May data signalled a slightly softer, but nonetheless severe, contraction in U.S. manufacturing output. The decrease in output was largely driven by a further weakening of client demand and lower new order inflows from both domestic and foreign customers amid the coronavirus disease 2019 (COVID-19) outbreak. A marked decline in total sales and negative sentiment towards the outlook for output over the coming year drove employment down, as firms reduced workforce numbers substantially.

At the same time, lower input buying and weaker overall demand conditions put pressure on suppliers to lower their prices. Consequently, input costs fell again, in turn helping manufacturers to cut their output charges at a record pace as firms sought to remain competitive.

The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers’ Index™ (PMI™) posted 39.8 in May, up from 36.1 at the start of the second quarter. Although slightly higher than April’s recent low, the latest figure signalled the second-steepest deterioration in manufacturing operating conditions since April 2009.

The impact of ongoing emergency public health measures following the escalation of the COVID-19 outbreak led to a further severe decline in production across the U.S. goods-producing sector in May. The fall in output was attributed to lower sales, temporary shutdowns and difficulties operating at full capacity amid new safety regulations. With the exception of April’s recent nadir, the rate of contraction was the fastest since February 2009.

Concurrently, new business fell for the third month running. The cancellation and postponement of orders weighed on inflows of new work, according to panel members, with some firms also

**Comment**

Chris Williamson, Chief Business Economist at IHS Markit said:

“Manufacturing remained in a deep downturn in May, as measures taken to contain the spread of COVID-19 continued to cause production losses, disrupt supply chains and hit demand. Job losses meanwhile continued to run at one of the highest rates in over a decade, and pricing power has collapsed.

“With increasing numbers of companies restarting production, we should see some improvements in the output trend in coming months, and it was reassuring to see signs of the downturn already starting to ease in May, suggesting April was the eye of the storm as far as the production collapse is concerned.

“There remains a high risk that any recovery will be frustratingly slow as ongoing social distancing measures, high unemployment, job insecurity and damaged balance sheets constrain consumer and business spending. The recovery will of course also fade quickly if virus infections start to rise again. For now, however, we focus on the good news that we may be past the worst in terms of the economic decline.”
highlighting a negative impact on client renewals. New export orders also fell at a marked pace in May, as ongoing global lockdowns reduced customer purchasing activity. The rate of decline in foreign sales was the second-fastest on record.

Lower new order volumes led to a further fall in the level of backlogs of work in May amid signs of excess capacity. Despite efforts to adapt using reduced working hours and furloughing staff, firms cut their workforce numbers at the second-quickest rate in over 11 years. Fears of a slow recovery, which will stymie demand, led to further pessimism among goods producers. Output expectations were negative for only the second month since the series began in July 2012, though was not as downbeat as that seen in April.

Meanwhile, firms and suppliers were placed under greater pressure to reduce prices in May, amid efforts to remain competitive and secure new orders. Input costs and selling prices both fell markedly, with the decline in factory gate charges the sharpest since data collection for the series began in May 2007.

Lower input prices partially stemmed from weak demand for raw materials. Purchasing activity fell at a marked pace as firms sought to leverage current inventories in an effort to reduce costs. Nonetheless, vendor performance continued to deteriorate substantially amid supplier shortages and new health and safety guidelines.

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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

May 2020 data were collected 12-26 May 2020.

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.

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About PMI

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.

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