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IHS Markit U.S. Manufacturing PMI™

Manufacturing output growth weakens amid slower upturn in new orders

Key findings

Operating conditions improve at softest pace for six months

New order growth slows to nine-month low

Business confidence strongest since April 2019

U.S. manufacturing firms signalled a loss of growth momentum in February as operating conditions improved at only a marginal pace. Overall growth was the slowest for six months amid historically subdued expansions in output and new orders. Nonetheless, firms registered the strongest degree of optimism for ten months. Greater confidence in higher future output did not translate into faster job creation, as employment growth slowed despite a renewed rise in backlogs.

At the same time, subdued inflationary pressures continued to be reported midway through the first quarter, with slower growth of costs helping keep selling price inflation muted.

The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers' Index™ (PMI™) posted 50.7 in February, little-changed from the 'flash' figure of 50.8, and down from 51.9 seen at the start of the year. The improvement in the health of the manufacturing sector was the weakest since last August and only marginal overall.

A key contributing factor behind slower manufacturing growth was a weaker upturn in output. The marginal expansion was the softest since July 2019, and although some firms reported higher new order volumes, supply chain issues following the outbreak of coronavirus in China were reported to have affected production and constrained output in some cases.

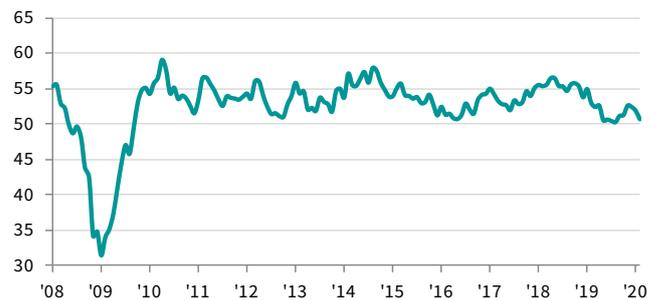
The pace of expansion of new orders meanwhile eased to the slowest since orders began rising in June 2019 and was only fractional overall. Some companies linked softer demand growth to hesitancy among clients to place orders. Meanwhile, new business from abroad fell at a slightly faster pace.

Despite softer demand conditions, manufacturers registered a stronger level of optimism regarding future production in February as expectations were buoyed by greater marketing efforts and investment in new products and factories. Positive

continued...

U.S. Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Chris Williamson, Chief Business Economist at IHS Markit said:

"Manufacturing production and order book trends deteriorated markedly in February as producers struggled against the double headwinds of falling export sales and supply chain delays, both in turn often linked to the coronavirus outbreak.

"Any growth in sales was once again largely driven by domestic consumers, though even here the rate of growth was weakened considerably compared to late last year.

"Historical comparisons against official data indicate that the survey is consistent with factory production and orders both falling at annualised rates of around 3%, with manufacturing jobs being lost at a monthly rate of roughly 20,000.

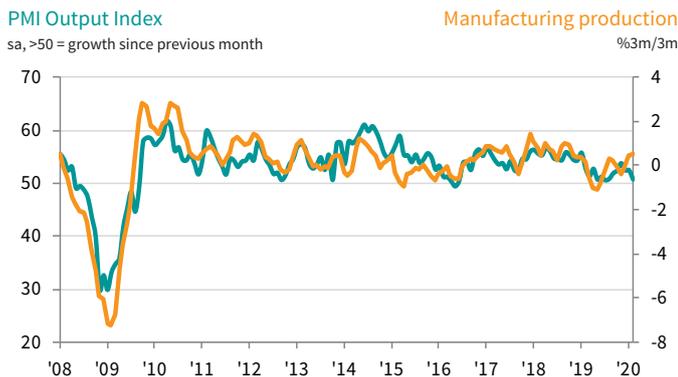
"While trade war fears have eased, helping push firms' expectations for future growth to the highest since last April, coronavirus-related supply chain issues threaten to constrain production in coming months. At the same time, companies have become increasingly concerned that the COVID-19 outbreak will also hit demand, which is reportedly already cooling amid uncertainly leading up to the presidential election. Recent stock market volatility could also further dampen consumer spending and deter business investment."

sentiment reached a ten-month high but remained below the long-run series average. Concerns included supply chain issues, weaker demand in the lead up to the presidential election and a general slowing of the economy.

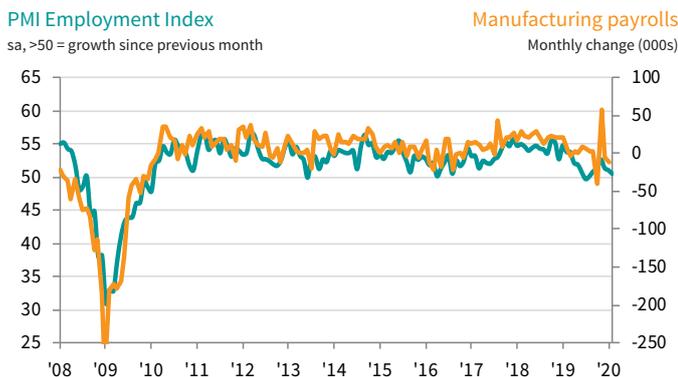
Supply chain delays stemming from supplier factory shutdowns in China and the outbreak of coronavirus led to a further deterioration in vendor performance, which reportedly held back output and the processing of backlogs due to a shortage of components. As a result, firms registered a renewed rise in outstanding business and a drop in pre-production inventories.

Concurrently, the rate of input cost inflation slowed in February as successful negotiations with suppliers following weaker demand for inputs reportedly resulted in softer price rises. The modest increase in costs was the slowest for three months and well below the series trend.

At the same time, the pace of selling price inflation ticked up slightly as firms sought to partially pass on higher costs to clients. Nonetheless, the pace of increase was only marginal overall and among the slowest in the current sequence of inflation that began in October 2016.



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



Sources: IHS Markit, Bureau of Labor Statistics.

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Survey methodology

The IHS Markit U.S. Manufacturing PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 800 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

February 2020 data were collected 12-24 February 2020.

Data collection began in April 2004 from a survey panel of electronics manufacturers. In May 2007, the panel was expanded to cover manufacturers of metal products. In October 2009, the panel was expanded further to cover all manufacturing activity. Data from May 2007 to September 2009 are compiled from responses from manufacturers of electronics and metal products, while data from October 2009 are compiled from responses from all areas of manufacturing.

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About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 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. ihsmarkit.com/products/pmi.html