

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

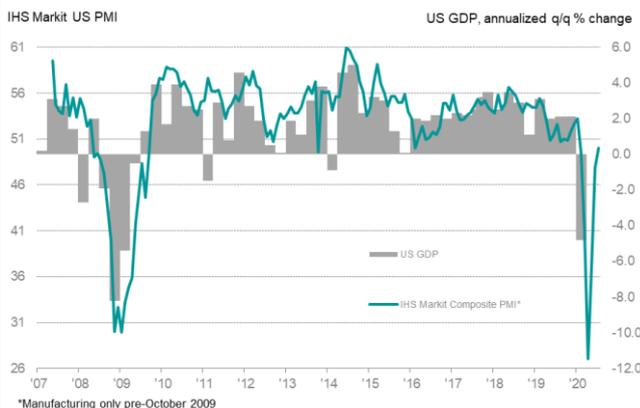
U.S. private sector output stabilises in July but demand falters

Key findings:

- Flash U.S. Composite Output Index at 50.0 (47.9 in June). 6-month high.
- Flash U.S. Services Business Activity Index at 49.6 (47.9 in June). 6-month high.
- Flash U.S. Manufacturing PMI at 51.3 (49.8 in June). 6-month high.
- Flash U.S. Manufacturing Output Index at 52.1 (47.5 in June). 6-month high.

Data collected July 12-23

IHS Markit Composite PMI and U.S. GDP



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

U.S. private sector firms indicated a stabilisation of business activity at the start of the third quarter, with the contraction in service sector output slowing further and manufacturers signalling a modest upturn in production. Growth was impeded, however, by an increased rate of decline of new orders, linked in part to renewed coronavirus disease 2019 (COVID-19) containment measures

Adjusted for seasonal factors, the **IHS Markit Flash U.S. Composite PMI Output Index** posted 50.0 in July, up from 47.9 at the end of the second quarter, signalling a stabilisation in private sector output.

The latest data thereby indicated an end to the five-month sequence of decline that began in February.

The composite index is based on original survey data from IHS Markit's PMI surveys of both services and manufacturing. Despite some states reversing or pausing their decision to reopen the economy due to a sharp uptick in new COVID-19 cases, both manufacturers and service providers continued to move on an improving trajectory.

New business, however, was weighed down by reports of challenging demand conditions, especially among service providers, with some struggling with the reintroduction of lockdown measures. Service sector firms registered a faster decline in new orders in July. In contrast, manufacturing firms signalled the strongest expansion in new orders since January.

New export orders fell only fractionally in July, with manufacturers recording a marginal rise in foreign client demand. Travel restrictions continued to hamper new business from abroad at services firms.

Nevertheless, private sector firms increased their workforce numbers in July, bringing to an end a four-month sequence of job shedding. The slight rise in workforce numbers was linked to the emergence of pressure on capacity, with backlogs of work increasing at a marginal pace.

Meanwhile, inflationary pressures intensified at the start of the third quarter. Input costs and output charges rose at the sharpest rates since October 2018, as supplier prices were hiked. Some firms linked this to higher transportation costs and an increase in demand for raw materials following the reopening of many businesses, plus higher costs associated with safeguarding against COVID-19.

Output expectations continued on an upward trajectory in July, with the degree of optimism for

the year ahead the highest since April 2019. Both manufacturers and service providers were more confident of an increase in activity over the coming year. Positive sentiment was largely linked to expectations that the recovery in client demand will continue amid hopes of an end to the pandemic.

IHS Markit Flash U.S. Services PMI™

The seasonally adjusted **IHS Markit Flash U.S. Services PMI™ Business Activity Index** registered 49.6 in July, up from 47.9 in June. This indicated that the rate of decline eased to the slowest in the current six-month sequence of contraction, and was only fractional overall.

Although the pace of decrease in business activity softened, new business fell at a slightly quicker rate in July. The faster downturn was commonly linked to the resurgence in the virus outbreak and weaker client demand. Nonetheless, pressure on capacity led to a slight increase in workforce numbers.

Service providers indicated a sharp uptick in the rate of input price inflation in July, as supplier prices were hiked, especially for sanitising products. Firms were, however, able to partly pass higher costs onto clients through the fastest rise in selling prices since October 2018.

Business confidence continued to improve among service providers amid hopes of an end to the pandemic.

IHS Markit Flash U.S. Manufacturing PMI™

Manufacturers signalled the first improvement in operating conditions since February in July, as the **IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI™)**¹ posted above the 50.0 neutral mark at 51.3, up from 49.8 in June.

Overall growth was driven by the first upturns in both output and new orders for five months. Firms noted that the rise in production was due to greater new business inflows. Some companies also stated that higher new orders stemmed from the gradual return of customers and stronger underlying demand.

Workforce numbers in the manufacturing sector were broadly unchanged in July, as the rate of backlog depletion eased further. Although some

firms noted the return of furloughed workers and the hiring of new employees, others remained cautious due to historically muted demand conditions and the ongoing uncertainty surrounding the pandemic. Nonetheless, output expectations strengthened to the highest since February amid hopes of a recovery once the pandemic situation improves.

Finally, input costs and output charges rose at quicker rates in July, as suppliers hiked their prices due to higher transportation costs. Greater input prices were partially passed on to clients through greater output charges.

Comment

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

"While the stabilisation of business activity in July is welcome news, the lack of growth is a disappointment. Moreover, a renewed acceleration in the rate of loss of new business raises concerns that demand is faltering. Many companies, notably in consumer-facing areas of the service sector, linked falling sales to re-imposed lockdowns.

"Firms' costs have meanwhile spiralled higher, surging at the steepest rate for seven years in the service sector, in part due to the additional burdens of safeguarding against the coronavirus.

"Thankfully, the job-shedding seen over the prior four months has come to an end, but companies remain wary of taking on more staff given the weakness of current order books. Future expectations have improved, however, with optimism rising to the highest for over a year, as increasing numbers of firms see better times ahead. Hopes are qualified, however, by uncertainty over the coronavirus outbreak and the political environment as November's election draws closer."

-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 July data are published on August 3 for manufacturing and August 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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IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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