Output growth eases as supply-chain disruption worsens, despite marked rise in client demand

**Key findings**

- **Pressure on capacity weighs on production growth**
- **Supplier delivery times lengthen to greatest extent on record**
- **Input cost inflation hits fresh series record**

Data were collected 10-25 June 2021.

June PMI™ data from IHS Markit signalled the joint-fastest improvement in the health of the U.S. manufacturing sector on record. The upturn was supported by further marked expansions in output and new orders, but supply chain disruptions worsened and weighed on production capacity. Vendor performance deteriorated to the greatest extent on record. Input costs meanwhile showed the largest jump on record, feeding through to another record rise in factory selling prices.

Hopes of a sustained period of strong client demand strengthened output expectations, as the degree of confidence reached a seven-month high.

The seasonally adjusted IHS Markit U.S. Manufacturing Purchasing Managers’ Index™ (PMI™) posted 62.1 in June, unchanged on May, but slipping slightly from the earlier released ‘flash’ estimate of 62.6. The marked improvement in operating conditions was the joint-strongest since data collection began in May 2007.

New orders growth remained substantial in June, despite the rate of expansion easing from May’s historic high. The pace of increase was the second-fastest on record, with firms continuing to note marked upturns in demand from both new and existing clients. Some companies also stated that the further relaxation of COVID-19 restrictions encouraged customers to expand their activity. New export orders meanwhile rose solidly in June, albeit at the softest pace for three months.

Output growth, however, was weighed down by ongoing and severe supply-chain disruptions, and reports of labour shortages. Although the rate of growth was among the sharpest since May 2007, firms noted difficulties processing new orders amid material delivery delays and challenges finding suitable candidates for current vacancies.

Suppliers’ delivery times lengthened to the greatest extent on record in June, as component shortages and transportation issues exacerbated supply-chain woes. Subsequently, vendors hiked their

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**Comment**

*Chris Williamson, Chief Business Economist at IHS Markit said:*

“June saw surging demand drive another sharp rise in manufacturing output, with both new orders and production growing at some of the fastest rates recorded since the survey began in 2007.

“The strength of the upturn continued to be impeded by capacity constraints and shortages of both materials and labor, however, meaning concerns over prices have continued to build.

“Supplier delivery times lengthened to the greatest extent yet recorded as suppliers struggled to keep pace with demand and transport delays hindered the availability of inputs. Factories were increasingly prepared, or forced, to pay more to secure sufficient supplies of key raw materials, resulting in the largest jump in costs yet recorded.

“Strong customer demand in turn meant producers were often able to pass these higher costs on to customers, pushing prices charged for goods up at a rate unbeaten in at least 14 years.

“Capacity needs to be boosted and supply chains need to improve to help alleviate some of the inflationary pressures. However, companies reported increasing difficulties filling vacancies in June, and raising COVID-19 infection waves in Asia threaten to add to supply chain issues.”

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charges. Input costs rose at the fastest pace since data collection for the series began in May 2007, as greater global demand for inputs put pressure on material shortages.

Manufacturers were able to partially pass on higher costs to clients, however, as the rate of charge inflation matched May’s historic peak. Firms overwhelmingly linked the uptick in selling prices to greater cost burdens.

Raw material shortages and strong growth in new orders led to a sharp expansion in input buying at the end of the second quarter. Goods producers registered the second-fastest rise in purchasing since August 2014, which in turn drove a solid increase in pre-production inventories. At the same time, stocks of finished goods were utilised to fulfill new orders and fell at the steepest rate for just over a year.

Meanwhile, manufacturing firms indicated a solid rise in employment during June. The rate of job creation was the slowest for six months, however, as companies reported difficulties enticing workers back. Labour shortages exacerbated pressure on capacity, as backlogs of work rose at one of the steepest rates on record.

Finally, goods producers registered the strongest degree of optimism regarding the outlook for output for seven months. Confidence reportedly stemmed from hopes of a sustained period of strong client demand, and more consistent vendor performance going forward.

U.S. Manufacturing PMI Output Index

Manufacturing production

%sa, >50 = growth since previous month

Sources: IHS Markit, U.S. Federal Reserve.

U.S. Manufacturing PMI Employment Index

Manufacturing payrolls

%sa, >50 = growth since previous month

Monthly change (000)

Sources: IHS Markit, Bureau of Labor Statistics.

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