

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

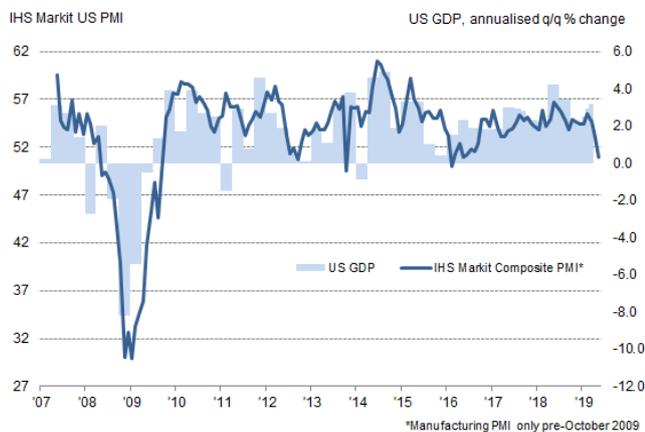
Business activity growth falters to three-year low

Key findings:

- Flash U.S. Composite Output Index at 50.9 (53.0 in April). 36-month low.
- Flash U.S. Services Business Activity Index at 50.9 (53.0 in April). 39-month low.
- Flash U.S. Manufacturing PMI at 50.6 (52.6 in April). 116-month low.
- Flash U.S. Manufacturing Output Index at 50.8 (52.7 in April). 35-month low.

Data collected May 13-22

IHS Markit Composite PMI and U.S. GDP



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

May PMI data revealed a further slowdown in U.S. private sector output growth in May, as a struggling manufacturing economy was accompanied by a notable downshift in gear in the service sector.

At 50.9 in May, down from 53.0 in April, the seasonally adjusted **IHS Markit Flash U.S. Composite PMI Output Index** indicated the slowest expansion in overall business activity since May 2016. The composite index is based on original survey data from IHS Markit's PMI surveys of both services and manufacturing.

The muted rise in output was attributed to softer demand conditions and subdued growth of new orders. The rise in new business in May was the softest recorded since the series began in October 2009.

Consequently, firms put the brakes on hiring. The latest increase in employment was only marginal and the smallest for just over two years. Companies also noted little strain on capacity due to weak demand, and reported the first decline in backlogs of work since June 2017.

Input price inflation eased for the third month running in May, despite continued comments from panellists regarding the ongoing impact of tariffs. The slower increase in costs and greater competitive pressures underpinned a renewed fall in output charges, the first such decline since February 2016.

U.S. private sector firms meanwhile grew less optimistic of a rise in output over the coming 12 months. Business expectations fell to their lowest since the series began in July 2012. Reduced confidence was commonly attributed to hesitation among clients and increased uncertainty, which were both often linked to global trade tensions.

IHS Markit U.S. Services PMI™

The seasonally adjusted **IHS Markit Flash U.S. Services PMI™ Business Activity Index** posted 50.9 in May, down from 53.0 in April, to indicate a notable slowdown in service sector business activity. The upturn was only marginal overall and the slowest since the current sequence of expansion began in March 2016.

In line with the slower rise in business activity, new orders increased only slightly, as the rate of growth eased for the third successive month amid softer demand conditions and intense competition. Subsequently, the level of outstanding business fell

for the first time this year and employment growth dipped to a 25-month low.

Meanwhile, the recent trend of subdued inflationary pressures continued in May with input costs rising only slightly. At the same time, intense competition and a slower rise in costs led to the first fall in output prices since February 2016.

IHS Markit U.S. Manufacturing PMI™

U.S. manufacturers also indicated a slower expansion in output in May amid further signs of relatively subdued demand conditions.

The seasonally adjusted **IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI)™¹** registered 50.6 in May, down from 52.6 in April. Although the index reading continued to signal an improvement in operating conditions across the manufacturing sector, the upturn was the least marked since September 2009 and only marginal.

Underlying data indicated a broad-based slowdown in the rates of expansion for output, employment and pre-production inventories, while new orders declined for the first time since August 2009.

New orders were stymied by reports of weaker overall demand conditions and hesitancy among clients to place orders. The fall in new business was only fractional, but signalled a marked turnaround from the solid rise seen in April. Data suggested that demand from both domestic and foreign clients declined during the month, as exports also fell.

In contrast to the trend seen for the service sector, manufacturers raised their output prices in May. That said, the rate of increase was only slight. Factory input costs meanwhile rose at the weakest rate for nearly two years, in part reflecting increased price competition among suppliers amid signs of excess capacity developing.

Comment

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

“Growth of business activity slowed sharply in May as trade war worries and increased uncertainty dealt a further blow to order book growth and business confidence.

“A decline in the headline ‘flash’ PMI to its lowest for three years pushes the survey data down to a level historically consistent with GDP growing at an annualised rate of just 1.2% in May. Worse may be to come, as inflows of new business showed the smallest rise seen this side of the global financial crisis. Business confidence has meanwhile slumped to its lowest since at least 2012, causing firms to tighten their belts, notably in respect to hiring. Jobs growth in May was the weakest seen for over two years.

“The slowdown has been led by manufacturing, but shows increasing signs of spreading to services. The survey data have been consistent with falling manufacturing output since February, but suggest that the sector’s woes intensified in May to mean factories will therefore likely act as an increasing drag on the economy in the second quarter. Trade wars remained top of the list of concerns among manufacturers, alongside signs of slower sales and weaker economic growth both at home and in key export markets.

“However, an additional concern is the spreading of the malaise to the service sector, growth of which slumped in May to one of the weakest since the global financial crisis. With the service sector’s performance being a key gauge of the health of domestic demand, this broadening-out of the slowdown poses downside risks to the outlook.”

-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 May data are published on June 3 for manufacturing and June 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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