

Embargoed until 0945 EST (1345 UTC) 1 November 2019

IHS Markit U.S. Manufacturing PMI™

PMI rises to six-month high in October

Key findings

Modest improvement in operating conditions as PMI rises to 51.3

Faster upturns in output, new orders and employment

Output prices broadly unchanged

The U.S. manufacturing sector saw a further modest improvement in operating conditions in October, supported by faster expansions in output and new business. Rates of growth in both production and new orders accelerated to six-month highs. Subsequently, employment rose at the quickest pace since May and business confidence picked up to a four-month high. Meanwhile, rates of input price and output charge inflation softened and remained subdued, with selling prices broadly unchanged during the month.

The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers' Index™ (PMI™) posted 51.3 in October, up slightly from 51.1 in September. The latest headline figure was the highest since April, but remained consistent with only a modest improvement in the health of the manufacturing sector. The overall rate of growth remained well below the long-run series average.

Supporting the improvement in the PMI was a faster rise in production in October. Although still moderate, the rate of expansion in output accelerated to a six-month high and was accompanied by a quicker upturn in new business.

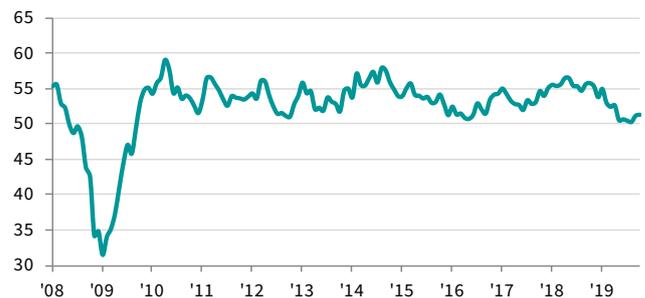
New orders across the manufacturing sector increased for the fifth consecutive month and the rate of growth quickened to the fastest since April. Firms noted that their clients were exhibiting less hesitancy in placing orders and market conditions had improved. Foreign demand also ticked up following three successive monthly contractions in new export orders, with new business from abroad rising marginally overall.

On the price front, cost burdens rose at only a modest pace at the start of the fourth quarter. Although some firms reported higher input prices stemming from the ongoing impact of tariffs, many suggested that subdued price pressures were often linked to price drops at suppliers, notably for metals.

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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:

"Tentative signs of renewed vigor are appearing in the US manufacturing sector, with the survey's production gauge having now risen for three successive months to suggest that the soft patch bottomed out in July. Growth of new orders hit a six-month high, fuelled in part by a renewed increase in exports, prompting producers to take on more staff, with payroll numbers rising at the quickest pace since May.

"The improvement in current conditions was matched by a lifting of business optimism about the year ahead to the highest seen since June. It was also encouraging to see this optimism feed through to an upturn in demand for investment goods, such as plant and machinery, as this hints that firms are moving back into expansion mode, albeit only tentatively so far.

"However, while the outlook has improved, further growth is by no means assured. Survey respondents continue to report widespread concerns over issues such as tariffs, the auto sector's ongoing malaise, a lack of pricing power amid weak demand and uncertainty about the economic and political situation over the coming year. While the survey data are moving in the right direction, the overall picture therefore remained one of only very modest growth and guarded optimism."

Subsequently, average factory gate charges across the goods-producing sector were broadly unchanged as manufacturers only partly passed on higher costs to clients.

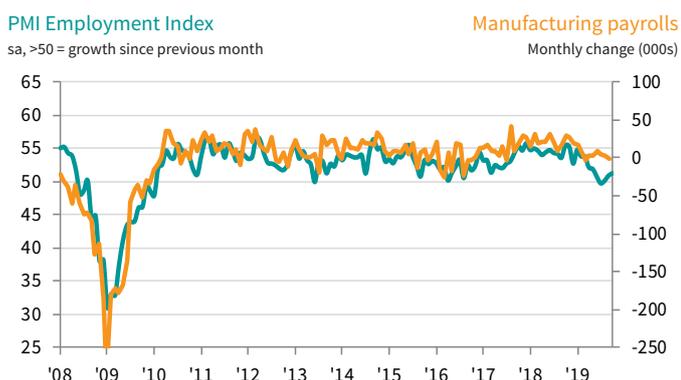
At the same time, greater production requirements contributed to the fastest rise in workforce numbers since May. Some firms also noted that higher staffing levels were due to the filling of previously held vacancies. Backlogs, however, were unchanged in October following a three-month sequence of decline.

In line with stronger client demand, manufacturers registered a greater degree of confidence in output growth over the coming year. More favourable market conditions partially drove optimism to its highest level since June. Nonetheless, the overall degree of sentiment was below the long-run series trend.

Finally, despite a renewed rise in input buying, the stronger increase in new business meant firms increasingly dipped into stocks to ensure new orders were fulfilled in a timely manner. Therefore, pre-production inventories fell at the quickest rate for three months and stocks of finished goods decreased slightly.



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



Sources: IHS Markit, Bureau of Labor Statistics.

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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

October 2019 data were collected 11-25 October 2019.

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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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.