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IHS Markit U.S. Manufacturing PMI™

Sharpest contraction in output in series history due to COVID-19 impact

Key findings

Data were collected 7-24 April 2020

Survey record decline in production

Output expectations turn negative for first time in the series history

New orders, employment and inventories fall at steepest rates since the global financial crisis

April data signalled an unprecedented contraction in production across the U.S. manufacturing sector, overwhelmingly linked to measures implemented to contain the COVID-19 outbreak. Factory closures were widely reported and the frequent cancellation or postponement of orders resulted in the largest monthly drop in the new orders index on record. Spare capacity across the sector and pessimism about the year ahead meanwhile resulted in the fastest fall in employment since March 2009, despite efforts to furlough staff. Both input costs and output charges fell sharply as companies and their suppliers offered discounts to boost sales.

The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers' Index™ (PMI™) posted 36.1 in April, down from 48.5 in March and the previously released 'flash' figure of 36.9. The headline reading was the lowest for just over eleven years, despite being buoyed by the greatest deterioration in suppliers' delivery times since data collection began in May 2007 (ordinarily a signal of improving manufacturing demand but currently the result of virus-related supply constraints).

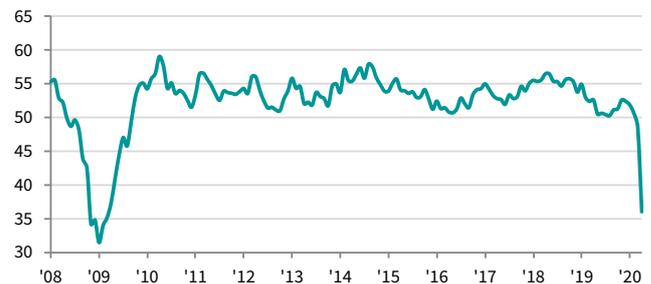
Driving the headline figure down was the steepest decline in output in the series history. The unprecedented contraction in production was widely linked to factory and other business closures following the implementation of COVID-19 related emergency public health measures.

New orders decreased at the most marked pace since January 2009, as customers reportedly cancelled or postponed orders amid a broad-based contraction in consumer and business spending. Domestic and foreign client demand declined, with new export orders falling at the quickest rate in the series history. Lower sales from abroad were attributed to the global nature of the pandemic escalation, with numerous key export markets badly affected.

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U.S. Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Chris Williamson, Chief Business Economist at IHS Markit said:

"April saw the manufacturing sector struck hard by the COVID-19 pandemic, with output falling to an extent surpassing that seen even at the height of the global financial crisis. With orders collapsing at a rate not seen for over a decade, supply chains disrupted to a record degree and pessimism about the outlook hitting a new survey high, rising numbers of firms are culling payroll numbers.

"Consumer facing businesses are being hit by slumping demand from households as April saw widespread lockdowns, but business spending on inputs and equipment has also tumbled as companies slash production and investment.

"Smaller firms are being hit the hardest, and also reporting the highest job losses, but large firms are also seeing the sharpest downturn on record.

"With infection curves showing signs of flattening, it is naturally hoped that the economic downturn will also bottom-out. As restrictions are lifted, demand should gradually revive, but the trade-off between risking a second wave of infections and bringing the economy back to life looks set to be one of the greatest challenges faced by policy- and lawmakers in recent history. The process will inevitably be led by caution, meaning recovery will also be frustratingly slow."

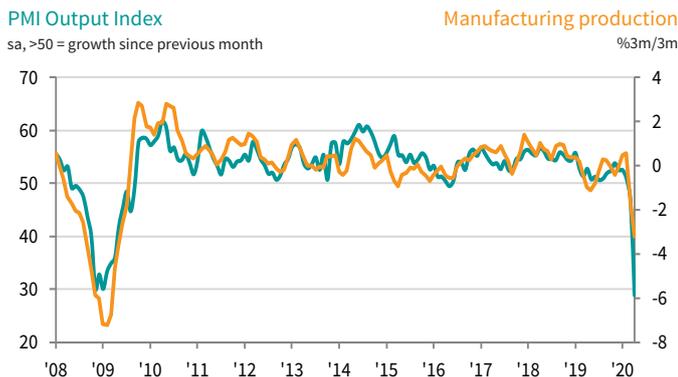
Ongoing uncertainty and fear surrounding the longevity of lockdown procedures led business confidence to slump to a series low in April. Firms were pessimistic regarding the outlook for output over the coming year on average for the first time in the series history (since July 2012), with companies reportedly struggling to plan for their short-term futures.

At the same time, firms reduced their staffing levels in increased numbers. The fall in employment was the steepest since March 2009. Greater spare capacity drove the decline, as backlogs of work decreased at the most marked rate for eleven years.

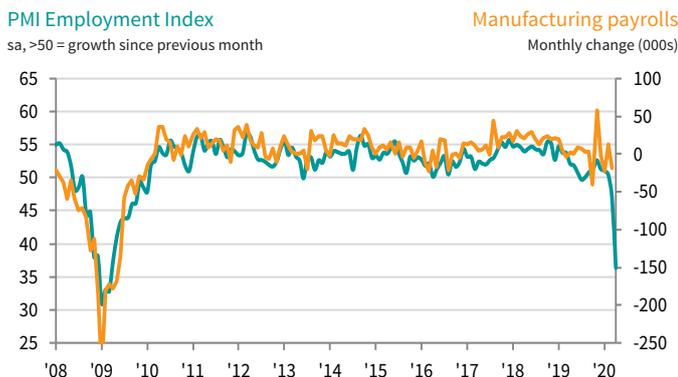
Manufacturers registered a sharp downturn in buying activity in April, reflecting reduced production requirements. An associated fall in input costs reportedly stemmed from the drop in demand for inputs and a notable decrease in fuel prices.

Firms partially passed lower input prices on to clients through a further and faster decrease in factory gate charges. The fall in output prices was the steepest since data collection began in May 2007.

Finally, a reduction in input buying and lower client demand led to a depletion of inventory levels. Stocks of purchases and finished goods both fell at the steepest rates for 11 years.



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



Sources: IHS Markit, Bureau of Labor Statistics.

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Contact

Chris Williamson
 Chief Business Economist
 IHS Markit
 T: ++44-20-7260-2329
chris.williamson@ihsmarkit.com

Siân Jones
 Economist
 IHS Markit
 T: +44-1491-461-017
sian.jones@ihsmarkit.com

Katherine Smith
 Corporate Communications
 IHS Markit
 T: +1 (781) 301-9311
katherine.smith@ihsmarkit.com

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

April 2020 data were collected 7-24 April 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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