

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

Strong private sector growth maintained, despite manufacturing slowdown in June

Key findings:

- Flash U.S. Composite Output Index at 56.0 (56.6 in May). 2-month low.
- Flash U.S. Services Business Activity Index at 56.5 (56.8 in May). 2-month low.
- Flash U.S. Manufacturing PMI at 54.6 (56.4 in May). 7-month low.
- Flash U.S. Manufacturing Output Index at 54.0 (56.0 in May). 9-month low.

Data collected June 12-21

IHS Markit Composite PMI and U.S. GDP



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

June data indicated that U.S. private sector firms experienced a strong end to the second quarter of 2018, driven by another robust contribution from service providers. In contrast, manufacturing production growth slowed for the second month running, to its weakest since September 2017.

The latest survey also revealed intense pressure on manufacturing supply chains, with delivery times for inputs lengthening to the greatest extent since the

index began in May 2007.

Adjusted for seasonal influences, the **IHS Markit Flash U.S. Composite PMI Output Index** registered 56.0 in June, down only slightly from a 37-month peak in May (index at 56.6). As a result, the latest reading signalled that private sector output continued to expand at one of the fastest rates seen over the past three years.

Meanwhile, new business growth eased to a six-month low in June, which helped to moderate some of the strain on operating capacity. Higher levels of unfinished work have nonetheless been recorded in each of the past 12 months.

Employment growth slowed from the three-year peak seen in May. At the same time, business expectations for the coming 12 months were the least upbeat since January.

Strong cost pressures persisted in June, led by another marked rise in manufacturing input prices. Moreover, average prices charged by private sector firms increased to the greatest extent since September 2014.

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™

A robust rate of service sector growth helped to underpin the overall upturn in private sector output during June. At 56.5, down slightly from 56.8 in May, the seasonally adjusted **IHS Markit Flash U.S. Services PMI™ Business Activity Index** posted its second-highest reading since April 2015.

Higher levels of service sector activity were supported by another marked rise in new work and

a solid rate of job creation in June.

However, the latest survey also highlighted stronger inflationary pressures. Input costs increased at the fastest rate since September 2013. Service providers widely commented on higher prices for fuel, staff salaries and steel-related items.

Greater operating expenses contributed to the steepest rise in average prices charged by service sector firms for almost four years in June.

IHS Markit U.S. Manufacturing PMI™

June data highlighted a clear loss of momentum for the manufacturing sector, following the strong growth rates seen in recent months. At 54.6, down from 56.4 in May, the seasonally adjusted **IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI™)**¹ signalled the slowest improvement in overall business conditions since November 2017.

Manufacturing production growth slipped to a nine-month low, reflecting weaker gains in new business volumes in June. The latest upturn in new work was the softest since September 2017, partly reflecting a slight drop in export sales.

Longer suppliers' delivery times persisted in June, with the latest deterioration in vendor performance the greatest recorded since the survey began more than 11 years ago.

Manufacturers noted that a shortage of transport capacity following tighter trucking regulations had led to supply bottlenecks. Some firms also noted that efforts to build up safety stocks had been held back by shortages of stock among vendors.

Meanwhile, strong demand for raw materials and stretched supply chain capacity continued to push up average input prices in June. Survey respondents widely commented on rising steel costs and increased prices for related items.

The overall rate of input price inflation eased further from its recent peak, but remained among the strongest seen since 2012. At the same time, factory gate charges increased at a robust pace that was little-changed from April's near seven-year high.

Comment

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

"The flash PMI surveys add to evidence that the US economy is enjoying a strong second quarter. Despite growth cooling slightly in June, the latest numbers round off the best quarter for three years, and suggest economic growth has lifted markedly higher than the 2.3% rate of expansion seen in the first quarter to well over 3%.

"The upturn also continues to create new jobs in encouragingly high numbers. The employment gauges from the June surveys are running at levels indicative of non-farm payrolls rising by 190,000, with hiring remaining solid in both the services and manufacturing sectors.

"Price pressures remain elevated, however, widely blamed on a mix of rising fuel prices and tariff-related price hikes, as well as supplier's gaining pricing power as demand outstrips supply for many inputs.

"Risks are tilted to the downside for coming months. Business expectations about the year ahead have dropped to a five month low, led by the weakest degree of optimism for nearly one and a half years in manufacturing. Exports are back in decline, showing the worst performance for over two years, causing factory order book growth to slump sharply lower compared to earlier in the year.

"For the first time this year, factory output is growing faster than order books, suggesting production may be adjusted down in coming months. Inflows of new business into the service sector have meanwhile cooled to the weakest since January. Finally, although employment is still rising strongly, even here there are signs of weakness, with the latest rise in payrolls being the lowest for a year."

-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 June data are published on July 2 for manufacturing and July 4 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.

About IHS Markit (www.ihsmarkit.com)

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