

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

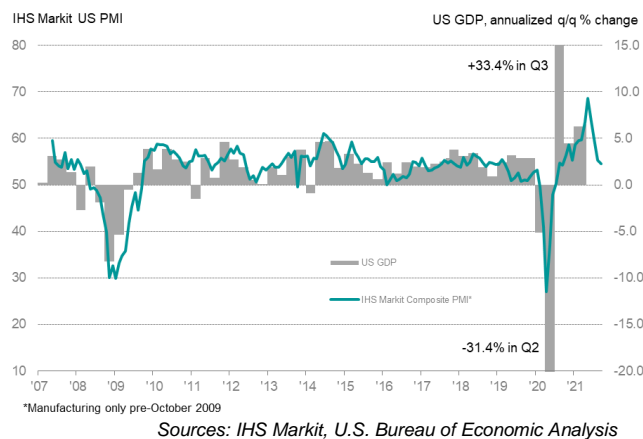
Private sector output growth hampered by severe supply chain hold-ups and capacity shortages

Key findings:

- Flash U.S. Composite Output Index at 54.5 (55.4 in August). 12-month low.
- Flash U.S. Services Business Activity Index at 54.4 (55.1 in August). 14-month low.
- Flash U.S. Manufacturing PMI at 60.5 (61.1 in August). 5-month low.
- Flash U.S. Manufacturing Output Index at 55.2 (56.7 in August). 11-month low.

Data collected September 03-22

IHS Markit Composite PMI and U.S. GDP



Private sector firms in the U.S. signalled a solid expansion in output during September, albeit at the slowest pace for a year and one that was much softer than that seen at the start of the summer. The overall upturn was weighed on by the weakest increase in service sector business activity in the current 14-month sequence of growth.

Adjusted for seasonal factors, the **IHS Markit Flash U.S. Composite PMI Output Index** posted 54.5 in September, down from 55.4 in August and much

lower than May's record high. The rate of output growth was the softest since September 2020, amid a notable slowdown in the pace of expansion in service sector activity compared to earlier in the year.

At the same time, new order growth eased to the slowest since August 2020. Although demand conditions at manufacturing firms remained very strong by historical standards, the upturn in service sector new business slowed to a 14-month low as COVID-19 concerns persisted. While new export orders increased at a faster pace, the improvement was confined to manufacturing. Service providers registered a solid decline in exports as ongoing virus restrictions continued to impede activity.

Challenges finding suitable candidates and difficulties retaining employees were reflected in firms reporting only a fractional rise in employment for a second month. Backlogs of work rose strongly due to the resulting pressure on operating capacity. The rise in outstanding business was the second-fastest in over 12 years of data collection, with a record increase seen in manufacturing.

On the price front, input costs rose at a sharper pace during September. The rate of cost inflation was the quickest for four months, and the second-highest on record, as supply chain disruptions and material shortages pushed prices and transportation costs up. Meanwhile, output charges continued to increase markedly, continuing to rise at a pace far outstripping anything seen in the survey's history prior to May, as firms sought to pass on higher costs to clients where possible.

Optimism at private sector firms was robust in September. Business confidence was often linked

to hopes of improved client demand and the removal of supply chain blockages.

IHS Markit Flash U.S. Services PMI™

The seasonally adjusted **IHS Markit Flash U.S. Services PMI™ Business Activity Index** registered 54.4 in September, down from 55.1 in August, to signal a solid but slower rise in business activity across the service sector. The upturn in output was the softest in the current 14-month sequence of expansion and slowed once again from May's recent high.

Contributing to the softer increase in activity was a slower rise in new business. Though solid, the rate of growth slowed for the fourth month running amid less robust demand conditions and ongoing COVID-19 worries. Total sales were also hampered by a quicker decline in new export orders, and one that was the fastest since December 2020.

Employment levels were broadly unchanged during September, bringing an end to a 14-month sequence of job creation. Capacity pressures led to a solid rise in outstanding business. Although quicker than the series trend pace, the rate of accumulation was the least marked for four months.

Cost pressures remained historically elevated, as greater supplier prices and increased wage bills following incentives to entice workers pushed costs up. Firms sought to pass on higher prices to their clients through a marked rise in output charges.

Meanwhile, the degree of optimism reached a three-month high amid hopes of stronger client demand and an end to the pandemic.

IHS Markit Flash U.S. Manufacturing PMI™

The health of the manufacturing sector improved substantially in September, as highlighted by the **IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI™)**¹ posting 60.5 at the end of the third quarter, down slightly from 61.1 in August. Although the pace of improvement in operating conditions was the slowest for five months, it was marked overall.

Supporting the overall upturn was a robust increase in new business. New orders were reportedly driven by strong demand conditions. At the same time, new

export orders rose solidly and at the fastest pace for four months.

That said, supply constraints and material shortages dampened output in September. Although strong, the rate of expansion in production was the slowest for 11 months. Lead times lengthened substantially as trucking issues and capacity shortages led to one of the greatest deteriorations in vendor performance on record.

Manufacturers expanded their workforce numbers at a steeper rate in September. Despite many firms noting challenges finding suitable candidates and retaining current employees, many were able to hire additional workers, often offering greater wages to entice staff.

Goods producers registered another significant rise in input costs, albeit slightly slower than August's recent high. Soaring material prices led to one of the fastest increases on record. As a result, the rate of selling price inflation accelerated to the sharpest since data collection began in May 2007 as firms passed higher costs on to their clients.

Hopes of greater availability of materials and staff over the coming months, alongside stronger demand conditions, reportedly supported optimism at manufacturers. The degree of confidence slipped to a four-month low, however.

Comment

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

"The pace of US economic growth cooled further in September, having soared in the second quarter, reflecting a combination of peaking demand, supply chain delays and labour shortages.

"The slowdown was led by a cooling of demand in the service sector, linked in part to the Delta variant spread. However, while manufacturers have seen far more resilient demand, factories face growing problems in sourcing enough supplies and labour to meet orders. Supply chain delays show no signs of easing, with another near-record lengthening of delivery times in September. Hence factory output growth also weakened and order book backlogs rose at a record pace in September.

"The upshot is yet another month of sharply rising prices charged for goods and services as demand outpaces supply, and higher costs are passed on to customers."

-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 September data are published on October 1 2021 for manufacturing and October 5 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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