

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 0945 (EDT) / 1345 (UTC) October 24th 2018

IHS Markit Flash U.S. PMI™

Private sector growth rebounds to three-month high, but intense cost pressures persist

Key findings:

- Flash U.S. Composite Output Index at 54.8 (53.9 in September). 3-month high.
- Flash U.S. Services Business Activity Index at 54.7 (53.5 in September). 2-month high.
- Flash U.S. Manufacturing PMI at 55.9 (55.6 in September). 5-month high.
- Flash U.S. Manufacturing Output Index at 55.2 (55.8 in September). 2-month low.

Data collected October 12-23

IHS Markit Composite PMI and U.S. GDP



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

Private sector business activity increased at a robust and accelerated pace in October. At 54.8, up from 53.9 in September, the seasonally adjusted **IHS Markit Flash U.S. Composite PMI Output Index** signalled the fastest rate of expansion since July.

The composite index is based on original survey data from the IHS Markit U.S. Services PMI and the IHS Markit U.S. Manufacturing PMI.

Stronger overall business activity growth was driven

by the service sector in October, which more than offset a slight loss of momentum in manufacturing.

Higher levels of business activity were supported by another sharp rise in new work. Survey respondents noted that improving domestic economic conditions were the main factor behind rising client demand.

Robust new business growth placed additional pressure on operating capacity in October, as highlighted by another modest accumulation of unfinished work. Payroll growth remained solid as firms continued to expand capacity, though the rate of private sector job creation eased to its slowest since June 2017.

October data pointed to the sharpest rise in operating expenses for five months. Survey respondents widely commented on higher cost burdens and stretched domestic supply chains in the wake of trade tariffs. Meanwhile, average prices charged by private sector firms increased at a robust pace, with the rate of inflation unchanged from September's survey-record high.

Expectations regarding the outlook for business activity improved in October, with the degree of positive sentiment the strongest for five months. Manufacturers remained more upbeat overall than service sector companies.

IHS Markit U.S. Services PMI™

At 54.7 in October, up from 53.5, the seasonally adjusted **IHS Markit Flash U.S. Services PMI™ Business Activity Index** indicated a rebound in output growth from September's eight-month low. September's reading had been affected in part by adverse weather.

Strong new order books remained a key driver of growth across the service economy. Latest data

signalled a robust upturn in new work, which contributed to another accumulation of backlogs at service sector firms.

Despite a strong rise in new business, employment numbers increased at the slowest pace since June 2017. Some survey respondents noted that tight labor market conditions had held back their staff recruitment plans.

Meanwhile, input cost inflation accelerated to its sharpest since September 2013. A number of panel members cited the pass through of tariffs, alongside rising fuel bills and higher borrowing costs.

IHS Markit U.S. Manufacturing PMI™

October data pointed to another strong month for the manufacturing sector, with overall business conditions improving at the fastest pace for five months. This was highlighted by the seasonally adjusted **IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index (PMI)™**¹ registering 55.9, up from 55.6 in September and well above the crucial 50.0 no-change threshold.

Improved rates of new business and employment growth were the main factors boosting the headline PMI in October, which more than offset a slight slowdown in production growth.

The latest rise in payroll numbers was the steepest since December 2017, which survey respondents attributed to capacity pressures and greater business investment spending at their plants. Higher levels of new work largely reflected stronger domestic demand in October. New work from abroad remained close to stagnation.

Manufacturers continued to indicate a sharp deterioration in vendor performance during October, driven by stock shortages and robust demand for inputs. The recent phase of worsening supplier lead-times has been among the most intense seen since the survey began in 2007. There were widespread reports that stretched operating capacity and a spike in purchasing linked to trade tariff uncertainty had led to severe pressure on manufacturing supply chains.

Input cost inflation reached a five-month high in

October, which was widely linked to metals tariffs and higher oil-related prices. At the same time, factory gate charges continued to increase at one of the fastest rates since the first half of 2011.

Comment

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

“The flash PMI surveys indicate that the pace of economic growth gained momentum again in October after having been subdued mainly by adverse weather in September. The headline PMI is running at a level broadly consistent with the economy growing at an annualised rate of 2.5%, boding well for another robust quarter of growth.

“The survey still suggests, however, that growth is being constrained by a lack of capacity, with skill shortages widely reported and supplier delays remaining commonplace. Companies consequently reported yet another rise in backlogs of work as, measured overall, order book inflows once again exceeded output growth.

“The domestic economy remained the main driver of demand, with exports stagnating amid growing signs of trade being subdued by tariffs.

“Tariffs also drove a further marked rise in prices, exacerbating an upward trend in price pressures borne out of robust domestic demand. Average prices charged for goods rose at one of the fastest rates seen over the past seven years while average charges for services showed the second-largest rise since the global financial crisis.

“The resilience of the domestic economy in the face of trade worries, and the strong price pressures indicated by the survey data, will add to expectations that the Fed will hike rates again before the end of the year.”

-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 October data are published on November 1 for manufacturing and November 5 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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