RBC), in association with Markit, a leading, global financial information services company, and the Purchasing Management Association of Canada (PMAC), today launched the monthly **RBC Canadian Manufacturing *Purchasing Managers' Index*™ (RBC PMI™)**, a comprehensive and early indicator of trends in the Canadian manufacturing sector. The RBC PMI will be released on the first business day of each month.

In addition to the [headline RBC PMI](#) – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – the survey also tracks changes in output, new orders, employment, inventories, prices and supplier delivery times. Index readings above 50.0 signal expansion from the previous month, readings below 50.0 indicate contraction.

Key findings from this month's survey include:

- PMI fell for second consecutive month.
- Robust rise in employment, but at a slower rate than the previous month.
- Suppliers' delivery times lengthened further as vendors struggled to source raw materials.

Business conditions in the Canadian manufacturing sector improved at a slower pace in May. This reflected weaker expansion of both output and new orders. However, job creation remained solid and broadly similar to that registered during the previous survey period. Suppliers' delivery times lengthened further, while input prices rose at a marked rate during May.

*"The overall index fell slightly during May with declines evident across most of the key components and across all of the regions," said **Craig Wright**, Senior Vice President and Chief Economist, RBC. "This aligns with our outlook for a moderation in Canadian economic growth in the second quarter of the year after a robust start to the year."*

The headline **RBC PMI** registered 54.8 in May, down from 56.3 in April. Nevertheless, the latest reading posted above the 50.0 no-change level that separates growth from contraction and signalled an improvement in overall business conditions for the eighth month running.

Canadian manufacturers received a larger amount of **new orders** during May, although the rate of expansion eased. Anecdotal evidence attributed new order growth to greater demand from both domestic and international markets. Panellists particularly highlighted the U.S. as a key source of new export order wins in May.

Surveyed firms correspondingly increased their **output** in May. Manufacturers have now raised production levels for eight consecutive months. However, output growth weakened to a slower rate during the latest survey period.

Reflective of new order growth being stronger than that of output, the amount of **outstanding work** increased fractionally during May. The rate of accumulation was partially limited by firms depleting **stocks of finished goods**.



Employment in the Canadian manufacturing sector increased solidly during the latest survey period, with over one-fifth of respondents expanding their workforces. That said, the rate of growth was down slightly from the previous month. Anecdotal evidence from the survey panel suggested that firms added to their workforces as production requirements rose during May.

Similarly, surveyed firms purchased a greater **quantity of inputs** in May. A number of respondents commented that this reflected further output growth and efforts to boost stocks.

Supplier lead times lengthened at a marked pace in May, with around 23 per cent of surveyed firms reporting a deterioration. Respondents suggested that vendors struggled to source certain raw materials in May, particularly as global supply-chains were disrupted in the aftermath of the Japanese earthquake.

Monitored companies indicated that a wide range of inputs increased in price during May. Steel and oil were particularly mentioned by panellists. Firms passed part of their greater **cost burdens** on to clients by raising **output prices**, but the rate of inflation remained slower than that of input costs. Although still strong, the rates of inflation of both input and output charges eased during May.

Regional highlights include:

- Regional manufacturing business conditions improved across all four monitored broad regions in May. PMI data indicated the strongest improvement was in **Alberta and British Columbia**.
- Manufacturers based in **Quebec** recorded the fastest rate of new order growth.
- Meanwhile, **Alberta and British Columbia** posted the strongest rate of job creation in May.
- **Ontario** registered the largest increase in input costs during May. Similarly, monitored companies based in this region also raised their output prices the most.

*"The Canadian manufacturing sector grew at a weaker rate in May, as growth of new orders received by surveyed firms eased. Nevertheless, panellists attributed the latest increase in new orders to greater global demand," said **Cheryl Paradowski**, President and Chief Executive Officer, PMAC. "Meanwhile, supply pressures such as longer delivery times and higher input prices persisted in May."*

The report is available at www.rbc.com/newsroom/pdf/pmi-June_11-rpt

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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 Standard Industrial Classification (SIC) group, based on the industry contribution to 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 do 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

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About Purchasing Management Association of Canada

The Purchasing Management Association of Canada (PMAC) is the leading, and the largest, association in Canada for supply chain management professionals. With 7,000 members working across private and public sectors, PMAC is the principal source of supply chain training, education and professional development in the country, requiring all members to adhere to a Code of Ethics. Through its 10 Provincial and Territorial Institutes, PMAC grants the SCMP (Supply Chain Management Professional) designation, the highest achievement in the field and the mark of strategic leadership. For more information please see www.pmac.ca.

About Markit

Markit is a leading, global financial information services company with over 2,200 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial marketplace. For more information, see www.markit.com.

About PMIs

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 www.markit.com/economics.

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