

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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IHS Markit Flash U.S. Composite PMI™

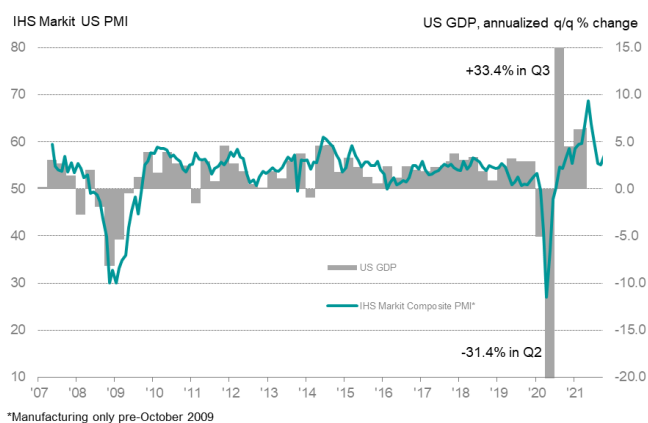
Economy accelerates despite bottlenecks as services revive from Delta wave, but prices rise at record pace

Key findings:

- Flash U.S. Composite Output Index at 57.3 (55.0 in September). 3-month high.
- Flash U.S. Services Business Activity Index at 58.2 (54.9 in September). 3-month high.
- Flash U.S. Manufacturing PMI at 59.2 (60.7 in September). 7-month low.
- Flash U.S. Manufacturing Output Index at 52.3 (55.7 in September). 15-month low.

Data collected October 11-21

IHS Markit Composite PMI and U.S. GDP



*Manufacturing only pre-October 2009

Sources: IHS Markit, U.S. Bureau of Economic Analysis

U.S. private sector businesses recorded a sharp and accelerated upturn in output led by the service sector during October, with growth the strongest for three months, albeit still much weaker than seen earlier in the year.

However, October also saw a survey-record rise in backlogs of work as firms struggled to meet demand due to supply chain bottlenecks and labour shortages, in turn driving the steepest rise in prices yet recorded by the survey.

Adjusted for seasonal factors, the **IHS Markit Flash U.S. Composite PMI Output Index** posted 57.3 in October, rising from 55.0 in September to signal the fastest uplift in activity for three months and one that was sharp overall. Stronger growth was driven by the services sector, which registered the quickest rate of expansion since July. Meanwhile, the latest rise in factory production was the softest since July 2020 and only mild, as goods producers continued to be severely hampered by material shortages and supply chain delays.

At the same time, inflows of new work to private sector firms rose further, extending the current sequence of improving demand to 15 months. The rate of new order growth slowed slightly since September to the weakest since December 2020, but was nonetheless solid.

Stronger sales placed further pressure on business capacity during October. The level of outstanding business rose at a series record pace, with respondents linking the latest rise with supply issues and a lack of staff. Subsequently, companies stepped up their hiring efforts in October. Employment increased at the quickest pace since June in spite of further reports of difficulties sourcing candidates and retaining staff.

October data also highlighted stronger inflationary pressures across the US economy. Average input prices rose at a survey record pace, with firms attributing higher costs to supply issues, material shortages, greater transport fees and increased wage bills. Subsequently, the rate of selling price inflation for goods and services also hit a new series peak.

Finally, the level of sentiment regarding output in

the year ahead dipped to the joint-lowest in eight months (on a par with July), with many companies noting concerns surrounding ongoing supply issues, labour shortages and price pressures.

IHS Markit Flash U.S. Services PMI™

The seasonally adjusted **IHS Markit Flash U.S. Services PMI™ Business Activity Index** rose from 54.9 in September to 58.2 in October, to signal the most marked expansion in services activity for three months.

Driving growth in October was the quickest rise in inflows of new work since July, that was commonly attributed to stronger demand conditions as COVID-19 worries eased during the month.

Concurrently, service providers recorded more intense capacity pressures amid reports that firms were struggling to cope with growing sales due to labour issues and supplier delays. Notably, the rate of backlog accumulation was the most marked in 12 years of data collection.

Companies did, however, raise their workforce numbers at the quickest rate since June during October, although some panellists reported issues finding candidates and filling open positions.

October data also pointed to a continued spill-over of inflationary pressures. The rate of input price inflation accelerated to the second-fastest on record, and was only slightly weaker than May's peak. Higher transportation costs, wages, supplier fees and material prices were cited by panellists as the primary drivers of inflation in October.

Subsequently, service providers upped their average charges for the seventeenth month running. The rate of increase quickened rapidly since September and was the steepest on record.

IHS Markit Flash U.S. Manufacturing PMI™

Operating conditions faced by manufacturers continued to improve in October, albeit at a weaker pace, as highlighted by the **IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI™)**¹ falling from 60.7 in September to 59.2 in October. The latest figure pointed to the slowest improvement in the health of the sector since March,

albeit one that was among the strongest on record and sharp overall.

The slower improvement in conditions reflected a weaker expansion in output and a moderation in order book growth during October. Factory production rose only modestly, with the pace of increase the slowest since July 2020 as output continued to be hampered by supply chain issues and shortages. October saw a record lengthening of suppliers' delivery times. Supply issues and sustained sales growth prompted firms to further increase their buying activity and inventories.

The rate of increase in new orders eased to the slowest for eight months, but remained sharp overall. Survey respondents mentioned that order books were again buoyed by strong client demand. At the same time, material shortages, combined with logistical issues and greater commodity prices, were all linked to a further rise in average input costs in October. The rate of inflation surpassed August's record to reach a fresh series high. Factory gate charges also rose at the fastest pace in the series history as firms continued to pass greater cost burdens through to clients.

Comment

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

"October saw resurgent service sector activity as COVID-19 case numbers continued to fall, marking an encouragingly strong start to the fourth quarter for the economy. Hiring has likewise picked up as firms have been encouraged to expand capacity to meet rising demand."

"However, while manufacturers also continue to report strong demand, factory production remains plagued by constraints, including record supply chain bottlenecks and labor shortages. Prices paid by factories for raw materials rose at yet another new record pace as a result, in turn feeding through to both higher prices at the factory gate and spilling over into higher service sector prices. Higher wages are also having to be offered to attract or retain staff, adding to the inflationary pressures."

"Thus, while the economy looks set for stronger growth in the fourth quarter, the upward rise in inflationary pressures also shows no signs of abating."

-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 surveys. No information from the ISM survey is used in the production of IHS Markit's PMI.

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Note to Editors:

Final October data are published on November 1 2021 for manufacturing and November 3 2021 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 is 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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About PMI

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