

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

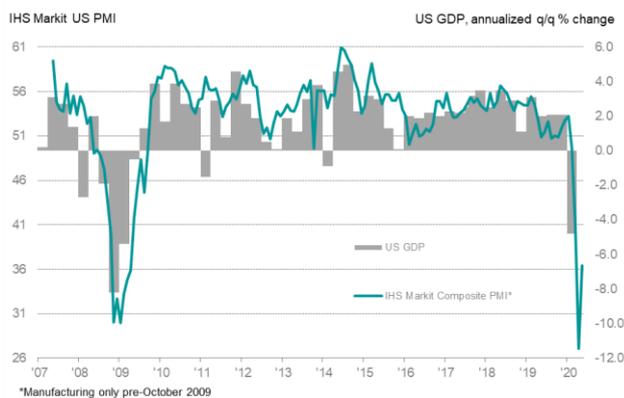
May sees further steep fall in output amid COVID-19 crisis

Key findings:

- Flash U.S. Composite Output Index at 36.4 (27.0 in April). 2-month high.
- Flash U.S. Services Business Activity Index at 36.9 (26.7 in April). 2-month high.
- Flash U.S. Manufacturing PMI at 39.8 (36.1 in April). 2-month high.
- Flash U.S. Manufacturing Output Index at 34.1 (28.8 in April). 2-month high.

Data collected May 12-20

IHS Markit Composite PMI and U.S. GDP



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

U.S. private sector firms reported a slightly slower rate of contraction of activity in May, as the economy began to reopen. That said, the fall in output was substantial, as both manufacturers and service providers indicated marked declines in client demand.

Adjusted for seasonal factors, the **IHS Markit Flash U.S. Composite PMI Output Index** posted 36.4 in May, up from 27.0 in April, but nonetheless indicating the second-sharpest decline in business activity since the series began in late-2009.

The composite index is based on original survey data from IHS Markit's PMI surveys of both services and manufacturing. Rates of contraction among goods producers and service providers remained historically marked as only small sections of the economy returned to work amid ongoing measures to contain the coronavirus disease 2019 (COVID-19) outbreak.

Although the overall contraction in new business eased in May, it was still the second-steepest in the series history. Firms continued to report significant decreases in client demand as customers further postponed the placement of orders.

Service sector and manufacturing firms registered the second-sharpest reductions in new orders since the global financial crisis. Foreign client demand remained especially muted, with new export orders decreasing substantially and at only a slightly reduced rate compared to April as lockdowns associated with the virus pandemic persisted across key export markets.

Reflecting the further severe drop in new business, firms cut workforce numbers at a marked pace in May. The rate of job losses eased from April, but was nonetheless the second-fastest in the 11-year survey history. Manufacturers and service providers recorded similar rates of decline as a lack of new work led to increased reports of lay-offs and lower working hours. Subsequently, spare capacity rose and backlogs of work continued to fall.

Businesses remained pessimistic towards the outlook for output over the coming year as the pandemic's impact was extended. Although some became more confident of a pick-up in the later stages of the year, helping lift the survey's future expectations index from April's all-time low, others noted it would take a long time for conditions to normalise.

Weak demand conditions were also reflected in prices data, with both input costs and output charges falling further in May, to register the second-steepest monthly falls since comparable data were first available in 2009.

IHS Markit Flash U.S. Services PMI™

The seasonally adjusted **IHS Markit Flash U.S. Services PMI™ Business Activity Index** registered 36.9 in May, up from the record low of 26.7 in April, but nonetheless signalling one of the most severe contractions in service sector activity on record.

The reduction in output was driven by further weakness in domestic and foreign client demand. Total sales continued to decrease sharply and at the second-steepest rate in the series history, as consumer-facing sectors struggled to safely return to work.

Mirroring uncertainty towards future business activity, service providers placed employees on furlough or were forced to cut workforce numbers, and at a marked pace.

In an effort to attract and retain clients, firms reduced their output charges at a solid pace in May. Some also noted that the fall was reflective of a drop in input costs which was being passed on to customers.

IHS Markit Flash U.S. Manufacturing PMI™

Manufacturers registered a further substantial deterioration in operating conditions midway through the second quarter, as the **IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI)™**¹ posted 39.8 in May, up from 36.1 at the start of the second quarter.

Driving the deterioration were significant contractions in production and new orders, as businesses slowly returned to work amid challenging domestic and foreign demand conditions. The rates of reduction were among the most marked since the depths of the financial crisis.

Meanwhile, another monthly fall in backlogs of work led to further spare capacity at goods producers, with employment declining at a historically sharp pace amid reports of furloughing, lay-offs and reduced working hours.

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.

Manufacturers were still concerned as to the purchasing power of their clients following the pandemic, with many continuing to reduce their output charges in the hope of boosting sales amid a second monthly decline in input costs.

Comment

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

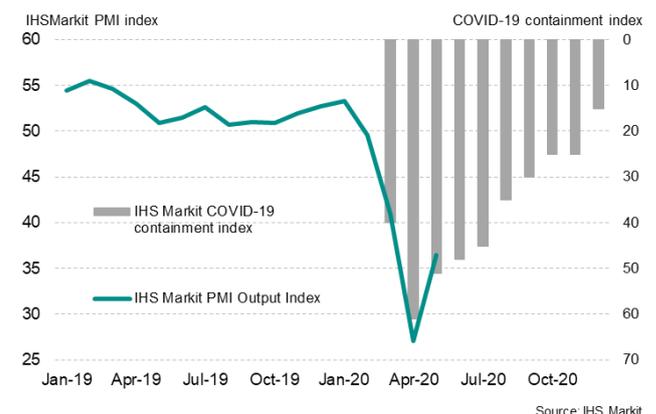
"The severe drop in business activity in May comes on the heels of a record downturn in April, adding to signs that GDP is set to suffer an unprecedented decline in the second quarter."

"Encouragement comes from the survey indicating that the rate of economic collapse seems to have peaked in April. In the absence of a second wave of COVID-19 infections, the decline should moderate further in coming months as measures taken to contain the coronavirus are steadily lifted."

"However, the sheer scale of the current downturn and associated job losses, and the fact that some restrictions will need to stay in place until an effective treatment or vaccine are found, highlights how a full recovery is unlikely to be swift."

"We anticipate that GDP will decline at an annualised rate of around 37% in the second quarter, and it will take the economy two years to regain the pre-pandemic peak."

US PMI and COVID-19 containment measures*



* COVID-19 containment index is based on information relating to issues such as closures of schools, non-essential shops and restaurants, as well as restrictions on public gatherings, internal mobility and external borders. We also forecast how these are expected to change in coming months, based primarily on government announcements. A reading of 100 means severe restrictions while a reading of zero indicate no restrictions.

-Ends-

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Note to Editors:

Final May data are published on June 1 for manufacturing and June 3 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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