

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

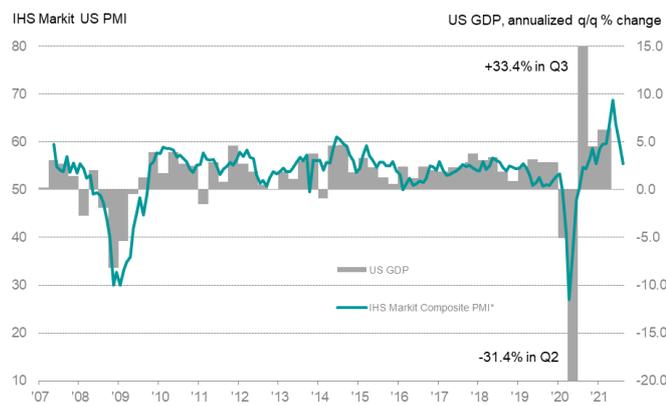
Private sector expansion slows sharply amid capacity constraints and Delta variant spread

Key findings:

- Flash U.S. Composite Output Index at 55.4 (59.9 in July). 8-month low.
- Flash U.S. Services Business Activity Index at 55.2 (59.9 in July). 8-month low.
- Flash U.S. Manufacturing PMI at 61.2 (63.4 in July). 4-month low.
- Flash U.S. Manufacturing Output Index at 56.3 (59.7 in July). 5-month low.

Data collected August 12-20

IHS Markit Composite PMI and U.S. GDP



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

Private sector companies across the U.S. signalled a further strong upturn in business activity during August, however, the pace of growth slowed to an eight-month low. Capacity pressures, material shortages and the spread of the Delta variant reportedly weighed on the output expansion.

Adjusted for seasonal factors, the **IHS Markit Flash U.S. Composite PMI Output Index** posted 55.4 in August, down sharply from 59.9 in July. The rate of

output growth slowed for the third month running from May's series high. The pace of expansion in business activity was also the slowest seen in 2021 so far as service providers and manufacturers reported greater constraints on capacity.

Inflows of new business meanwhile also softened in August, rising at the slowest pace since December 2020, led by a marked cooling in growth of demand for services (notably in terms of exports, for which orders fell). Nonetheless, manufacturing firms reported a further marked increase in new order inflows, pointing to robust demand for goods.

Severe supply chain disruptions meanwhile led to a further robust increase in cost burdens at private sector firms midway through the third quarter. The rate of input price inflation accelerated to the second-fastest on record (since October 2009), with both manufacturing and service sectors registering a quicker rise in costs. At the same time, the rate of selling price inflation ticked higher as firms sought to pass higher input prices on to clients.

Material shortages, difficulties hiring new staff and the spread of the Delta variant were all highlighted as factors driving a steep accumulation of backlogs of work during August. The strong rise in outstanding business was only slightly below July's record high, and coincided with only a marginal upturn in employment. Staffing numbers rose at the slowest rate since July 2020, often linked to difficulties finding staff.

Despite concerns regarding the spread of the virus and the longevity of supply chain disruptions, U.S. companies remained upbeat regarding the outlook for output over the coming year. The degree of confidence ticked up from that seen in July.

IHS Markit Flash U.S. Services PMI™

The seasonally adjusted **IHS Markit Flash U.S. Services PMI™ Business Activity Index** registered 55.2 in August, down from 59.9 in July, to signal the softest rise in output since December 2020. The slowdown in activity growth was often linked to labour shortages, the spread of the Delta variant and some instances of supply chain disruption.

The increase in new business also eased further from May's series high in August, as the rate of expansion slowed to the softest in a year. Some hesitancy among customers was attributed to the renewed increase in COVID-19 cases. Uncertainty also weighed on foreign client demand, with new export orders falling for the first time since February.

Meanwhile, input costs rose markedly and at one of the fastest paces on record amid significant hikes in supplier prices and greater wage bills. Subsequently, service providers raised their selling prices at a sharper rate.

Pressure on capacity led to a further solid increase in outstanding business during August. Despite the uptick in backlogs of work, firms only expanded their workforce numbers marginally. The rate of job creation was the slowest since February amid a high turnover in staff.

Business expectations across the service sector remained upbeat, as the degree of confidence in a rise in activity over the coming year ticked higher.

IHS Markit Flash U.S. Manufacturing PMI™

August data signalled another marked upturn in the health of the manufacturing sector, as highlighted by the **IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI™)**¹ posting 61.2 midway through the third quarter, despite falling from 63.4 in July. The improvement in operating conditions was the slowest for four months, but substantial nonetheless.

Although the expansion in new orders slowed slightly during August, the rate of growth was one of the most marked on record as client demand remained substantial. That said, material shortages and pressure on capacity led to a slowdown in

output growth. The rate of increase in production was the softest since March.

Challenges fulfilling new orders and an unprecedented deterioration in vendor performance led to the second-steepest rise in backlogs of work in the over 14-year series history. Exacerbating the fresh record extension to delivery times, difficulties retaining employees and finding suitable candidates led to the slowest rise in workforce numbers in 2021 to-date.

Contributing to the substantial rise in cost burdens during August was a marked increase in purchasing activity amid efforts to build safety stocks. The rate of input price inflation was the fastest on record (since May 2007) as suppliers hiked their charges again. Meanwhile, firms increased their own selling prices at the steepest rate in the series history in the hope of partially passing on higher costs to clients.

Nevertheless, strong client demand and hopes of softer price rises and reduced supply chain delays led to greater optimism regarding the outlook for output over the coming year.

Comment

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

"The expansion slowed sharply again in August as the spread of the Delta variant led to a weakening of demand growth, especially for consumer-facing services, and further frustrated firms' efforts to meet existing sales.

"Not only have supply chain delays hit a new survey record high, but the August survey saw increasing frustrations in relation to hiring. Jobs growth waned to the lowest since July of last year as companies either failed to find suitable staff or existing workers switched jobs.

"Prices charged for goods and services grew at an increased rate as demand once again ran ahead of supply, most notably in the manufacturing sector.

"Prices look set to continue to rise sharply due to the persistent upward pressure on costs arising from shortages of materials and labor, though if demand continues to cool due to rising case numbers this should alleviate some of the inflationary pressures."

-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 August data are published on September 1 2021 for manufacturing and September 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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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

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