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IHS Markit U.S. Manufacturing PMI™

March PMI at second-highest on record amid marked new order growth and supply chain disruptions

Key findings

Output growth softens amid raw material shortages

Unprecedented deterioration in vendor performance

Costs and charges rise at historically elevated rates

Data were collected 12-25 March 2021.

March PMI™ data from IHS Markit indicated the second-strongest improvement in the health of the U.S. manufacturing sector since data collection began in May 2007. The overall expansion was supported by the steepest rise in new orders since June 2014, although production was reportedly held back by supply shortages. Supplier lead times lengthened to the greatest extent on record. At the same time, inflationary pressures intensified, with cost burdens rising at the quickest rate for a decade. Firms partially passed on higher input costs to clients through the sharpest increase in charges in the survey's history.

The seasonally adjusted IHS Markit U.S. Manufacturing Purchasing Managers' Index™ (PMI™) posted 59.1 in March, up from 58.6 in February but broadly in line with the earlier released 'flash' estimate of 59.0. The latest reading was the second-highest on record and signalled a marked improvement in operating conditions across the U.S. manufacturing sector.

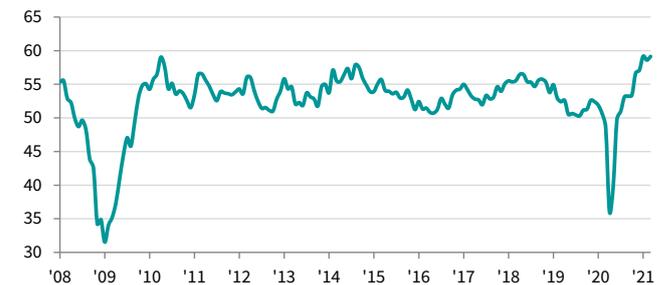
Goods producers registered the fastest upturn in new business for almost seven years in March. Anecdotal evidence suggested the expansion was due to a broad-based strengthening of client demand, though led by a record surge in new orders for consumer goods. Some companies also reported stockpiling efforts among their customers amid soaring input prices. New export orders also increased, albeit at the softest pace for three months.

While output rose for a ninth successive month, the faster rise in demand did not translate into sharper production growth as output was reportedly constrained by supply shortages and unprecedented extensions to lead times. Although still strong overall, the rate of expansion in output was the slowest since last October.

Manufacturers signalled the greatest deterioration in vendor performance since data collection began in May 2007.

continued...

U.S. Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Chris Williamson, Chief Business Economist at IHS Markit said:

"March saw manufacturers struggle to cope with surging inflows of new orders. Although output continued to rise at a solid pace, capacity is being severely strained by the combination of soaring demand and supply chain disruptions: supply chain delays and backlogs of uncompleted orders are growing at rates unprecedented in the survey's 14-year history, meaning inventories of finished goods are falling at a steep rate.

"Pricing power has risen accordingly as demand outstrips supply: raw material prices are increasing at the sharpest rate for a decade and factory gate selling prices have risen to a degree not seen since at least 2007.

"The fastest rates of increase for both new orders and prices was reported among producers of consumer goods, as the arrival of stimulus cheques in the post added fuel to a marked upswing in demand as the economy continued to pull out of the malaise caused by the pandemic.

"With business expectations becoming even more optimistic in March, further strong production growth looks likely in the second quarter, but the big question will be whether rising price pressures also become more entrenched."

Transportation delays, supplier shortages and coronavirus disease 2019 (COVID-19) restrictions reportedly caused logistical difficulties.

Subsequently, input prices rose markedly. The rate of cost inflation was the steepest since March 2011, with firms stating that supply shortages and transportation delays often drove prices up and led to additional fees.

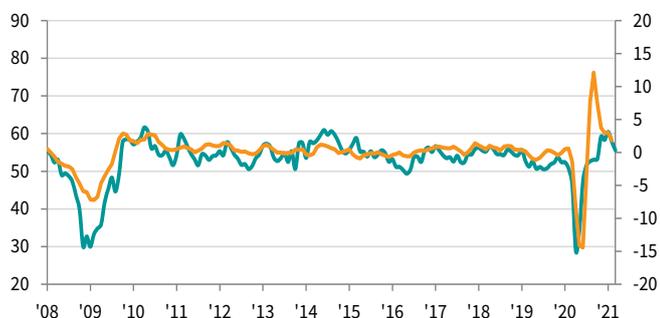
Firms were, however, able to pass on part of the hike in costs to clients, as selling price inflation accelerated to a fresh series peak. The rate of increase quickened for the fifth successive month.

In line with capacity constraints, backlogs of work accumulated at the fastest pace on record in March. As a result, firms expanded their workforce numbers further and at a solid rate. Companies also noted that increased work-in-hand led to a strong depletion of post-production inventories, as current holdings of finished goods were used to fulfil new orders.

Meanwhile, manufacturers stepped up their efforts to stockpile inputs to avoid further delays and safeguard future production. Purchasing activity rose at the quickest pace since September 2018. Consequently, pre-production inventories were broadly unchanged, following a solid contraction in February.

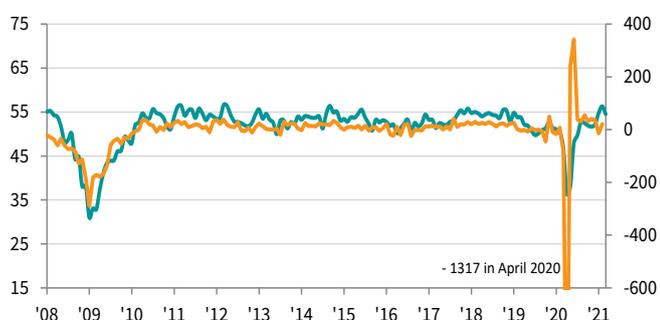
Finally, output expectations strengthened in March. The degree of confidence was the second-highest for over six years, as firms were buoyed by hopes of a successful vaccine roll-out, fresh stimulus and a resulting boost to new sales.

U.S. Manufacturing PMI Output Index Manufacturing production
 sa, >50 = growth since previous month %3m/3m



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

U.S. Manufacturing PMI Employment Index Manufacturing payrolls
 sa, >50 = growth since previous month Monthly change (000s)



Sources: IHS Markit, Bureau of Labor Statistics.

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Survey methodology

The IHS Markit U.S. Manufacturing PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 800 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.

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

Survey dates and history

March 2021 data were collected 12-25 March 2021.

Data collection began in April 2004 from a survey panel of electronics manufacturers. In May 2007, the panel was expanded to cover manufacturers of metal products. In October 2009, the panel was expanded further to cover all manufacturing activity. Data from May 2007 to September 2009 are compiled from responses from manufacturers of electronics and metal products, while data from October 2009 are compiled from responses from all areas of manufacturing.

Flash vs. final data

Flash data were calculated from 85% of final responses. Since October 2009 the average difference between final and flash Manufacturing PMI values is 0.0 (0.3 in absolute terms).

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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.

ihsmarkit.com/products/pmi.html