

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

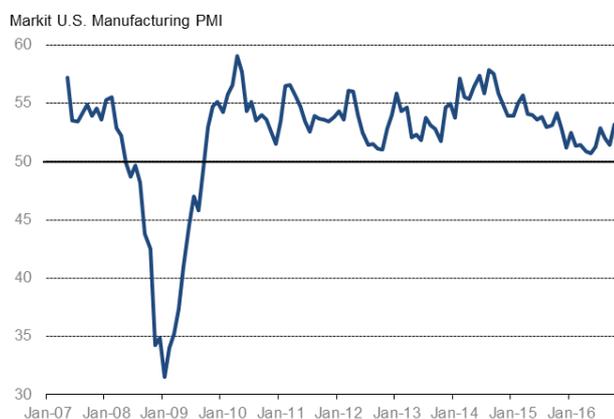
U.S. manufacturers record strongest upturn in business conditions for 12 months in October

Key findings:

- Headline PMI rises from 51.5 to 53.2 in October
- Output and new order growth hit one-year peaks
- Manufacturers report fastest expansion of input buying since June 2015
- Input cost inflation accelerates to its strongest for almost two years

Data collected from 12-21 October 2016

Markit U.S. Manufacturing PMI (seasonally adjusted)



Source: IHS Markit.

October data signalled that U.S. manufacturers started the fourth quarter in a strong fashion, with output and new order volumes rising at markedly faster rates than in September. A rebound in business conditions contributed to greater input buying among manufacturing firms and renewed pressures on capacity. At the same time, manufacturers sought to boost their stocks of inputs, with pre-production inventories rising for the first time since November 2015.

Manufacturers reported that supportive domestic economic conditions remained a key growth driver,

helping to offset sluggish export sales in October. Survey respondents also noted that increased production and greater purchasing activity reflected hopes of a post-election upturn in client demand.

Adjusted for seasonal influences, the **Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI™)**¹ rebounded to 53.2 in October, from a three-month low of 51.5 in September. The latest reading signalled a solid upturn in overall business conditions, and the rate of improvement was the fastest since October 2015. Stronger output and new business growth were the key factors boosting the headline PMI, which helped offset a drag from softer job hiring in October.

Manufacturing production has now increased for five months running, following a slight dip in May. The rate of expansion in October was the fastest for exactly one year. Survey respondents cited an accelerated pace of new business growth and, in some cases, efforts to boost production in anticipation of stronger client demand in the months ahead.

In line with the trend for output volumes, latest data highlighted that **incoming new orders** picked up at the fastest pace for 12 months. Anecdotal evidence suggested that new product launches and stronger domestic demand had resulted in greater sales volumes. Nonetheless, some firms continued to report delayed decision making among clients, linked to uncertainty ahead of the presidential election.

Meanwhile, **new export orders** increased only

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.

slightly in October, but this was an improvement on the fractional decline seen during the previous survey period. Manufacturers mainly cited strong competition and relatively subdued demand patterns across key global markets.

Higher levels of incoming new work resulted in a greater degree of **backlog accumulation** across the manufacturing sector during October. The latest rise in unfinished work was the largest for 12 months. Some firms commented on increased capacity pressures at their plants, in part reflecting subdued **job hiring** in recent months. Latest data signalled only a moderate rise in payroll numbers, and the rate of expansion was weaker than in September.

The latest survey indicated a robust upturn in **input buying** among manufacturing firms, which was linked to projections of rising demand and associated efforts to boost inventories. Moreover, the increase in purchasing activity was the fastest since June 2015. This contributed to a rise in **pre-production stocks** for the first time in 11 months. At the same time, **finished goods inventories** stabilized in October, which ended a four-month period of decline.

Manufacturers indicated that **cost pressures** intensified in October, with the latest increase in input prices the fastest for almost two years. Anecdotal evidence cited greater raw material prices and rising transportation costs. Meanwhile, **factory gate charges** increased for the first time in three months and the rate of inflation was the strongest since November 2014.

Comment

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

“Manufacturing showed further signs of pulling out of the malaise seen earlier in the year, starting the fourth quarter on a solid footing. Both output and new orders are rising at the fastest rates for a year amid increasingly widespread optimism that demand will pick up again after the presidential election, which has been commonly cited as a key factor that has subdued spending and investment in recent months.

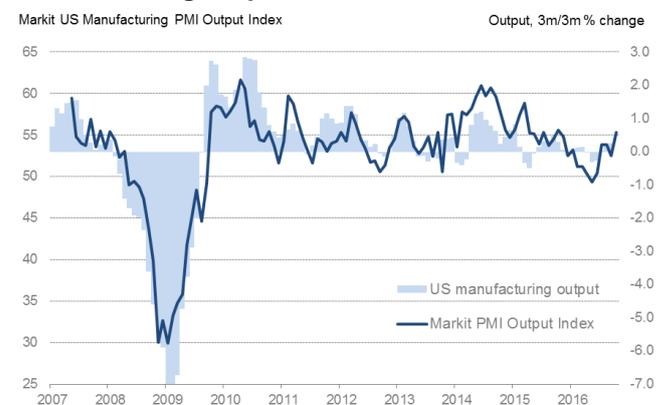
“There are also signs that the drag from cost-cutting policies of deliberate inventory reduction is moving into reverse. Inventory-building should therefore

provide an extra boost to the economy in the fourth quarter.

“Weak export growth, attributable to the strong dollar, and lacklustre hiring remain big areas of disappointment, and highlight an ongoing dependency on domestic demand and a need to keep labour costs low amid a still-uncertain economic and political outlook.”

-Ends-

Manufacturing output



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

Manufacturing employment



Sources: IHS Markit, Bureau of Labor Statistics.

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Final October data are published on 1 November 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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