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IHS Markit U.S. Manufacturing PMI™

September PMI rises to five-month high as output growth strengthens

Key findings

Stronger, albeit only slight improvement in operating conditions

Faster increases in output and new business

Job creation quickens to marginal rate

September PMI data indicated a marginally faster rate of improvement in the health of U.S. manufacturing, though the overall picture remained one of a struggling goods producing sector that has suffered its worst quarter since 2009. Expansions in production and new orders remained only modest, meaning firms were encouraged to increase their workforce numbers only tentatively. Business confidence remained relatively gloomy due to muted demand conditions.

Although rates of both input cost and selling price inflation quickened, they remained historically subdued following a drop in demand for inputs and widespread efforts to stay competitive.

The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers' Index™ (PMI™) posted 51.1 in September, broadly in line with the earlier flash reading of 51.0, and up from 50.3 in August to signal a slightly stronger end to the third quarter for the U.S. manufacturing sector. That said, the quarterly average indicated the worst performance across the sector since the same period in 2009. Moreover, the latest data signalled only a slight improvement in operating conditions across the sector.

Driving the headline PMI figure higher was a quicker rise in production in September. The modest upturn was the fastest since April following reports of slightly stronger client demand and efforts to clear backlogs. Nonetheless, the rate of expansion was below the series trend.

The upturn in new business accelerated from August's recent low. New order growth was attributed to an increase in domestic client demand and efforts to price competitively. That said, the upturn was only moderate as a fall in foreign client demand weighed on total sales. The decline in export sales was the second-fastest for nearly five years. Ongoing trade wars also reportedly exacerbated difficult external demand conditions.

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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:

"News of the PMI hitting a five-month high brings a sigh of relief, but manufacturing is not out of the woods yet. The September improvement fails to prevent US goods producers from having endured their worst quarter for a decade. Given these PMI numbers, the manufacturing recession appears to have extended into its third quarter.

"It's also far from clear that the trend will improve in the fourth quarter. Inflows of new work remain worryingly subdued, to the extent that current production growth is having to be supported by firms increasingly eating into order book backlogs. Business sentiment about the year ahead is also stuck at gloomy levels.

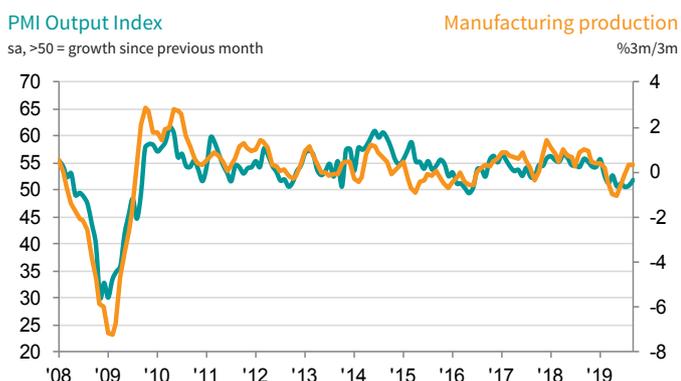
"The current situation contrasts markedly with earlier in the year, when companies were struggling to keep up with demand. Now, spare capacity appears to be developing, which is causing firms to curb their hiring compared to earlier in 2019 and become more cautious about costs and spending."

Subsequently, firms increased employment marginally in response to greater production requirements. The rise in staffing levels also came alongside a faster fall in backlogs of work.

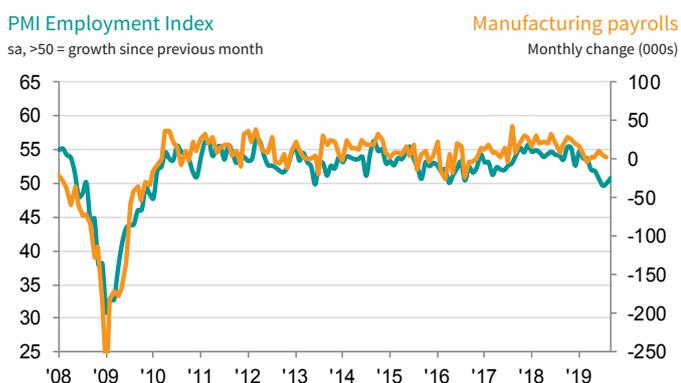
Although tentative towards their output expectations for the coming 12 months, firms expressed a greater degree of confidence in September. The level of optimism reached a three-month high but remained relatively subdued overall.

Meanwhile, cost burdens increased moderately. The faster pace of inflation was linked to the impact of tariffs, although a drop in demand for inputs kept cost rises relatively muted. Similarly, output charges rose modestly, as firms sought to pass on higher costs, whilst maintaining efforts to be competitive.

In line with subdued demand conditions, input buying fell for a third month running. Firms also stated that weak demand had led to greater efforts to run down stocks. Despite a decline in purchasing, supplier performance deteriorated further as firms increasingly reported a change to domestic suppliers, due to tariffs, with vendors struggling to deliver goods to manufacturers amid capacity issues.



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

September 2019 data were collected 12-24 September 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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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.