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IHS MARKIT US MANUFACTURING PMI™

Output expands at joint-weakest rate since September 2017

KEY FINDINGS

Production growth eases but remains strong

New orders rise at fastest rate for six months

Employment increases solidly

November survey data signalled a solid improvement in operating conditions across the U.S. manufacturing sector, despite the headline PMI dipping to a three-month low. The upturn was supported by the fastest increase in new orders since May and a sharp rise in employment. Output also rose solidly, despite growth easing to the joint-weakest in over a year. Capacity pressures were also evident through a further rise in backlogs. Panellists continued to highlight stockpiling activity amid expectations of further rises in raw material prices, with input buying increasing strongly. Cost burdens rose markedly as shortages at suppliers and tariffs pushed up input prices.

The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers' Index™ (PMI™) posted 55.3 in November, down slightly from 55.7 in October. Although the headline figure dipped to a three-month low, it indicated a solid improvement in the health of the sector that was above the series trend.

Production continued to increase in November. The rise in output was solid overall, albeit the joint-slowest in over a year. Nonetheless, panellists commonly reported on more favourable demand conditions.

Conversely, new orders increased at a sharp and accelerated pace in November. The rise in new business was the quickest since May and was often linked to increased client demand and new product launches. Foreign demand also picked up, with new export orders expanding at the fastest pace for nine months.

Manufacturing PMI
sa, >50 = improvement since previous month



Firms registered a further rise in employment in November, with many noting that greater production requirements had prompted them to hire additional workers. The rate of job creation was sharp and the second-fastest in the year-to-date. Nonetheless, panellists reportedly struggled to cope with the steep increase in new orders, despite higher staffing levels, as backlogs of work continued to increase. The level of work-in-hand grew at one of the fastest rates in over three years.

In response to higher amounts of new and unfinished work, manufacturing firms registered a strong expansion in buying activity. Input purchases also rose due to concerns of further tariffs and resulting increases in raw material costs. Stockpiling activity was linked to a sharp deterioration in vendor performance, as demand for inputs continued to outstrip supply.

Subsequently, cost burdens faced by goods producers rose further. Although the rate of inflation was slower than those seen earlier in the year, it remained marked. A combination of tariffs and supplier shortages were linked to higher raw material prices. Firms were reportedly able to partly pass greater cost burdens on to clients through higher output charges.

Business confidence dipped to the weakest since September 2017. Although optimism stemmed from stronger demand, some raised concerns surrounding the sustainability of the current sequence of new order growth.

COMMENT

Chris Williamson, Chief Business Economist at IHS Markit said:

"Despite the headline PMI slipping to a three-month low, November saw manufacturers enjoy another encouragingly solid month of improving business conditions.

"Dig deeper behind the headline number and the picture brightens further. New orders rose at the fastest rate for six months, prompting manufacturers to continue to expand capacity to meet demand. The pace of job creation remained among the highest seen over the past decade.

"The survey acts as a reliable guide to the official manufacturing data, and suggests that factory output is growing at an annualised rate of around 1.5% so far in the fourth quarter, providing a material but by no means impressive contribution to GDP. As such, the data corroborate the flash PMI's signal that the economy will likely see growth slow to a 2.5% rate in the fourth quarter.

"In a further sign that growth has peaked, business optimism about the year ahead waned to the lowest for over a year, albeit with the proportion of companies expecting output to be higher in a year's time outnumbering those expecting a decline by 36% to 3%."

Output Index

sa, >50 = growth since previous month

Manufacturing production

%3m/3m



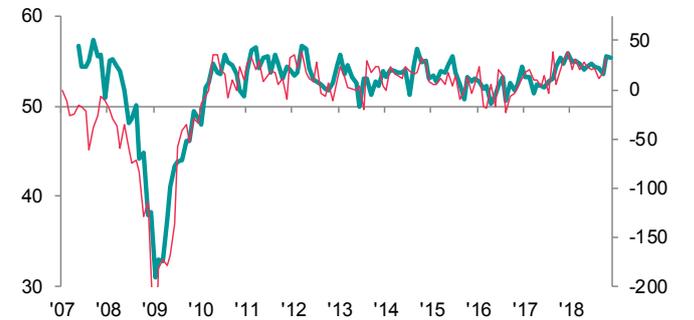
Sources: IHS Markit, U.S. Federal Reserve.

Employment Index

sa, >50 = growth since previous month

Manufacturing payrolls

Monthly change (000s)



Sources: IHS Markit, Bureau of Labor Statistics.

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Methodology

The IHS Markit US 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.

November 2018 data were collected 12-27 November 2018.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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.