

News Release

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

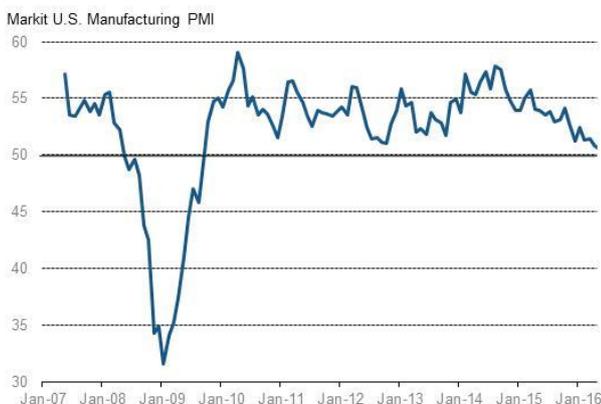
Manufacturing output falls for first time since September 2009

Key points:

- Headline PMI edges down again in May as production declines for the first time since September 2009
- New orders expand at slowest rate in 2016 so far
- Inflationary pressures pick up

Data collected 12 – 20 May 2016.

Markit U.S. Manufacturing PMI (seasonally adjusted)



Source: Markit.

The U.S. manufacturing sector crept closer to stagnation in May, with the seasonally adjusted **Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI™)**¹ registering only slightly above the neutral 50.0 mark at 50.5. This was down from 50.8 in April and signalled only a marginal improvement in overall business conditions that was the weakest since the current upturn started in October 2009. A renewed fall in production was one key factor weighing on the headline index in May, alongside softer new order growth and further cuts to stocks of inputs.

¹ Please note that Markit's PMI data, flash and final, are derived from information collected by Markit from a different panel of companies to those that participate in the ISM Report on Business. No information from the ISM survey is used in the production of Markit's PMI.

U.S. manufacturers signalled the first reduction in **output** since September 2009 in May, although the rate of decline was only marginal. A number of monitored firms mentioned that uncertainty around the general economic outlook had caused clients to delay spending decisions, which in turn prompted firms to trim their production schedules.

Softer client demand was highlighted by a further slowdown in **new business** growth in May. Furthermore, the latest expansion in new order books was the weakest seen in 2016 so far. Data indicated that reduced foreign client demand had underpinned slower growth in overall new orders. **New export sales** fell for the second month in a row, though the rate of reduction softened since April.

A general lack of pressure on operating capacity was signalled by the latest survey data, with **outstanding work** at U.S. manufacturers falling for the fourth successive month in May. The rate of backlog depletion was unchanged from April's post-recession record and moderate overall. Despite slower growth of new orders, goods producers in the U.S. continued to add to their **payroll numbers** in May. The rate of employment growth was only slight, however, despite picking up from April's 34-month low.

Manufacturing firms continued to adopt relatively cautious inventory policies in the face of an uncertain business outlook and weaker new order growth. **Stocks of inputs** declined for the sixth month running and at a rate that was only slightly weaker than in April. Meanwhile, **inventories of finished items** rose marginally in May, following a slight reduction in the previous month.

Buying activity increased at a marginal pace in the latest survey period, after a modest reduction in

April. Although demand for inputs was relatively muted, average **supplier performance** continued to deteriorate, with lead times lengthening at a modest pace in May.

Overall **input prices** rose for the second month running in May, with some companies citing higher costs for raw materials such as metals and oil. Despite quickening since April, the pace of inflation remained moderate overall and slower than the series average.

Average selling prices set by U.S. manufacturers were broadly unchanged in May, thereby ending a three-month sequence of price discounting. Reports from panellists indicated that greater cost burdens had led some firms to raise their charges in the latest survey period.

Comment:

Commenting on the flash PMI data, **Chris Williamson, chief economist at Markit** said:

“The weak manufacturing PMI data cast doubt on the ability of the US economy to rebound from its disappointing start to the year in the second quarter.

“The survey is signalling that manufacturing will act as a drag on economic growth in the second quarter, leaving the economy once again dependent on the service sector, and consumers in particular, to sustain growth.

“Output is falling for the first time since the height of the global financial crisis, with factories hit by slowing growth of order books and falling exports.

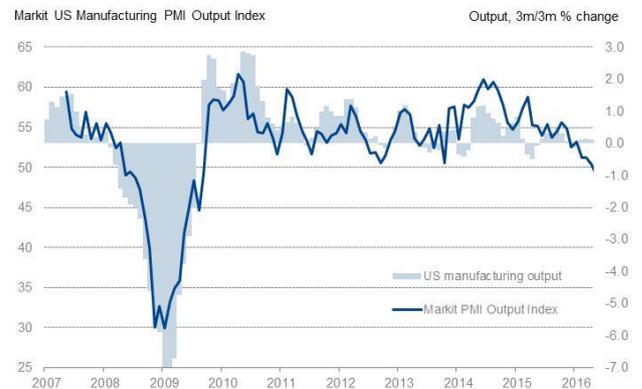
“Backlogs of work are also dropping at the fastest rate since the recession, meaning firms will be poised to cut capacity unless inflows of new work start to pick up again.

“The survey’s employment gauge is in fact already running at a level consistent with a further reduction in the official measure of factory payroll numbers.

“Any uplift in prices was largely due to higher commodity prices, notably oil. Core price pressures look to have been once again subdued by weak demand.”

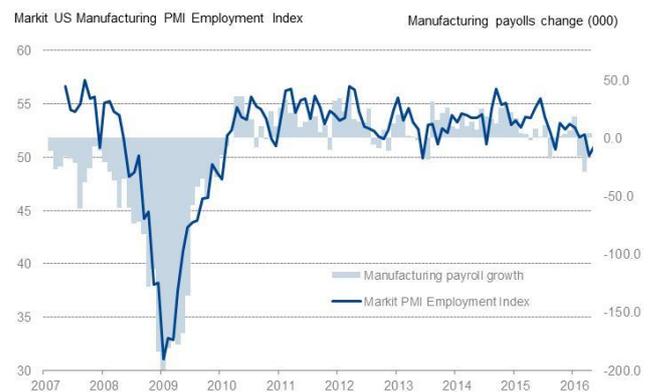
-Ends-

Manufacturing output



Sources: Markit, U.S. Federal Reserve.

Manufacturing employment



Sources: Markit, Bureau of Labor Statistics.

For further information, please contact:

Markit

Chris Williamson, Chief Economist
Telephone +44-207-260-2329
Mobile +44-779-555-5061
Email chris.williamson@markit.com

Ed Canaday, Corporate Communications
Telephone +1 646 679 3031
Mobile +1 917 434 5075
Email: ed.canaday@markit.com

Joanna Vickers, Corporate Communications
Telephone: +44-207-260-2234
Email: joanna.vickers@markit.com

Note to Editors:

Final May data are published on 1 June 2016.

Markit originally 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, Markit's U.S. PMI research was extended out to cover producers of metal goods. In October 2009, Markit's U.S. Manufacturing PMI survey panel was extended further to cover all areas of U.S. manufacturing activity. Back data for 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. Markit's total U.S. Manufacturing PMI survey panel comprises over 600 companies.

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 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'.

The *Purchasing Managers' Index*[™] (*PMI*[™]) is a composite index based on five of the individual indexes with the following weights: New Orders – 0.3, Output – 0.25, Employment – 0.2, Suppliers' Delivery Times – 0.15, Stocks of Items Purchased – 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

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.

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 Markit. Please contact economics@markit.com.

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About PMI

Purchasing Managers' Index[™] (*PMI*[™]) surveys are now available for over 30 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 www.markit.com/economics.

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