

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

### Business activity growth rebounds in May, led by service sector

#### Key findings:

- Flash U.S. Composite Output Index at 53.9 (53.2 in April). 3-month high.
- Flash U.S. Services Business Activity Index at 54.0 (53.1 in April). 4-month high.
- Flash U.S. Manufacturing PMI at 52.5 (52.8 in April). 8-month low.
- Flash U.S. Manufacturing Output Index at 53.3 (53.5 in April), 8-month low.

Data collected May 12-22

#### IHS Markit Composite PMI and U.S. GDP



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

The seasonally adjusted **IHS Markit Flash U.S. Composite PMI Output Index** revealed a modest rebound in private sector business activity growth in May. At 53.9, up from 53.2 in April, the headline index pointed to the strongest upturn in U.S. private sector output since February.

Faster business activity growth was driven by the service sector ('flash' index at 54.0 in May), which more than offset the weakest rise in manufacturing production since September 2016 ('flash' output index at 53.3).

Latest survey data indicated that new business

growth accelerated to its strongest since the start of 2017, which contributed to a rise in backlogs of work for the first time in four months. Additional pressure on operating capacity encouraged greater staff hiring in May, with the rate of job creation edging up to a three-month peak.

Measured overall, average cost burdens increased at a robust pace during May. This was driven by the steepest rise in service sector input prices since June 2015. However, manufacturers indicated that cost inflation eased markedly from April's two-and-a-half year peak.

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 Flash U.S. Services PMI™

May data pointed to a sustained acceleration of growth across the service economy, following the six-month low seen in March. At 54.0, up from 53.1 in April, the seasonally adjusted **IHS Markit Flash U.S. Services PMI™ Business Activity Index<sup>1</sup>** highlighted that service sector output expanded at the strongest rate since January.

Service providers noted that improving economic conditions and greater willingness-to-spend among clients had supported business activity growth in May. A more favourable demand backdrop resulted in a marked rebound in new business growth to its fastest since the start of 2017.

Payroll numbers increased at an accelerated pace in May, following the near-seven year low recorded during April. A number of survey respondents suggested that renewed pressures on operating capacity had helped to boost staff hiring in May.

<sup>1</sup> 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 Non-Manufacturing Report on Business. No information from the ISM survey is used in the production of IHS Markit's PMI.

However, service providers' confidence regarding the 12-month outlook for business activity remained subdued in comparison to the recent peak seen at the start of 2017.

The latest survey also pointed to greater cost pressures across the service economy, which firms linked to rising staff salaries and higher raw material costs (particularly food).

Sustained pressure on margins led to the most marked increase in average prices charged by service sector companies since December 2016.

## IHS Markit Flash U.S. Manufacturing PMI™

In contrast to the growth acceleration seen across the service economy, latest data revealed that manufacturing sector business conditions improved at the slowest pace since September 2016.

At 52.5 in May, down slightly from 52.8 in April, the headline seasonally adjusted **IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI™)**<sup>2</sup> pointed to the weakest upturn in overall business conditions for eight months. The lower PMI reading was driven by softer rates of output, new order and employment growth in May.

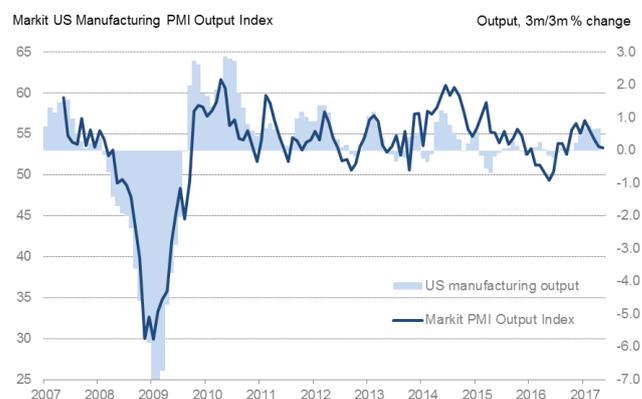
Production volumes have increased in each month since June 2016, but the rate of expansion eased further from the peak seen at the start of 2017. Some manufacturers suggested that domestic clients had adopted a wait-and-see approach to investment spending. Meanwhile, new export sales increased only marginally in May, which pointed to a sustained drag from subdued external demand.

More cautious inventory policies were recorded across the manufacturing sector, with stocks of purchases falling at the most marked pace since September 2016. This was achieved through a further slowdown in growth of input buying in May. Meanwhile, job creation eased since April and remained only modest.

The latest survey highlighted a sharp slowdown in input price inflation from the 31-month peak seen during April. Moreover, the latest rise in input costs was the least marked since November 2016. Softer cost pressures resulted in the weakest increase in

factory gate prices for three months in May.

### Manufacturing output



Sources: IHS Markit, U.S. Federal Reserve.

### Comment

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

*“Growth of US business activity gained a little momentum for a second successive month in May, but the upturn still looks somewhat underwhelming.”*

*“Historical comparisons of the PMI against GDP indicates that the PMI is running at a level broadly consistent with the economy growing at a 0.4% quarterly rate (1.5% annualized). Actual second quarter GDP numbers are likely to be considerably stronger, in part reflecting seasonality in the official data and the weak first quarter.”*

*“May saw an encouraging upturn in service sector growth to the fastest so far this year, buoyed by rising domestic demand. Manufacturers, on the other hand, reported the smallest rise in production since last September amid lacklustre export sales.”*

*“There were mixed signals for the outlook. Optimism about the year ahead fell slightly, but hiring remained reassuringly solid, thanks to a step-up in service sector recruitment. The survey is indicative of non-farm payroll growth of approximately 160,000.”*

*“Average prices charged for goods and services meanwhile showed one of the largest rises in the past two years. The strengthening of business activity growth and rise in prices will add to expectations of the Fed hiking interest rates again in June.”*

-Ends-

<sup>2</sup> 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. No information from the ISM survey is used in the production of IHS Markit's PMI.

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**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](mailto:economics@ihsmarkit.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](http://www.markit.com/economics).

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