IHS Markit
U.S. Manufacturing PMI™

Strongest improvement in operating conditions since January 2019

Key findings

Output growth accelerates to fastest in ten months

Second-sharpest rise in employment since November 2019

Business confidence moderates on election and virus uncertainty

September PMI™ data from IHS Markit indicated the sharpest improvement in operating conditions across the U.S. manufacturing sector since early-2019. Overall growth was supported by a faster expansion in production and a solid rise in new orders. As a result, firms continued to broaden their workforce numbers, as hiring increased following further upward pressure on capacity. Nonetheless, output expectations moderated in September amid increased uncertainty regarding the coronavirus disease 2019 (COVID-19) pandemic and the upcoming presidential election.

Meanwhile, cost burdens rose sharply once again, with selling prices increasing at the fastest rate since January 2019. The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers’ Index™ (PMI™) posted 53.2 in September, broadly in line with 53.1 seen in August, but down slightly from the earlier ‘flash’ reading of 53.5. The solid improvement in the health of the goods-producing sector was the steepest since January 2019, and signalled a further recovery from April’s nadir.

Contributing to the overall upturn was a quicker rise in output at the end of the third quarter. The rate of growth was the sharpest for ten months and solid overall. A number of firms attributed the expansion to a further uptick in new orders and the resumption of operations at clients.

At the same time, manufacturers indicated a solid, albeit slightly slower, increase in new order inflows. The rate of expansion was the second-fastest for almost a year, as panelists continued to note strengthening demand conditions following the marked contractions seen throughout the second quarter. New export orders also picked up and, although slowing from August’s recent peak, the rate of growth was faster than the series trend.

Comment

Chris Williamson, Chief Business Economist at IHS Markit said:

“US manufacturers rounded off a solid quarter which should see the sector rebound strongly from the steep second quarter downturn.

“Encouragingly, companies reported a marked upturn in demand for plant and machinery, which suggests firms are increasing their investment spending again after expansion plans were put on hold during the spring. Similarly, fuller order books helped drive further job creation as firms continued to expand capacity.

“But it was not all good news. Supply shortages worsened as companies increasingly struggled to source enough inputs to meet production requirements. With demand often exceeding supply, prices rose sharply again across many types of inputs, especially metals.

“Growth of new orders for consumer goods also waned during the month, hinting at some cooling of demand from households, commonly blamed on Covid-19. Overall order book inflows consequently slowed compared to August.

“The outlook also darkened, as companies grew more concerned about the sustained economic disruption from the pandemic alongside uncertainty caused by the upcoming presidential election. The sector therefore looks to be entering the fourth quarter on a slower growth trajectory, adding to signs that fourth quarter GDP growth will wane considerably from the third quarter rebound.”

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Greater new sales led to further pressure on capacity at manufacturing firms. As a result, companies registered a second monthly rise in backlogs of work. To help alleviate pressure, firms expanded their workforce numbers again. The upturn in employment was slightly slower than that seen in August and modest, but was nevertheless the second-strongest since November 2019.

Meanwhile, business confidence eased in September. Although firms remained optimistic regarding the outlook for output over the coming year on balance, positive sentiment was weighed down by uncertainty towards the ongoing pandemic and the upcoming election. The overall degree of confidence was the lowest for four months.

Average cost burdens continued to rise at a sharp pace in September, albeit at a slightly slower rate than August’s recent high. Inflation was linked by panelists to greater raw material costs and supplier shortages, with many also mentioning higher PPE prices. A further uptick in client demand allowed firms to partially pass on greater costs to clients through higher charges. Selling prices rose at the steepest rate since January 2019.

Companies remained well-stocked. Stocks of finished goods also fell as the use of stocks in production led to a renewed contraction in pre-production inventories. Stocks of finished goods also fell as companies met demand from stock.

Finally, input buying remained modest in September. Although firms expanded their purchasing activity, supplier delays and the use of stocks in production led to a renewed contraction in pre-production inventories. Stocks of finished goods also fell as companies met demand from stock.