PMI dips to lowest since June 2017 and price pressures moderate

KEY FINDINGS

Operating conditions improve at modest pace
Output and new order growth rates ease
Inflationary pressures soften further

The latest PMI signalled a moderate improvement in operating conditions across the U.S manufacturing sector in March, dropping to its lowest level since mid-2017 amid softer increases in output and new orders. Nonetheless, the rate of job creation remained solid despite broadly unchanged levels of outstanding business. Meanwhile, cost pressures eased further as the rate of input price inflation softened for the fifth successive month. Output charges also rose at a slower pace.

The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers’ Index™ (PMI™) posted 52.4 in March, down from 53.0 in February, and broadly in line with the ‘flash’ figure of 52.5. The moderate improvement in the health of the manufacturing sector was the weakest since June 2017 and notably softer than the trend seen for 2018. Moreover, the first quarter average of 2019 was the lowest since the third quarter of 2017.

A key factor behind the lower headline figure was a slower rise in output. The rate of expansion eased to a marginal pace that was the weakest since June 2016 and below the series trend. Panellists stated that the slower increase in production was due to softer underlying client demand.

Similarly, new business growth eased in March. Total new orders expanded at a modest pace that was the slowest since June 2017. At the same time, new export orders rose at only a marginal rate that was the weakest for five months, with firms noting that global trade tensions and the ongoing impact of tariffs had dampened foreign client demand.

In line with less marked growth in new orders, panellists registered the softest rise in input purchasing since June 2016. Where an increase was reported, companies often linked this to the replenishment of stocks. Meanwhile, both pre- and post-production inventories rose in March.

On the price front, input price inflation softened further to the slowest since August 2017. Where a rise in costs was reported, goods producers linked this to higher raw material prices, stemming from the ongoing impact of tariffs and greater demand for inputs. The increase was partly passed on to clients through higher output charges. The rise in factory gate prices was nevertheless the slowest since December 2017.

Backlogs of work were broadly unchanged in March, albeit with the index dipping very marginally below the 50.0 no change mark for the first time since July 2017. Nonetheless, employment rose at a solid rate. A number of firms stated that there were further vacancies to fill, but that they were having difficulties finding skilled or suitable candidates.

Business confidence among manufacturers remained below the series trend but picked up from February. The solid degree of optimism was attributed to new product development and efforts to increase productivity.
COMMENT

Chris Williamson, Chief Business Economist at IHS Markit said:

"A further deterioration in the manufacturing PMI suggests the factory sector is acting as an increasing drag on the US economy. The March survey is consistent with production falling at a quarterly rate of 0.6% according to historical comparisons with official data.

"Encouragingly, companies report that at least some of the slowdown is due to capacity constraints, notably in terms of skill shortages. One-in-three companies reporting a drop in headcounts cited an inability to fill vacancies. Those looking for positive signals will therefore note that hiring remained encouragingly solid during the month and expectations of future output perked up, albeit still running below levels seen this time last year.

"However, things may well get worse before they get better, as the forward-looking indicators are a cause for concern. New order growth has fallen close to the lows seen in the 2016 slowdown, often linked to disappointing exports, tariffs and signs of increasing caution among customers. The ratio of new orders to existing inventory has meanwhile fallen to its lowest since June 2017, suggesting the production trend may weaken further in April."

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Methodology

The IHS Markit US Manufacturing PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 800 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers’ Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers’ Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers’ Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised in time to time as appropriate which will affect the seasonally adjusted data series.

March 2019 data were collected 12-25 March 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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