

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

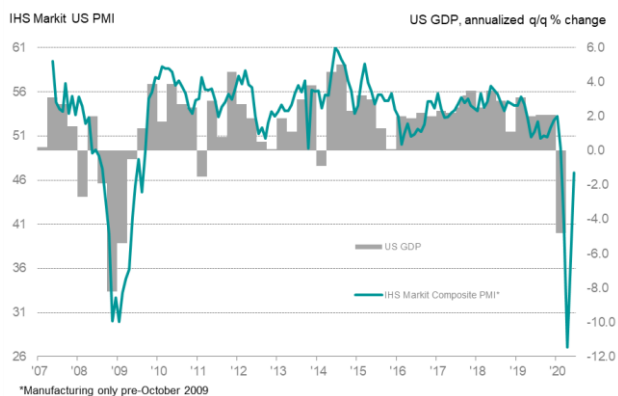
Economic downturn eases markedly in June as lockdown lifts

Key findings:

- Flash U.S. Composite Output Index at 46.8 (37.0 in May). 4-month high.
- Flash U.S. Services Business Activity Index at 46.7 (37.5 in May). 4-month high.
- Flash U.S. Manufacturing PMI at 49.6 (39.8 in May). 4-month high.
- Flash U.S. Manufacturing Output Index at 47.8 (34.4 in May). 4-month high.

Data collected June 12-22

IHS Markit Composite PMI and U.S. GDP



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

U.S. private sector firms signalled a notable slowdown in the rate of output contraction in June, as businesses began to reopen on a larger scale. Manufacturers and service providers alike registered much softer declines in output compared to May.

Adjusted for seasonal factors, the **IHS Markit Flash U.S. Composite PMI Output Index** posted 46.8 in June, up from 37.0 in May, indicating that the rate of contraction slowed further from April's record low. The decrease was the softest since February, before the pandemic escalated.

The composite index is based on original survey data from IHS Markit's PMI surveys of both services and manufacturing. As more firms and states began to reopen following the coronavirus disease 2019 (COVID-19) outbreak, offsetting weak demand faced by many other companies, the overall pace of decline eased among goods producers and service providers.

New business across the private sector declined further in June, albeit at only a marginal pace. Despite many firms noting a rebound in client demand, some stated that renewals and requests for new business were historically muted.

The rate of contraction nevertheless slowed notably, with manufacturers in particular registering only a fractional decrease.

The downturn in new business from abroad also slowed significantly, as clients in key export markets increased their buying activity amid looser lockdown restrictions.

The June survey meanwhile signalled further cuts to workforce numbers across the private sector, albeit at only a modest rate. Where an increase was noted, some businesses reported the return of furloughed staff. That said, hiring freezes and relatively weak demand led many other companies to shed employees in an effort to cut costs.

Backlogs of work also continued to be reduced, with the rate of decline faster among manufacturers than service providers.

For the first time since February, private sector firms recorded increases in both input prices and output charges. Firms stated that higher input costs from suppliers due to COVID-19 related supply chain issues were partially passed on to clients, with some mentioning that demand conditions were such that discounting was no longer required.

Private sector firms also reported a notable pick-up in confidence in June, with the degree of optimism about output in the year ahead reaching a four-month high. Expectations of a rise in activity over the coming year contrasted with negative sentiment seen in April and May. The reopening of states and reports of client interest reportedly sparked the return to optimism.

IHS Markit Flash U.S. Services PMI™

The seasonally adjusted **IHS Markit Flash U.S. Services PMI™ Business Activity Index** registered 46.7 in June, up from 37.5 in May. The pace of contraction eased substantially as increasing numbers of service providers returned to work.

The slower decline in activity was commonly linked to only a marginal decrease in new orders. A pick-up in domestic and foreign client demand reportedly helped boost sales across some firms, although conditions remained historically muted overall.

That said, companies were able to partially pass higher costs onto clients in June as both input prices and output charges increased. The moderate rise in selling prices contrasted with a sharp fall seen in May.

Service providers were generally optimistic of an increase in activity over the coming year at the end of the second quarter. Hopes that demand will return to previously seen levels came amid the reopening of states and client businesses.

IHS Markit Flash U.S. Manufacturing PMI™

Manufacturers indicated only a fractional deterioration in operating conditions in June, as the **IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI™)**¹ posted only slightly below the 50.0 no-change mark at 49.6, up from 39.8 midway through the second quarter.

The marked softening in the pace of overall decline largely stemmed from notably slower falls in output and new orders. Although still signalling contractions, rates of decrease were their slowest since before the escalation of the pandemic.

Although the rate of job shedding eased in June, backlogs of work continued to be reduced sharply,

showing signs of ongoing spare capacity. Where higher employment was noted, this was generally linked to the return to work of furloughed workers and the hiring of extra staff.

Alongside a boost to business confidence, which was reportedly linked to hopes of a swift return to pre-pandemic new order volumes, firms began to increase their output charges in an effort to pass on higher cost burdens to clients. The increase in output prices was the first such rise since February.

Comment

Commenting on the flash PMI data, **Chris Williamson, Chief Business Economist** at IHS Markit, said:

“The flash PMI data showed the US economic downturn abating markedly in June. The second quarter started with an alarming rate of collapse but output and jobs are now falling at far more modest rates in both the manufacturing and service sectors. The improvement will fuel hopes that the economy can return to growth in the third quarter.”

“However, although brief, the downturn has been fiercer than anything seen previously, leaving a deep scar which will take a long time to heal. We anticipate that the US economy will contract by just over 8% in 2020. The coming months will therefore see the focus turn to just how much recovery momentum the economy can muster to recoup this lost output.”

“Any return to growth will be prone to losing momentum due to persistent weak demand for many goods and services, linked in turn to ongoing social distancing, high unemployment and uncertainty about the outlook, curbing spending by businesses and households. The recovery could also be derailed by new waves of virus infections. Continual vigilance by the Fed, US Treasury and health authorities will therefore be required to keep any recovery on track.”

-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 surveys. No information from the ISM survey is used in the production of IHS Markit's PMI.

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Note to Editors:

Final June data are published on July 1 for manufacturing and July 6 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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