

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

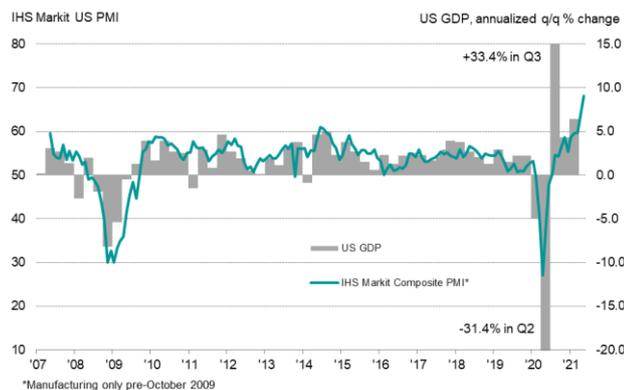
Output growth surpasses series high once again amid stronger client demand, but cost pressures mount further

Key findings:

- Flash U.S. Composite Output Index at 68.1 (63.5 in April). Series record high.
- Flash U.S. Services Business Activity Index at 70.1 (64.7 in April). Series record high.
- Flash U.S. Manufacturing PMI at 61.5 (60.5 in April). Series record high.
- Flash U.S. Manufacturing Output Index at 58.1 (57.2 in April). 4-month high.

Data collected May 12-20

IHS Markit Composite PMI and U.S. GDP



Private sector firms across the US signalled an unprecedented expansion in business activity in May. Growth was driven by the fastest service sector upturn on record, with the increase in manufacturing output also accelerating amid stronger client demand.

Adjusted for seasonal factors, the **IHS Markit Flash U.S. Composite PMI Output Index** posted 68.1 in May, up from 63.5 in April. The rate of expansion was unprecedented after surpassing April's previous series record. Goods producers and

service providers alike noted stronger paces of activity growth midway through the second quarter.

The rise in new orders quickened for the fifth month running in May, with improvements in demand stemming from greater customer confidence and the further reopening of the economy. Some manufacturers also noted higher order volumes from clients due to material shortages and efforts to stockpile amid rising costs. At the same time, new export business rose at the fastest pace since the series covering both manufacturing and services began in September 2014.

Increasing cost burdens continued to be keenly felt, as the rate of input price inflation soared to a new survey record high, often linked to a further marked worsening of supplier performance. Commonly noted were increases in PPE, fuel, metals and freight costs amid significant supplier delays.

The steep rise in costs fed through to the sharpest increase in output charges since data collection began in October 2009, with record rates of inflation registered for both goods and services as soaring demand boosted firms' pricing power.

Although a solid expansion in staffing levels eased some pressure on backlogs in the service sector, manufacturers registered the fastest rise in work-in-hand on record amid raw material shortages. While job creation was again seen in the goods-producing sector, the rise was the slowest for five months, linked in part to difficulties filling vacancies. Measured overall, employment rose for the eleventh straight month, but the rate of increase eased from April's survey high.

Business confidence across the private sector improved in May, with the degree of optimism

stronger than the series average. That said, the pick-up in sentiment largely stemmed from the service sector. Manufacturers expressed concern regarding raw material shortages, which it is feared could extend through 2021, and unsustainable demand conditions.

IHS Markit Flash U.S. Services PMI™

The seasonally adjusted **IHS Markit Flash U.S. Services PMI™ Business Activity Index** registered 70.1 in May, up from 64.7 in April. The rate of expansion was the sharpest since data collection for the series began in October 2009. Firms linked the upturn to stronger client demand amid greater customer confidence and the reopening of non-essential businesses.

New order growth also accelerated to the fastest on record. Total sales were supported by the sharpest increase in new export business since August 2020.

Inflationary pressures continued to mount in May, as rates of increase in input prices and output charges quickened to the steepest on record. Companies commonly noted efforts to pass through soaring costs to clients, with prices of oil, PPE and transportation often cited as fuelling the uptick in expenses.

Outstanding business at service providers increased modestly in May and at a slower pace than that seen in April. Backlog growth was eased by additional hiring, with employment rising solidly.

Meanwhile, business confidence picked up in May, buoyed by hopes of further success in the vaccine rollout, and a return to normal client interactions by the end of 2021.

IHS Markit Flash U.S. Manufacturing PMI™

Goods producers registered a record rate of improvement in operating conditions during May, as highlighted by the **IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI™)**¹ posting 61.5, surpassing April's previous series high of 60.5.

The uptick in the headline figure was supported by faster expansions in output and new orders, with

new orders also rising at the sharpest rate on record. Nonetheless, a further marked deterioration in vendor performance limited operating capacity and reportedly held back output growth.

Subsequently, backlogs of work accumulated at the fastest pace since data collection for the series began 14 years ago, as firms were constrained by raw material shortages. Companies meanwhile sought to expand staff numbers, but the rate of job creation eased to the slowest for five months.

At the same time, input costs rose in May at a pace not seen since July 2008. The uptick in inflation was widely attributed to higher logistics, raw material and fuel costs, with firms commonly reporting soaring vendor prices and difficulties sourcing materials amid a further severe lengthening of supplier delivery times. Companies made efforts to pass higher cost burdens on to clients, causing output charges to rise at the steepest rate on record.

Although strong, business confidence slipped to a seven-month low in May. Firms stated that optimism stemmed from stronger client demand and success of the vaccine rollout. That said, manufacturers highlighted that strain on capacity and raw material shortages are expected to last through 2021.

Comment

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

"The US economy saw a spectacular acceleration of growth in May, the rate of expansion of business activity soaring well above anything previously recorded in recent history as the economy continued to reopen from COVID-19 restrictions. The service sector saw an especially impressive surge in growth, beating all prior records by a wide margin, accompanied by another solid expansion of manufacturing output."

"Growth would have been even stronger had it not been for businesses often being constrained by supply shortages and difficulties filling vacancies."

"With businesses optimistic about the outlook, backlogs of orders rising sharply and demand continuing to pick up both at home and in export markets, the scene is set for strong economic growth to persist through the summer."

"The May survey also brings further concerns in relation to inflation, however, as the growth surge continued to result in ever-higher prices. Average selling prices for goods and services are both rising at unprecedented rates, which will feed through to higher consumer inflation in coming months."

-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 surveys. 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 2021 for manufacturing and June 3 2021 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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IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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About PMI

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