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IHS Markit U.S. Manufacturing PMI™

U.S. manufacturing operating conditions improve for the first time since February

Key findings

Overall improvement driven by renewed upturns in output and new orders

Quicker rise in input costs amid supplier shortages

Business confidence picks up to five-month high

July 2020 data were collected 13-27 July 2020.

July PMI™ data signalled a further upward movement in the headline index, as manufacturers registered the first improvement in operating conditions since February following the outbreak of the coronavirus disease 2019 (COVID-19). Overall growth was marginal but stemmed from the first upturns in output and new orders for five months, as client demand picked up. The contraction in employment softened despite further evidence of spare capacity as new sales rose. Greater optimism in the outlook was also reflected in an improvement in business confidence.

At the same time, input prices rose solidly amid increased demand for inputs, whilst firms partially passed on higher costs to clients through an uptick in charges.

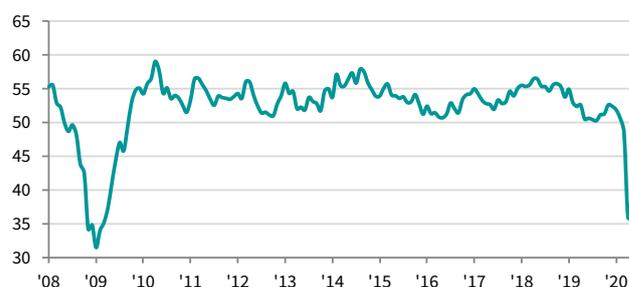
The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers' Index™ (PMI™) posted 50.9 at the start of the third quarter, up from 49.8 in June but slightly lower than the previously released 'flash' estimate of 51.3. The latest figure signalled a marginal improvement in the performance of the U.S. manufacturing sector, the first since February.

Output rose only modestly in July, albeit the first expansion in production since February. Where an increase was reported, firms linked this to the resumption of operations at manufacturers and their clients. Some also noted that demand also began to pick up.

Reflecting the reopening of many customers, new orders increased for the first time since February in July. The rate of growth was modest, despite signalling a stark contrast to the marked decline seen in April. Although total sales expanded, new export orders fell fractionally as foreign client demand struggled to gain momentum amid the gradual reopening of global economies following the COVID-19 pandemic.

U.S. Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Chris Williamson, Chief Business Economist at IHS Markit said:

"Although indicating the strongest expansion of the manufacturing sector since January, the IHS Markit PMI remains worryingly weak. Much of the recent improvement in output appears to be driven merely by factories restarting work rather than reflecting an upswing in demand. Growth of new orders remains lacklustre and backlogs of work continue to fall, hinting strongly at the build-up of excess capacity. Many firms and their customers remain cautious in relation to spending in the face of re-imposed lockdowns in some states and worries about further disruptions from the pandemic.

"Encouragingly, business optimism about the year ahead has revived to levels last seen in February, but many see the next few months being a struggle amid the ongoing pandemic, with a more solid-looking recovery not starting in earnest towards the end of the year or even into 2021. Further infection waves could of course derail the recovery, and many firms also cited the presidential elections as a further potential for any recovery to be dampened by heightened political uncertainty."

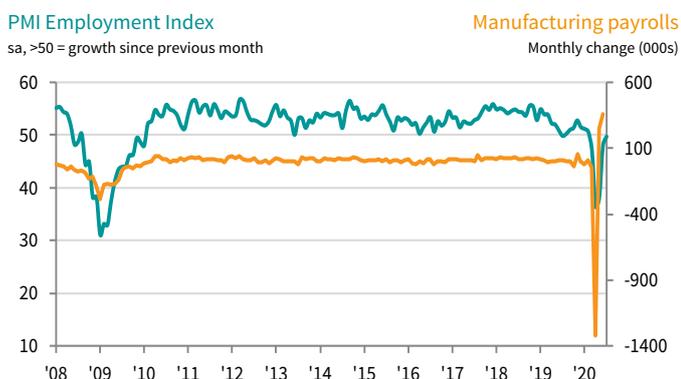
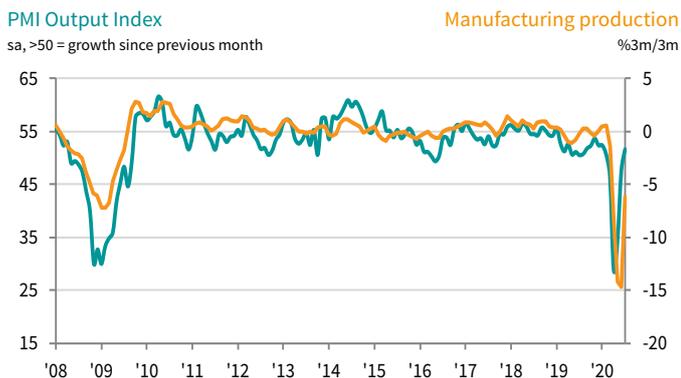
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The resumption of operations at manufacturers globally pushed demand for inputs up, with firms highlighting that supplier shortages had driven cost burdens higher. The rate of input price inflation was solid overall and the fastest for five months. Nonetheless, the pace of increase in output charges was only marginal overall as firms sought to remain competitive and attract new clients.

Despite historically subdued demand conditions, companies were more upbeat regarding the outlook for output over the coming year. Confidence among manufacturers reportedly stemmed from hopes of an upturn in new orders and a return to pre-pandemic output levels, and an end to the COVID-19 crisis. Optimism was solid, but some firms noted concerns for the near-term future as virus cases rise again.

Meanwhile, goods producers signalled a fractional contraction in employment in July, as firms noted redundancies due to subdued new order inflows. That said, the rate of job shedding was the softest in the current five-month sequence of decline as the reduction in backlogs of work eased further from April's low.

Finally, in an effort to control cost burdens, firms continued to reduce their input buying at the start of the third quarter. Some also stated that supplier shortages, the use of stocks in production and further delays led to a modest fall in pre-production inventories. Manufacturers also noted that selling from stock had depleted post-production inventories further.



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Survey methodology

The IHS Markit U.S. 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.

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

Survey dates and history

July 2020 data were collected 13-27 July 2020.

Data collection began in April 2004 from a survey panel of electronics manufacturers. In May 2007, the panel was expanded to cover manufacturers of metal products. In October 2009, the panel was expanded further to cover all manufacturing activity. Data from May 2007 to September 2009 are compiled from responses from manufacturers of electronics and metal products, while data from October 2009 are compiled from responses from all areas of manufacturing.

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About PMI

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