

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 0945 (EDT) / 1345 (UTC) May 23rd 2018

IHS Markit Flash U.S. PMI™

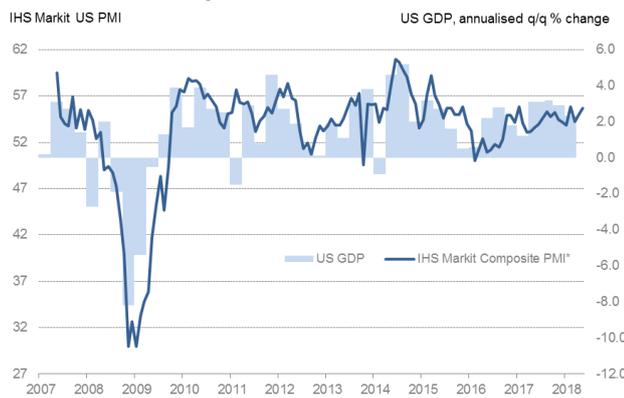
US private sector growth strengthens in May, but input cost inflation rises close to five-year high

Key findings:

- Flash U.S. Composite Output Index at 55.7 (54.9 in April). 3-month high.
- Flash U.S. Services Business Activity Index at 55.7 (54.6 in April). 3-month high.
- Flash U.S. Manufacturing PMI at 56.6 (56.5 in April). 44-month high.
- Flash U.S. Manufacturing Output Index at 55.8 (56.6 in April). 2-month low.

Data collected May 11-22

IHS Markit Composite PMI and U.S. GDP



*Manufacturing PMI only pre-October 2009
 Sources: IHS Markit, U.S. Bureau of Economic Analysis.

U.S. private sector firms signalled a robust and accelerated rise in business activity during May, which adds to evidence of a sustained growth rebound in the second quarter of 2018.

At 55.7 in May, up from 54.9 in April, the seasonally adjusted **IHS Markit Flash U.S. Composite PMI Output Index** was the highest for three months and well above the crucial 50.0 no-change value. A faster rise in service sector output was the key factor behind the acceleration in overall business

activity. Manufacturing production increased markedly, but at a slightly softer pace than in April.

Another strong upturn in **new business volumes** helped to boost output growth in May. Survey respondents commented on resilient domestic demand and a supportive economic backdrop. Higher workloads contributed to the sharpest rise in **unfinished business** since March 2015.

A solid rate of **employment** growth was maintained across the private sector in May, which was linked to long-term business expansion plans and upbeat projections of client demand in the coming months. The index measuring **business expectations for the year ahead** held close to the 35-month peak seen in April.

May data revealed a sharp and accelerated rise in operating expenses across the private sector economy. The latest increase in average **input prices** was the fastest since July 2013. Anecdotal evidence mainly cited higher prices for metals (especially steel) and increased oil-related costs during the latest survey period.

The composite index is based on original survey data from the IHS Markit U.S. Services PMI and the IHS Markit U.S. Manufacturing PMI.

IHS Markit U.S. Services PMI™

Service sector business activity growth continued to accelerate in May. At 55.7, up from 54.6 in April, the seasonally adjusted **IHS Markit Flash U.S. Services PMI™ Business Activity Index** pointed to the fastest rate of expansion for three months.

May data signalled a slight slowdown in **new business** growth from the three-year peak recorded in April. However, the latest rise in new work was faster than seen on average since the

survey began in late-2009.

Meanwhile, **backlogs of work** were accumulated for the thirteenth month running in May, with the latest increase the strongest since March 2015. Survey respondents noted that rising client demand had resulted in pressures on operating capacity and a corresponding need to hire additional staff.

Service providers signalled a robust and accelerated increase in their average **cost burdens** in May. The rate of input price inflation was the steepest for three months, which firms linked to higher oil-related costs and rising commodity prices.

IHS Markit U.S. Manufacturing PMI™

The seasonally adjusted **IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI™)**¹ registered 56.6 in May, up fractionally from 56.5 in April, to signal the strongest improvement in business conditions since September 2014.

May data revealed relatively strong rises in both **manufacturing production** and incoming **new business**, which survey respondents attributed to improving economic conditions and a continued recovery in domestic sales.

There were signs that manufacturers intend to boost production schedules in the coming months. **Backlogs of work** were accumulated at the strongest pace since September 2015 and **payroll numbers** increased to a greater extent than in the previous month. Moreover, **business optimism** regarding the year ahead outlook was the highest since February 2015.

In anticipation of greater workloads, manufacturers signalled a robust increase in **input buying** during May. **Pre-production inventories** also picked up, with the degree of stock accumulation the largest since the start of 2018.

Meanwhile, latest data signalled intense pressure on **supply chains**, with average lead-times lengthening to the greatest extent since the survey began in May 2007. Manufacturers widely commented on stretched supplier capacity and logistics delays during the latest survey period. Robust demand for

raw materials and rising commodity prices resulted in another steep increase in **input costs** across the manufacturing sector. The overall rate of input price inflation eased slightly since April, but was still among the fastest seen over the past seven years. Moreover, **prices charged** by manufacturing companies continued to rise at the strongest rate since June 2011.

Comment

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

"The flash May PMI surveys point to an encouragingly solid pace of economic growth of 2.5-3% with monthly job gains running at just over 200,000, though the interesting action is coming on the prices front.

"Input costs measured across both manufacturing and services are rising at the fastest rate for nearly five years, with the goods-producing sector seeing the steepest cost increases for seven years in recent months.

"Furthermore, supplier delivery delays, a key forward-indicator of inflationary pressures, have risen to the highest seen in the 11 year survey history. Rising demand has stretched supply chains to the extent that suppliers are increasingly able to demand higher prices. At the same time, higher oil and energy prices are pushing up firms' costs.

"Business optimism meanwhile remains at a three-year high, with companies commonly expecting rising demand to help drive business growth, setting the scene for further strong survey results in coming months."

-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 Report on Business and the ISM Non-Manufacturing Report on Business. No information from the ISM survey is used in the production of IHS Markit's PMI.

For further information, please contact:**IHS Markit**

Tim Moore, Associate Director
Telephone +44-1491-461-067
Email tim.moore@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone +44207 260 2234
E-mail joanna.vickers@ihsmarkit.com

Note to Editors:

Final May data are published on June 1 for manufacturing and June 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 (Nasdaq: 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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