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IHS MARKIT US MANUFACTURING PMI™

New orders return to growth in June

KEY FINDINGS

Modest upturns in output and new business

Employment expands at slowest rate since August 2016

Inflationary pressures remain muted

June data signalled a further near-stagnation of operating conditions across the U.S manufacturing sector. The rate of overall growth held close to May's near-decade low. On a positive note, the rate of output growth quickened slightly amid a renewed rise in new orders. However, in line with muted increases in output, firms reined in staff hiring, expanding workforce numbers at the slowest pace for almost three years. Subsequently, output expectations remained subdued.

On the price front, inflationary pressures remained muted despite slight accelerations in rates of output charge and input price inflation.

The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers' Index™ (PMI™) posted 50.6 in June, broadly in line with 50.5 in May, to signal only a marginal improvement in the health of the U.S manufacturing sector. The latest headline reading picked up from the recently released June 'flash' PMI figure (50.1), but was nonetheless the second-lowest figure since September 2009.

Supporting the headline number was a renewed rise in new business in June. The upturn was linked by panellists to the acquisition of new clients. That said, the rate of increase was only modest overall and among the slowest seen over the last three years. In contrast, the pace of growth in new business from abroad was the quickest in 2019 so far, following a slight fall in May.

Consequently, manufacturers registered a faster rise in production in June. Nevertheless, the rate of expansion

Manufacturing PMI
sa, >50 = improvement since previous month



was only moderate and the second-slowest since June 2016 (behind May's recent low), as firms continued to report difficult demand conditions.

Uncertainty surrounding future output growth weighed on hiring decisions among goods producers, with the rate of job creation softening to the least marked since August 2016. Expectations of production growth over the coming year remained solemn and among the weakest in the survey history in June. Manufacturing firms often raised concerns surrounding tariffs and the softer trend in new orders.

Meanwhile, cost burdens faced by manufacturers continued to rise at a historically muted rate in June. Higher input prices were attributed to the ongoing effects of tariffs on raw material purchases. However, some firms stated that hikes in costs were less marked compared to earlier in the year.

Subsequently, output charges increased at only a modest rate. Some firms partly passed on costs to clients, whereas others highlighted the importance of discounting efforts in order to attract and retain clients.

In line with muted demand conditions, firms continued to deplete their stocks. Notably, pre-production inventories fell at the quickest rate since the start of 2014 as input buying rose only fractionally.

COMMENT

Chris Williamson, Chief Business Economist at IHS Markit said:

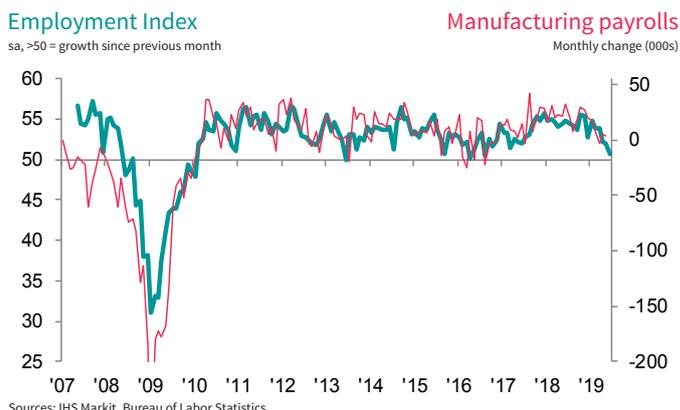
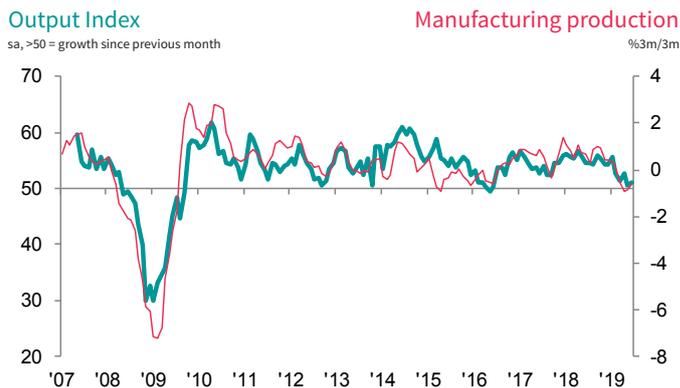
"US manufacturers reported business conditions to have remained the toughest for nearly a decade in June. The past two months have seen the lowest readings since the height of the global financial crisis in 2009.

"The survey provides accurate advance indicators of comparable official data, and paints a worrying picture of marked declines in both output and jobs. The June survey sub-index readings are consistent with manufacturing output contracting at a quarterly rate of 0.7% and factory payrolls falling by 18,000.

"A major development in recent months has been the deteriorating performance of larger companies, where the last two months have seen the lowest PMI readings for a decade. After inventories rose sharply earlier in the year, large companies have moved to destocking in May and June amid a sharp slowing in new order inflows.

"Although business optimism about the future lifted slightly higher, it remained close to survey lows to indicate persistent low morale. Worries centred on signs of slowing demand both at home and internationally, weaker sales, and geopolitical uncertainty.

"Tariffs meanwhile continued to push up prices, but weak demand often limited the ability of firms to pass higher prices onto customers, suggesting overall inflationary pressures have weakened compared to earlier in the year."



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Methodology

The IHS Markit US Manufacturing PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 750 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.

June 2019 data were collected 12-24 June 2019.

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

Data collection began in April 2004 from a survey panel of electronic goods manufacturers. In May 2007, the panel was expanded to cover manufacturers of metal products. In October 2009, the panel was expanded further to cover the entire manufacturing sector. Historical data between May 2007 and September 2009 are compiled from responses collected from manufacturers of electronic goods and metal goods, while data from October 2009 are compiled from responses collected from the full manufacturing panel.

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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. To learn more go to ihsmarkit.com/products/pmi.html.

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