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IHS MARKIT US MANUFACTURING PMI™

PMI drops to lowest since September 2009

KEY FINDINGS

Marginal improvement in operating conditions

New orders fall for first time since August 2009

Output expectations dip to joint-lowest in series history

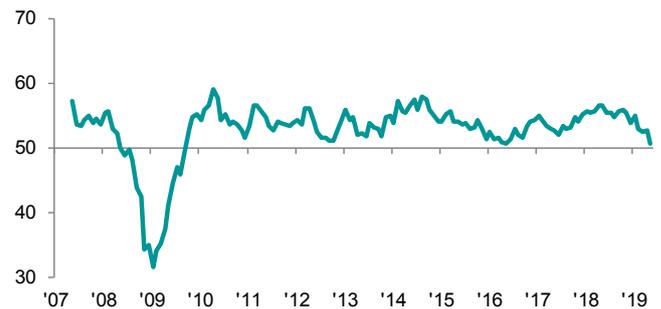
May survey data signalled only a marginal improvement in the health of the U.S. manufacturing sector. The headline PMI fell to its lowest level since September 2009 as output growth eased and new orders fell for the first time since August 2009. Weak demand conditions and ongoing trade tensions led firms to express the joint-lowest degree of confidence regarding future output growth since data on the outlook were first collected in mid-2012. At the same time, employment rose at the slowest rate since March 2017 and backlogs of work were unchanged. Meanwhile, inflationary pressures eased further, with both input costs and output prices increasing at softer rates.

The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers' Index™ (PMI™) posted 50.5 in May, down from 52.6 in April. The latest headline figure signalled only a slight improvement in operating conditions, with the latest reading the lowest since September 2009. The data for the second quarter so far have indicated a distinct slowdown in the manufacturing sector compared to the first three months of 2019.

A key factor weighing on the headline reading was the softest expansion of output since June 2016. May data signalled only a marginal rise in production that was often linked to clearing backlogs of previously-placed orders.

At the same time, manufacturers signalled the first decline in new orders since August 2009. Though only fractional, survey respondents stated that weak client demand drove the fall. Some firms also noted that customers were postponing

Manufacturing PMI
sa, >50 = improvement since previous month



orders due to growing uncertainty about the outlook. Similarly, new business from abroad contracted for the first time since July 2018, albeit at a marginal rate.

Consequently, manufacturers exhibited a lower degree of confidence towards output over the coming year. Expectations for growth dipped to their joint-lowest since the series began in July 2012, as firms highlighted concerns surrounding ongoing trade tensions and a growing trend of customers postponing new orders, especially among large clients.

On the price front, cost burdens increased at only a modest rate in May. The rise was the slowest since July 2017, with reports of tariffs driving costs higher being countered by increased competition among suppliers. Subsequently, firms increased their factory gate charges only marginally amid efforts to remain competitive.

Meanwhile, firms signalled a further increase in employment in May. The upturn was commonly linked to the replacement of voluntary leavers and retirees. Nonetheless, the expansion was the slowest since March 2017 amid tight labour market conditions.

Finally, purchasing activity was broadly unchanged in May as firms indicated greater efforts to use current inventories for production and increased efforts to readjust stock levels in light of softer demand conditions.

COMMENT

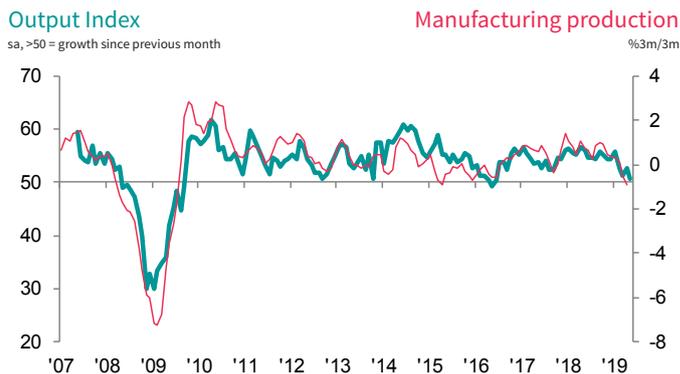
Chris Williamson, Chief Business Economist at IHS Markit said:

"May saw US manufacturers endure the toughest month in nearly ten years, with the headline PMI down to its lowest since the height of the global financial crisis. New orders are falling at a rate not seen since 2009, causing increasing numbers of firms to cut production and employment. At current levels, the survey is consistent with the official measure of manufacturing output falling at an increased rate in the second quarter, meaning production is set to act as a further drag on GDP, with factory payroll numbers likewise in decline."

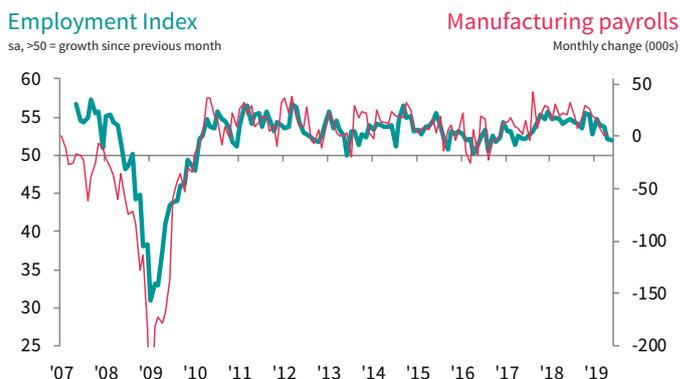
"While tariffs were widely reported as having dampened demand and pushed costs higher, both producers and their suppliers often reported the need to hold selling prices lower amid lacklustre demand. While this bodes well for inflation, profit margins are clearly being squeezed as a result."

"With future optimism sliding sharply lower in May, risks to near-term growth have shifted further to the downside."

"While companies of all sizes are struggling, the biggest change since the strong growth seen late last year is a deteriorating performance among larger companies, where surging order book growth just a few months ago has now turned into contraction, the first such decline seen in the series' ten-year history."



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



Sources: IHS Markit, Bureau of Labor Statistics.

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Methodology

The IHS Markit US Manufacturing PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 750 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.

May 2019 data were collected 13-24 May 2019.

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

Data collection began in April 2004 from a survey panel of electronic goods manufacturers. In May 2007, the panel was expanded to cover manufacturers of metal products. In October 2009, the panel was expanded further to cover the entire manufacturing sector. Historical data between May 2007 and September 2009 are compiled from responses collected from manufacturers of electronic goods and metal goods, while data from October 2009 are compiled from responses collected from the full manufacturing panel.

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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. To learn more go to ihsmarkit.com/products/pmi.html.

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