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IHS MARKIT US MANUFACTURING PMI™

PMI falls to lowest since September 2009

KEY FINDINGS

Fractional output growth and muted demand hold back overall expansion

Employment falls for first time since June 2013

Output expectations moderate to series low

U.S. manufacturing firms signalled only a fractional improvement in business conditions in July, with the headline PMI dropping to its lowest since September 2009. Driving less robust overall growth was a slower increase in production and muted client demand. Although the rate of expansion in new business quickened, it remained historically subdued, with export orders contracting for the second time in the last three months. In line with less robust demand, optimism among manufacturers dipped to a series low. Firms were also more cautious towards hiring, with employment falling for the first time since mid-2013.

Meanwhile, firms raised their factory gate charges at an increased rate despite input cost inflation sliding to the lowest for over two years.

The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers' Index™ (PMI™) posted 50.4 in July, broadly in line with 50.6 in June. The latest reading signalled a fractional improvement in the health of the manufacturing sector, but also indicated the slowest overall expansion since the height of the financial crisis in September 2009.

Manufacturers reported only a marginal rise in production during July, with the rate of growth easing to the slowest since June 2016. The sustained slowdown was linked by panellists to softer demand conditions compared to earlier in 2019, notably for goods supplied as inputs to other companies.

The rate of new business growth remained muted overall, despite picking up to a three-month high. Less robust

Manufacturing PMI

sa, >50 = improvement since previous month



demand from domestic and foreign clients was attributed to issues in the automotive sector, the ongoing impact of tariffs and hesitancy in placing orders. The decrease in new export business was the second in the last three months.

Muted client demand was reportedly a driving force behind subdued business confidence in July. Output expectations slipped further to a series low (since July 2012) as business conditions are predicted to remain challenging over the coming 12 months, especially for smaller firms.

A reduction in the level of positive sentiment towards the year ahead was also reflected in the first fall in employment since June 2013. A number of firms registered stable workforce numbers during July, with difficulties finding replacement staff weighing on overall workforce numbers. At the same time, backlogs of work were reduced at a modest pace.

On the prices front, firms signalled the slowest rate of input cost inflation for just over two years. Nonetheless, firms continued to increase factory gate charges, with output prices rising at a solid rate that was above the series average despite challenging demand conditions.

Finally, purchasing activity fell for the first time since April 2016 as subdued demand drove further stock depletion. Inventories of inputs and finished goods declined in July.

COMMENT

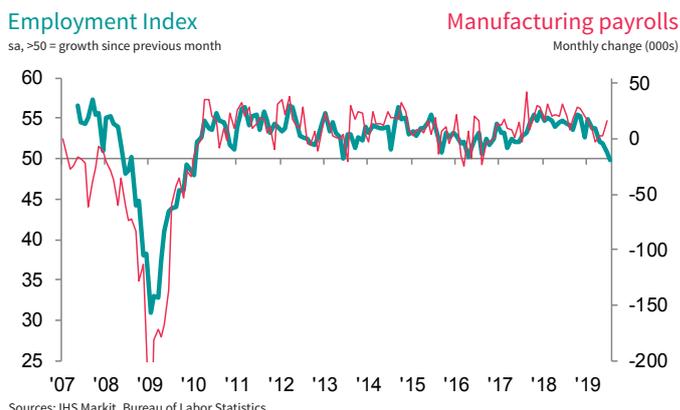
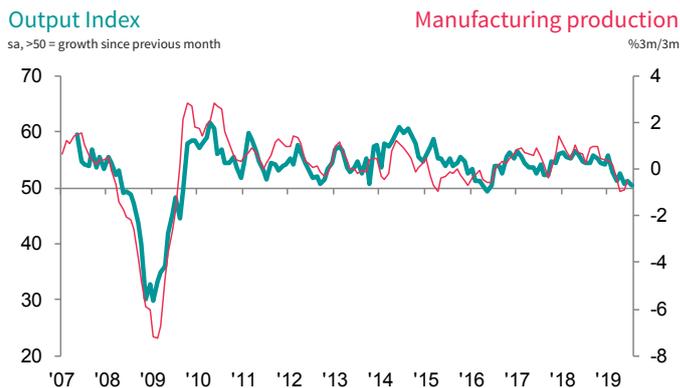
Chris Williamson, Chief Business Economist at IHS Markit said:

"US manufacturing has entered into its sharpest downturn since 2009, suggesting the goods-producing sector is on course to act as a significant drag on the economy in the third quarter. The deterioration in the survey's output index is indicative of manufacturing production declining at an annualised rate in excess of 3%.

"Falling business spending at home and declining exports are the main drivers of the downturn, with firms also cutting back on input buying as the outlook grows gloomier. US manufacturers' expectations of output in the year ahead has sunk to its lowest since comparable data were first available in 2012, with worries focused on the detrimental impact of escalating trade wars, fears of slower economic growth and rising geopolitical worries.

"Employment is now also falling for only the second time in almost ten years as factories pull back on hiring amid the growing uncertainty.

"More positively, new order inflows picked up for a second successive month. Although remaining worryingly subdued compared to the strong growth seen earlier in the year, the modest improvement will fuel hope that production growth could tick higher in August."



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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.

July 2019 data were collected 12-25 July 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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