

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

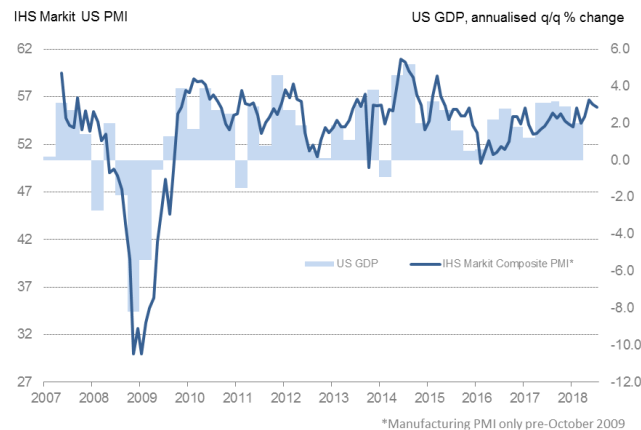
US private sector growth remains strong in July, but prices charged rise at survey-record pace

Key findings:

- Flash U.S. Composite Output Index at 55.9 (56.2 in June). 3-month low.
- Flash U.S. Services Business Activity Index at 56.2 (56.5 in June). 3-month low.
- Flash U.S. Manufacturing PMI at 55.5 (55.4 in June). 2-month high.
- Flash U.S. Manufacturing Output Index at 54.6 (54.6 in June). Unchanged.

Data collected July 12-23

IHS Markit Composite PMI and U.S. GDP



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

U.S. private sector companies experienced a robust rise in overall business activity during July, supported by an improving economic backdrop and another sharp upturn in incoming new work. Relatively strong rates of business activity growth were recorded in both the manufacturing and service sectors.

Intense cost pressures continued in July, which resulted in a sharp and accelerated increase in

average prices charged by private sector firms. The latest rise in output charges was the fastest since composite data were first collected in October 2009.

The seasonally adjusted **IHS Markit Flash U.S. Composite PMI Output Index** posted 55.9 in July, down slightly from 56.2 in June and the lowest reading for three months. Nonetheless, the headline index remained well above the 50.0 no-change threshold and signalled another robust expansion of overall private sector output.

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.

New business growth accelerated slightly in July, with survey respondents noting that improving domestic economic conditions had helped to boost client spending.

Employment growth remained solid in July, but the rate of job creation was the least marked seen since the start of 2018. A number of private sector companies noted that tight labour market conditions and a lack of suitably skilled candidates to fill vacancies had held back their staff hiring plans. Meanwhile, optimism about the year ahead business outlook improved since June and remained stronger than the trend seen in 2017.

Robust input cost inflation persisted across the private sector in July, which was attributed to increased fuel bills, higher staff salaries and rising raw material prices (especially for metals). The overall rate of input cost inflation was one of the fastest seen over the past five years.

In response to higher business expenses, private sector firms recorded a sharp and accelerated rise in their average prices charged. The overall rate of

output price inflation was the fastest since this index began almost nine years ago.

IHS Markit U.S. Services PMI™

The seasonally adjusted **IHS Markit Flash U.S. Services PMI™ Business Activity Index** eased to 56.2 in July, from 56.5 in June. The latest reading signalled a robust rise in service sector output, but the rate of expansion was the slowest since April.

There were signs of reduced pressure on operating capacity in July, despite another sharp rise in new business intakes. This was highlighted by a fall in backlogs of work for the first time since April 2017.

Business optimism regarding the year ahead outlook improved slightly in July. However, there were signs of greater caution in terms of staff hiring, with the latest upturn in employment numbers the weakest since January.

Meanwhile, input cost inflation remained close to the four-and-a-half year peak seen in May. Higher fuel prices were frequently cited by survey respondents. Service providers sought to pass on a proportion of their increased costs to clients in July, with the rate of prices charged inflation the fastest since the survey began in October 2009.

IHS Markit U.S. Manufacturing PMI™

At 55.5 in July, the seasonally adjusted **IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI™)**¹ was little-changed since June (55.4) and well above the average since this index began in May 2007 (52.6). A relatively strong improvement in manufacturing business conditions reflected robust new order growth, alongside a solid upturn in both production volumes and employment numbers.

The overall improvement in manufacturing performance was underpinned by solid growth in domestic demand, which helped to offset another slight fall in export sales. Although only marginal, the latest drop in new work from abroad was the greatest seen since May 2016.

Inventory building continued in July, with some manufacturers seeking to boost their stocks of raw materials in response to stretched supply chains. The latest lengthening of vendor lead-times was the

greatest seen in more than 11 years of data collection. Survey respondents widely commented on low stocks among suppliers and capacity constraints across the freight industry.

On the inflation front, latest data revealed another sharp rise in average cost burdens, which manufacturers overwhelmingly attributed to higher raw material prices. There were widespread reports that tariffs on steel and aluminium had pushed up input costs in July. Robust client demand and efforts to protect margins resulted in the strongest rate of factory gate price inflation since May 2011.

Despite concerns about higher input costs and tight labour market conditions, manufacturing companies remained upbeat about the year-ahead business outlook. The degree of positive sentiment picked up since June and remained comfortably above that seen on average in 2017, which partly reflected optimism regarding the outlook for domestic economic conditions.

Comment

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

"The July survey data indicate that the US economy sustained strong growth momentum after what looks to have been a solid second quarter, representing a good start to the second half of 2018. Although down from June, the July flash PMI is in line with the average for the second quarter and indicative of the economy growing at an annualised rate of approximately 3%.

"Buoyant domestic demand helped the service sector maintain particularly impressive growth and has helped cushion the goods producing sector from wilting demand in export markets, with goods export orders down for a second successive month in July.

"Trade frictions have clearly become a major cause of concern, especially among manufacturers. Firms have become increasingly worried about the impact of tariff and trade wars on demand, prices and supply chains. July saw the steepest rise in prices charged for goods and services yet recorded by the surveys as firms passed rising costs on to customers, in turn frequently linked to tariffs. What's more, supply chain delays also hit a record high amid rising shortages of key inputs, which is usually a harbinger of further price rises."

-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.

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Note to Editors:

Final July data are published on August 1 for manufacturing and August 3 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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