News Release

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IHS MARKIT
US MANUFACTURING PMI™

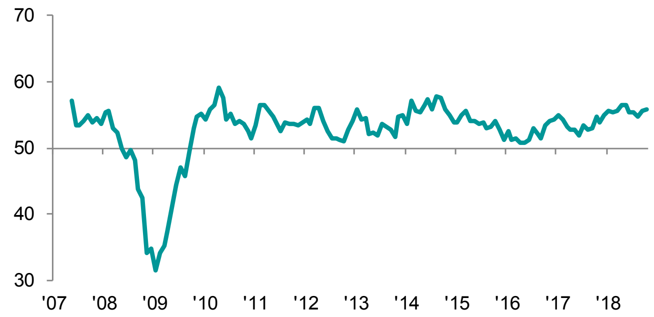
New order growth accelerates to five-month high

KEY FINDINGS

Upturn in new business quickens to sharp rate

Export orders increase fractionally

Rate of job creation picks up to ten-month high



U.S. manufacturing firms signalled a strong start to the final quarter of 2018, with operating conditions improving at a faster pace in October. Driving the latest development in the health of the sector was a sharp increase in new business. The upturn in total new work reached a five-month high, though only a fractional rise in new export orders was registered. Greater production requirements and efforts to clear backlogs meanwhile led to a quicker monthly rise in hiring, the fastest for ten months. Price pressures remained intense, however, with rates of input price and output charge inflation accelerating. At the same time, business confidence picked up from September's 12-month low.

The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers' Index™ (PMI™) posted 55.7 in October, broadly in line with September's reading of 55.6. The latest figure signalled a further pick up in growth momentum and a strong improvement in the health of the manufacturing sector. Moreover, October's reading reached a five-month high.

The headline PMI was driven by a stronger expansion in new business received by goods producers in October. The upturn in new orders accelerated to a five-month high and was widely attributed to greater client demand across the domestic market. Conversely, new export orders grew only fractionally and at the weakest pace in the current three-month sequence of growth.

Production levels expanded strongly in October and at a rate that was broadly in line with the series trend. Panellists commonly attributed the rise in output to greater client demand and increased efforts to clear backlogs.

In line with another rise in backlogs and a sustained increase in new business, employment growth accelerated in October. The rate of job creation reached a ten-month high and was strong overall. Respondents also noted that anticipations of greater new orders during the fourth quarter had led to the upturn.

Manufacturing firms recorded pressures on profit margins in October, with the rate of input price inflation quickening to a marked pace. The rate of increase reached a three-month high and was largely linked to higher raw material and metal prices stemming from the ongoing effects of tariffs.

Consequently, manufacturers tried to partly pass on higher cost burdens to their clients through increased output charges. Although the rate of output price inflation accelerated to the fastest since July, it remained well below that seen for input costs.

Meanwhile, firms registered a strong rise in buying activity amid reports of greater efforts to stockpile. Pre-production inventories increased for the seventeenth month running, albeit modestly, as longer input deliveries curbed stock building efforts.

Finally, output expectations towards the coming 12 months improved, with firms suggesting that anticipations of further new order growth drove optimism.

PMI™ By IHS Markit

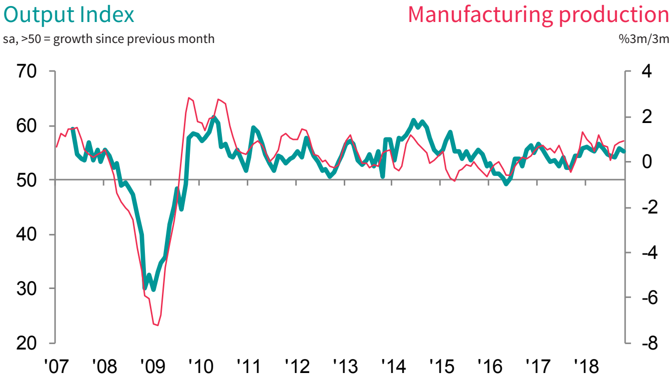
COMMENT

Chris Williamson, Chief Business Economist at IHS Markit said:

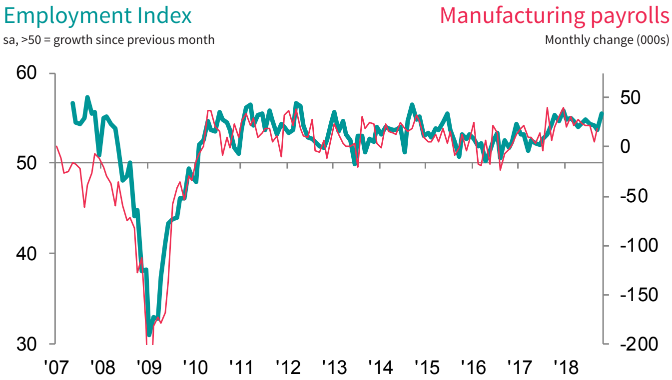
"The manufacturing sector saw a strong start to the closing quarter of 2018, with new order inflows rising sharply and business optimism spiking higher in an encouraging sign that firms expect the good times to continue into 2019.

"The increasingly bullish mood was also reflected in one of the largest monthly increases in factory payroll numbers seen over the past seven years as firms grew capacity to meet rising workloads.

"The key area of concern remained tariffs, which were widely reported to have contributed to another month of stalled export sales and a steep rise in prices for many inputs. Average input prices rose at one of the sharpest rates seen over the past six years in October. In a clear sign that inflationary pressures are continuing to build, strong customer demand meant firms were often able to push cost increases through to selling prices. Average prices charged for goods leaving the factory gate consequently jumped to one of the greatest extents seen since mid-2011."



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



Sources: IHS Markit, Bureau of Labor Statistics.

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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 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.

October 2018 data were collected 12-25 October 2018.

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

About IHS Markit

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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.