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IHS MARKIT US MANUFACTURING PMI™

Manufacturing PMI lowest for almost a decade as export decline intensifies

KEY FINDINGS

PMI at 50.3 in August (49.9 flash, 50.4 in July), lowest since September 2009

Rates of output and new order growth remain subdued

New export orders fall at quickest pace for 10 years

U.S. manufacturers signalled a further slowdown in overall growth in August, with the PMI dropping to its lowest for almost a decade. The headline figure was weighed on by a subdued rise in production and lacklustre client demand. Falling orders among foreign clients dragged on overall new business growth and producer confidence. The degree of optimism about the year ahead hit a fresh seven-year series low amid growing business uncertainty. As such, employment was broadly unchanged and spare capacity was used to clear backlogs of work. Meanwhile, inflationary pressures eased further, with rates of input price and output charge inflation among the slowest for almost three years.

The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers' Index™ (PMI™) posted 50.3 in August, up from the flash reading of 49.9 but still down slightly from 50.4 in July. As such, the latest reading signalled the least marked improvement in the health of the U.S. manufacturing sector since the depths of the financial crisis in September 2009.

The rate of production growth was among the slowest seen for over three years in August, as lacklustre client demand led increasing numbers of firms to curb output. Although the pace of increase picked up slightly, some firms attributed the rise to efforts to clear backlogs of work rather than reflecting any new inflows of orders.

Concurrently, the pace of the upturn in new business eased to a fractional rate that was the slowest for three months and among the weakest seen over the past ten years.

Manufacturing PMI
sa, >50 = improvement since previous month



Deteriorating demand conditions, especially across the automotive sector, were linked to subdued client demand. External demand also weighed on new business growth, as new export orders fell at the quickest pace since August 2009, linked by many firms to trade wars and tariffs.

In line with the near-stalling of new orders, output expectations dipped to a new series low in August. Although firms were largely optimistic, many stated that uncertainty and fears of a global economic downturn weighed on confidence.

At the same time, firms remained hesitant towards hiring in August, with employment levels broadly unchanged during the month. That said, some firms stated that little change in workforce numbers was in part due to difficulties finding suitable candidates.

On the price front, historically muted rises in input prices and output charges were once again recorded by goods-producing firms in August. A reduction in demand for inputs reportedly limited suppliers' pricing power, and pressure to remain competitive meant that firms largely refrained from sharp rises in output charges.

Weak client demand also led to a further fall in input buying among manufacturing firms and both pre- and post-production stocks were depleted at modest rates.

COMMENT

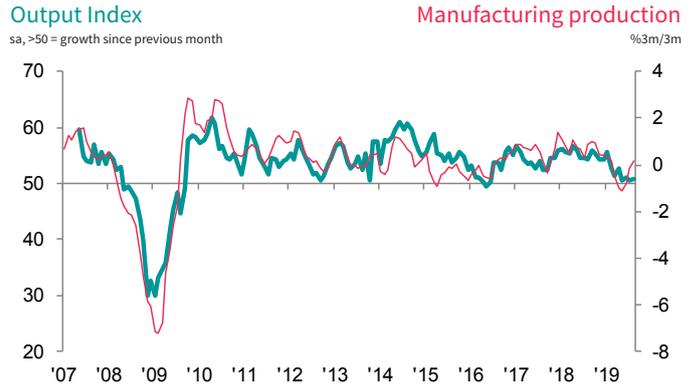
Chris Williamson, Chief Business Economist at IHS Markit said:

"The August PMI indicates that US manufacturers are enduring a torrid summer, with the main survey gauge down to its lowest since the depths of the financial crisis in 2009. Output and order book indices are both among the lowest seen for a decade, indicating that manufacturing is likely to have again acted as a significant drag on the economy in the third quarter, dampening GDP growth.

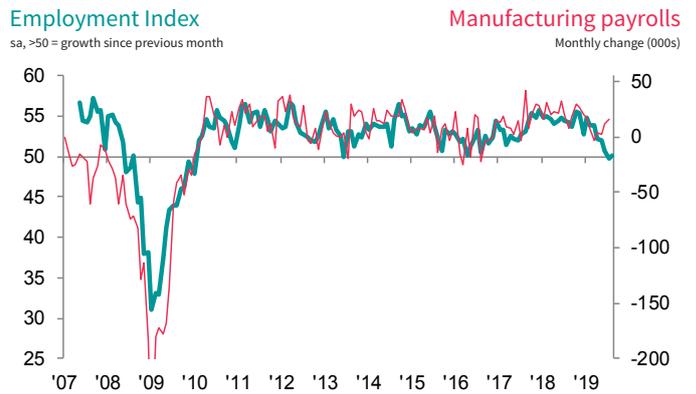
"At current levels, the survey indicates that manufacturing production is falling at an annualised rate of approximately 3%.

"Deteriorating exports are the key to the downturn, with new orders from foreign markets dropping at the fastest rate since 2009. Many companies blame slower global economic growth for weakened order books, but also point the finger at rising trade war tensions and tariffs.

"Hiring has stalled as companies worry about the outlook: optimism about the year ahead is at its lowest since comparable data were first available in 2012. Similarly, price pressures are close to a three-year low, as crumbling demand has removed firms' pricing power."



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.

August 2019 data were collected 12-23 August 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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