IHS Markit Flash U.S. PMI™

Output growth continues to lose momentum in June

Key findings:
- Flash U.S. Composite Output Index at 50.6 (50.9 in May). 40-month low.
- Flash U.S. Services Business Activity Index at 50.7 (50.9 in May). 40-month low.
- Flash U.S. Manufacturing PMI at 50.1 (50.5 in May). 117-month low.
- Flash U.S. Manufacturing Output Index at 50.2 (50.7 in May). 37-month low.

Manufacturers indicated only a fractional rise in production volumes in June, with the pace of expansion the slowest since the current phase of recovery began in mid-2016. Service providers also experienced the weakest business activity performance for around three years.

Survey respondents commented on less favorable domestic economic conditions and a tendency for greater risk aversion among some clients. That said, overall volumes of new business expanded at a slightly quicker pace than the 38-month low seen in May. As a result, backlogs of work increased in June, following stagnation in the previous month.

Employment increased at a moderate pace in June. However, the latest rise in payrolls was the weakest recorded by the survey since April 2017. Anecdotal evidence suggested that heightened economic uncertainty had acted as a brake on staff hiring. Reflecting this, survey respondents indicated the lowest degree of optimism regarding the business outlook since this index began in July 2012.

Meanwhile, inflationary pressures were relatively subdued in June. Input costs and average prices charged both increased at faster rates than May but continued to rise at much slower rates than seen at the start of 2019.

IHS Markit U.S. Services PMI™
At 50.7 in June, down from 50.9 in May, the headline seasonally adjusted IHS Markit Flash U.S. Services PMI™ Business Activity Index pointed to the slowest growth of service output since the current upturn began in March 2016.

IHS Markit U.S. Manufacturing PMI™
The seasonally adjusted IHS Markit Flash U.S. Manufacturing Purchasing Managers’ Index™

The seasonally adjusted IHS Markit Flash U.S. Composite PMI Output Index dropped to 50.6 in June from 50.9 in May, which signalled the weakest expansion of business activity for over three years. Private sector output growth has lost momentum in each month since February.

The composite index is based on original survey data from IHS Markit’s PMI surveys of both services and manufacturing.

Sources: IHS Markit, U.S. Bureau of Economic Analysis.
(PMI™)¹ registered 50.1 in June, down from 50.5 in May.

The latest reading was the lowest since September 2009 and only fractionally above the neutral 50.0 threshold. Weaker rates of production growth and staff hiring were the key factors weighing on the headline PMI, alongside the largest drop in stocks of purchases for almost a decade.

**Comment**

Commenting on the flash PMI data, Chris Williamson, Chief Business Economist at IHS Markit said:

“Business activity edged closer to stagnation in June, expanding at the slowest rate since February 2016 and rounding off a second quarter in which the survey data point to the pace of economic expansion slipping to 1.4%.

“Recent months have seen a manufacturing-led downturn increasingly infect the service sector. The strong services economy seen earlier in the year has buckled to show barely any expansion in June, recording the second-weakest monthly growth since the global financial crisis.

“Business optimism has also become more subdued, with sentiment about the year ahead down to a new series low amid intensifying worries about tariffs, geopolitical risk and slower economic growth in the months ahead.

“The labor market is also showing signs of weakening. The survey data for June indicate non-farm payroll growth of 140k, averaging 150k in the second quarter after a 200k signal for the first three months of the year.

“Prices for goods and services meanwhile rose at a slightly increased rate in June, mainly due to tariffs. To illustrate, some two-thirds of all manufacturers attributed some or all of their raw material cost increases to tariffs during the month. However, the inflationary impact of tariffs was offset by a broader softening of demand, which reduced suppliers’ pricing power. The overall rate of input cost inflation in manufacturing eased to a two-year low, while average selling prices for goods and services showed one of the smallest rises seen since late-2016.”

-Ends-

¹ Please note that IHS Markit’s PMI data, flash and final, are derived from information collected by IHS Markit from a different panel of companies to those that participate in the ISM Report on Business and the ISM Non-Manufacturing Report on Business. No information from the ISM survey is used in the production of IHS Markit’s PMI.
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Note to Editors:

Final June data are published on July 1 for manufacturing and July 3 for services and composite indicators.

The Composite Output PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question “Is the level of business activity at your company higher, the same or lower than one month ago?”

The Manufacturing PMI is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers’ delivery times (0.15); stocks of materials purchased (0.1). The delivery times index inverted. The Manufacturing Output Index is based on the survey question “Is the level of production/output at your company higher, the same or lower than one month ago?”.

The U.S. Services PMI™ (Purchasing Managers’ Index™) is produced by IHS Markit and is based on original survey data collected from a representative panel of over 400 companies based in the U.S. service sector. IHS Markit began collecting monthly PMI data in the U.S. service sector in October 2009. The flash estimate is typically based on approximately 85%–90% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The IHS Markit U.S. Services PMI complements the IHS Markit U.S. Manufacturing PMI and enables the production of the IHS Markit U.S. Composite PMI which tracks business trends across both the manufacturing and service sectors, based on original survey data collected from a representative panel of over 1,000 companies.

IHS Markit began collecting monthly Purchasing Managers’ Index™ (PMI™) data in the U.S. in April 2004, initially from a panel of manufacturers in the U.S. electronics goods producing sector. In May 2007, IHS Markit’s U.S. PMI research was extended out to cover producers of metal goods. In October 2009, IHS Markit’s U.S. Manufacturing PMI survey panel was extended further to cover all areas of U.S. manufacturing activity. Back data for IHS Markit’s U.S. Manufacturing PMI between May 2007 and September 2009 are an aggregation of data collected from producers of electronic goods and metal goods producers, while data from October 2009 are based on data collected from a panel representing the entire U.S. manufacturing economy. IHS Markit’s total U.S. Manufacturing PMI survey panel comprises over 600 companies.

The panel is stratified by North American Industrial Classification System (NAICS) group and company size, based on industry contribution to U.S. 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.

IHS 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 IHS Markit. Please contact economics@ihsmarkit.com.

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