

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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IHS Markit Flash U.S. Composite PMI™

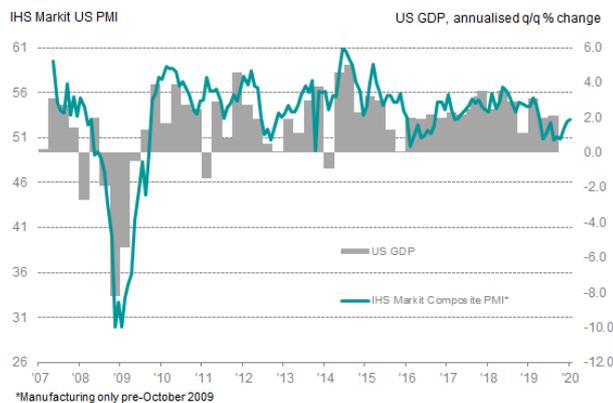
Output growth quickens to ten-month high

Key findings:

- Flash U.S. Composite Output Index at 53.1 (52.7 in December). 10-month high.
- Flash U.S. Services Business Activity Index at 53.2 (52.8 in December). 10-month high.
- Flash U.S. Manufacturing PMI at 51.7 (52.4 in December). 3-month low.
- Flash U.S. Manufacturing Output Index at 52.4 (52.4 in December). Unchanged.

Data collected January 13-23

IHS Markit Composite PMI and U.S. GDP



Sources: IHS Markit, U.S. Bureau of Economic Analysis

U.S. private sector firms indicated a faster expansion of business activity in January, with the pace of growth accelerating to a ten-month high. The upturn was driven by a sharper increase in service sector output, as growth of manufacturing production was unchanged.

Adjusted for seasonal factors, the **IHS Markit Flash U.S. Composite PMI Output Index** posted 53.1 in January, up from 52.7 in December, to indicate the quickest rise in output since last March. The increase in output was solid overall, despite the pace of growth remaining below the series long-run

trend.

The composite index is based on original survey data from IHS Markit's PMI surveys of both services and manufacturing.

New business across the private sector continued to rise in January, albeit at a softer pace. The upturn in client demand softened slightly as both manufacturers and service providers registered slower expansions of new orders. In fact, goods producers recorded the least marked improvement in demand since last September, with growth easing further from November's ten-month high. Meanwhile, new export orders placed with U.S. private sector firms dipped into contractionary territory at the start of 2020.

Nevertheless, firms expanded their workforce numbers at a faster rate in January. Employment grew for the third successive month and at the quickest pace since last July. The rate of job creation accelerated to a six-month high at service providers, while manufacturers registered the slowest rise in workforce numbers since last September.

Meanwhile, price pressures across the private sector remained historically subdued, despite the rate of input cost inflation picking up to a seven-month high. Higher operating expenses were commonly linked to stronger increases in raw material prices and wages. Average output charges rose at only a marginal pace, with the rate of inflation easing from December's ten-month high.

At the same time, output expectations across the private sector improved at the start of 2020, with optimism reaching a seven-month high in January.

IHS Markit Flash U.S. Services PMI™

The seasonally adjusted **IHS Markit Flash U.S. Services PMI™ Business Activity Index**

registered 53.2 in January, up from 52.8 in December. This signalled a solid increase in service sector output that was the fastest since last March.

Although the pace of output growth accelerated, the expansion in new orders moderated slightly. The upturn in sales was the third in as many months, and signalled stronger client demand compared to the second half of 2019.

Service providers were buoyed by further business activity growth and increased their workforce numbers, and at a quicker rate.

Service sector firms signalled an improvement in business expectations, as the degree of optimism reached a seven-month high. However, business confidence remained well below the series trend

Finally, the rate of input price inflation quickened to the sharpest since last July, despite being historically muted. In an effort to remain competitive, services firms raised their output charges at only a modest pace.

IHS Markit Flash U.S. Manufacturing PMI™

Manufacturing firms noted a slower improvement in operating conditions in January, as signalled by a slight dip in the **IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI™)**¹ from 52.4 to 51.7 in January. Notably, the latest upturn in the health of the sector was the softest since last October.

Although output continued to rise at a moderate pace, new business growth was only marginal as both domestic and foreign client demand softened. Furthermore, new export orders for the first time since last September, though only slightly.

Nevertheless, goods producers continued to increase their workforce numbers at the start of 2020, albeit at the slowest pace for four months. The softer rise in employment coincided with signs of easing capacity pressures, with January seeing the first fall in backlogs for four months.

At the same time, price pressures eased across the manufacturing sector in January. A weaker increase in cost burdens occurred alongside only a fractional rise in factory gate charges.

Comment

Commenting on the flash PMI data, **Siân Jones, Economist** at IHS Markit, said:

“The recovery of growth momentum across the U.S. private sector continued to quicken at the start of 2020, with overall output rising at the sharpest pace since last March. Nonetheless, the underlying data highlights a manufacturing sector that is not out of the woods yet, with goods producers seeing only modest gains in output and new orders. Service providers also registered a slower upturn in new business, which fed through to softer increases in output charges as part of efforts to attract new customers.”

“On a positive note, private sector firms increased their workforce numbers at a faster rate, with some also expressing frustration at a lack of available candidates to fill vacancies. Job creation reflected stronger optimism regarding future output. Although firms remain wary of the potential for headwinds through 2020, business confidence crept higher for the second month running.”

“Further signs of historically soft price pressures will come as no surprise to the FOMC, who meet next week, adding to expectations of a hold in the policy rate. Muted increases in costs and output charges reportedly stemmed from both producers and suppliers increasing their efforts to boost sales.”

-Ends-

¹ Please note that IHS Markit's PMI data, flash and final, are derived from information collected by IHS Markit from a different panel of companies to those that participate in the ISM Report on Business and the ISM Non-Manufacturing Report on Business. No information from the ISM survey is used in the production of IHS Markit's PMI.

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Note to Editors:

Final January data are published on February 3 for manufacturing and February 5 for services and composite indicators.

The Composite Output PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"

The Manufacturing PMI is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"

The U.S. Services PMI™ (*Purchasing Managers' Index*™) is produced by IHS Markit and is based on original survey data collected from a representative panel of over 400 companies based in the U.S. service sector. IHS Markit began collecting monthly PMI data in the U.S. service sector in October 2009. The flash estimate is typically based on approximately 85%–90% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The IHS Markit U.S. Services PMI complements the IHS Markit U.S. Manufacturing PMI and enables the production of the IHS Markit U.S. Composite PMI which tracks business trends across both the manufacturing and service sectors, based on original survey data collected from a representative panel of over 1,000 companies.

IHS Markit began collecting monthly *Purchasing Managers' Index*™ (PMI™) data in the U.S. in April 2004, initially from a panel of manufacturers in the U.S. electronics goods producing sector. In May 2007, IHS Markit's U.S. PMI research was extended out to cover producers of metal goods. In October 2009, IHS Markit's U.S. Manufacturing PMI survey panel was extended further to cover all areas of U.S. manufacturing activity. Back data for IHS Markit's U.S. Manufacturing PMI between May 2007 and September 2009 are an aggregation of data collected from producers of electronic goods and metal goods producers, while data from October 2009 are based on data collected from a panel representing the entire U.S. manufacturing economy. IHS Markit's total U.S. Manufacturing PMI survey panel comprises over 600 companies.

The panel is stratified by North American Industrial Classification System (NAICS) group and company size, based on industry contribution to U.S. GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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