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IHS Markit U.S. Manufacturing PMI™

PMI improves to highest since January 2019

Key findings

Faster expansions in output and new orders drive overall improvement

Employment growth slows amid dwindling pressure on capacity

Cost burdens rise at sharpest pace since the start of 2019

Data were collected 12-26 October 2020.

October PMI™ data from IHS Markit signalled a further improvement in the health of the U.S. manufacturing sector. The rise in the PMI stemmed largely from rates of output and new order growth accelerating during the month, despite export orders contracting. Meanwhile, signs of reduced pressure on capacity led to a slower rise in employment, with business confidence also historically subdued though picking up compared to September. At the same time, input prices rose at the fastest rate since the start of 2019 fuelled by supplier shortages, but average charges increased only modestly.

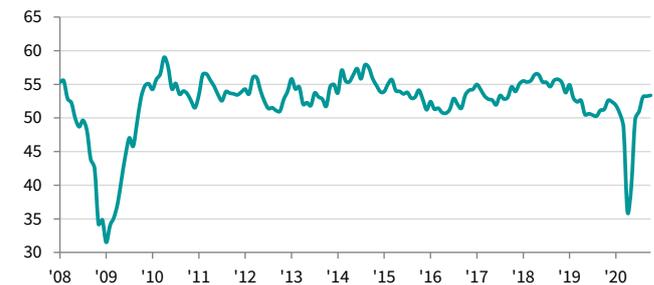
The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers' Index™ (PMI™) posted 53.4 at the start of the fourth quarter, up slightly from 53.2 in September and broadly in line with the earlier released 'flash' estimate of 53.3. The latest improvement in operating conditions was solid overall and the fastest since January 2019, marking a further move away from April's nadir.

Contributing to the rise in the headline figure was a quicker upturn in production in October. The rate of output growth accelerated to the sharpest since November 2019. Companies often stated that greater output was driven by stronger client demand and higher new order inflows.

The rate of new order growth picked up once again in October, following a slight slowdown in September. The increase in total sales was attributed to more robust client demand, with some firms noting larger orders being placed. Although domestic demand ticked higher, new export orders fell for the first time since July. The decline was only marginal overall, but was reportedly due to reimposed coronavirus disease 2019 (COVID-19) lockdown restrictions across key export destinations in Europe.

continued...

U.S. Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Chris Williamson, Chief Business Economist at IHS Markit said:

“With clues being sought as to whether the economy can sustain its recovery after rebounding from lockdowns, the rise in the PMI in October is encouraging news. It’s inevitable that the pace of economic expansion will weaken after the surge seen in the third quarter, but the strength of the PMI hints at a recovery for which the underlying trend continues to strengthen at the start of the fourth quarter.

“Producers of investment goods such as business equipment and machinery are leading the upturn in a welcome sign of rising business confidence and corporate investment, but it was worrying to see consumer goods producers report weakened order book growth, reflecting rising virus-related worries. Going forward, much will naturally depend on the extent to which the economy can remain open and functioning in the face of rising virus case numbers.”

Despite a faster rise in new orders, manufacturers were better able to process outstanding business, with the rate of backlog accumulation slowing to only a fractional rate. Reflecting weaker pressure on capacity, firms increased their workforce numbers at a softer pace in October. That said, some companies attributed the slower rate of employment growth to difficulties finding suitable candidates.

Meanwhile, average cost burdens increased at an accelerated pace that was the steepest since January 2019 in October. Higher input prices were often linked to greater raw material costs and supplier shortages.

Goods producers were able to partially pass on higher costs to clients through a rise in selling prices, though the rate of charge inflation eased at the start of the fourth quarter. The mild increase in output charges was the slowest for three months as some companies used discounting and offers to entice clients.

Business expectations remained positive in October, improving on September's four-month low, as firms foresee a rise in output over the coming year. The degree of confidence was historically muted, however, as fears regarding the pandemic weighed on optimism.

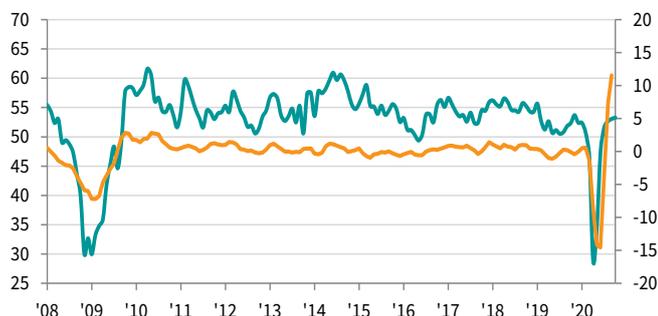
Finally, manufacturers registered further delays to suppliers' delivery times in October, with lead times lengthening markedly. Travel restrictions and supplier shortages meant firms largely utilised their current stocks of purchases to supplement production, despite a rise in input buying.

PMI Output Index

sa, >50 = growth since previous month

Manufacturing production

%3m/3m



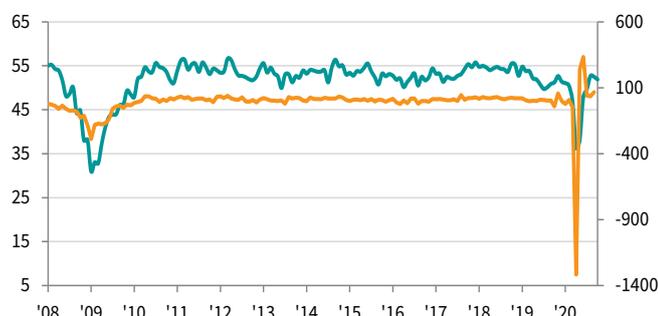
Sources: IHS Markit, U.S. Federal Reserve.

PMI Employment Index

sa, >50 = growth since previous month

Manufacturing payrolls

Monthly change (000s)



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

October 2020 data were collected 12-26 October 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.

Flash vs. final data

Flash data were calculated from 87% of final responses. Since October 2009 the average difference between final and flash Manufacturing PMI values is 0.0 (0.3 in absolute terms).

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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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