markit

Markit Economic Research
EMBARGOED UNTIL: 0945 EDT 25 June 2014
14:45 (UK time) 25 June 2014

United States

PMI surveys signal surge in growth to post-crisis high in June

- **Flash PMI™ data signal strongest rise in business activity since the recession**
- **GDP set to expand by at least 3% in Q2**
- **Employment Index also hits post-crisis high**

Markit's PMI data showed US business activity, new orders and employment surging higher in June, all growing at the fastest rates seen since the recession. The survey data add to evidence that the economy rebounded strongly in the second quarter after a larger than previously thought contraction of GDP in the first quarter.

Output surges as demand for goods and services hits post-crisis high

The GDP-weighted average of the output indices from the 'flash' manufacturing and services PMI surveys rose to a new high of 61.1 in June, up from 58.4 in May. The previous survey high of 58.9 was reached in February 2010.

The PMI data showed that service sector activity rose in June at the fastest rate in the survey's near-five year history, while manufacturing output rose at the steepest rate for just over four years.

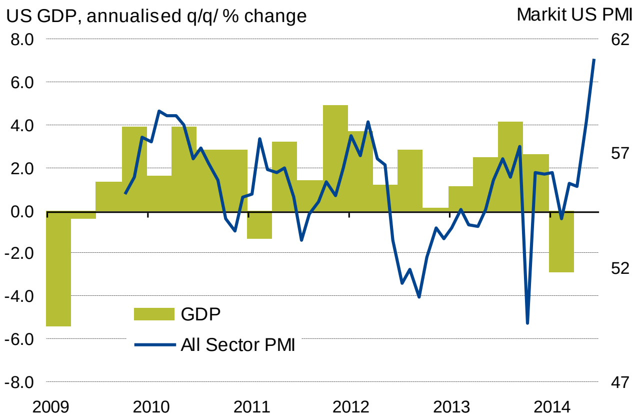
At 58.3, the average 'all sector' PMI reading for the second quarter was also the highest quarterly average recorded by the survey since it began in October 2009.

The two surveys therefore point to strong economic growth in the second quarter. GDP looks set to rise by at least 0.8% (3.0% on an annualised basis) according to historical comparisons of the survey with official data. The expansion in the second quarter should more than reverse the 0.7% (2.9% annualised) contraction seen in the first three months of the year, a decline which had been at least in part attributed to extreme weather at the start of the year.

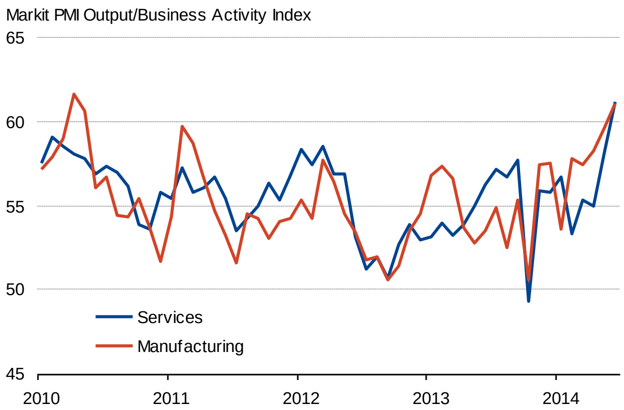
Record GDP revision

The latest estimate of GDP in the first quarter, also published today, represents the biggest ever revision to data since records began in 1976. The Commerce

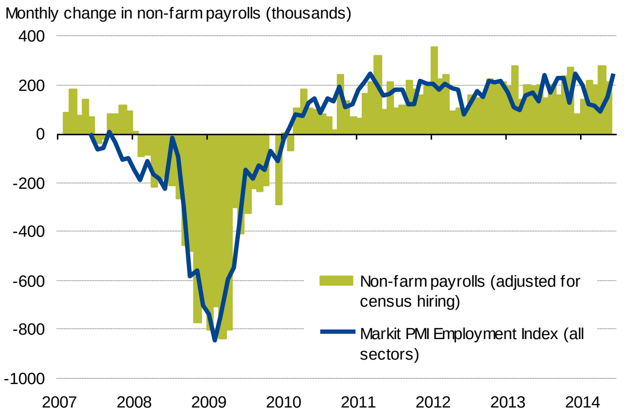
Economic growth and the 'composite' PMI



Markit manufacturing and services PMI



Employment*



Source: Markit, Bureau of Labor Statistics.

* Chart uses a regression-derived implied rate of non-farm payroll growth, using the weighted employment indices from the manufacturing and services PMI surveys. Note that just manufacturing PMI data are used in the modest pre-October 2009.

Department had initially estimated that the economy grew at a 0.1% annualised pace in the first quarter, which was then revised to a 1.0% contraction, before today's third estimate of a 2.9% decline.

The revision in part reflected a steep downgrade to service sector growth in the first quarter, which was itself largely due to a revision to estimated 'Obamacare' spending. The revision to 0.3% growth (1.4% annualised) brings the service sector trend back down closer into line with the PMI survey.

Hiring and new orders point to more than a weather-related revival

Importantly, the PMI survey data suggest the recent strengthening of economic growth after the first quarter disappointment is more than simply a recovery from adverse weather earlier in the year. In particular, the combined volume of incoming new business in the two sectors hit a survey high in June as demand for goods and services continued to improve, boding well for further strong activity growth as we move into the second half of the year.

Firms also took on extra staff in June at a rate not previously seen in the PMI survey's history, which also bodes well for future growth. A simple regression-based analysis of the survey data compared to official figures suggest the PMI is consistent with non-farm payrolls rising by approximately 250,000 in June.

The surveys pointed to a rise in factory employment of approximately 12,000 in June, accompanying an increase in service sector hiring of approximately 210-220,000.

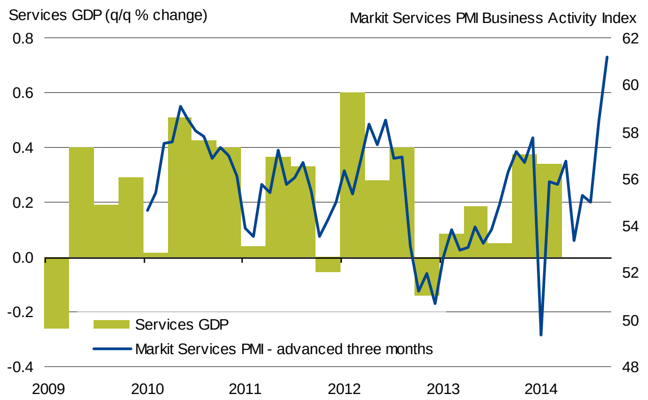
Price pressures set to ease

The strong growth of manufacturing and service sector output and employment was accompanied by an upturn in companies' costs, but underlying inflationary pressures have shown some signs of easing.

Across both sectors, input costs rose in June at the fastest rate since last October. Prices charged for goods and services also continued to rise, although the rate of increase moderated slightly for a second successive month.

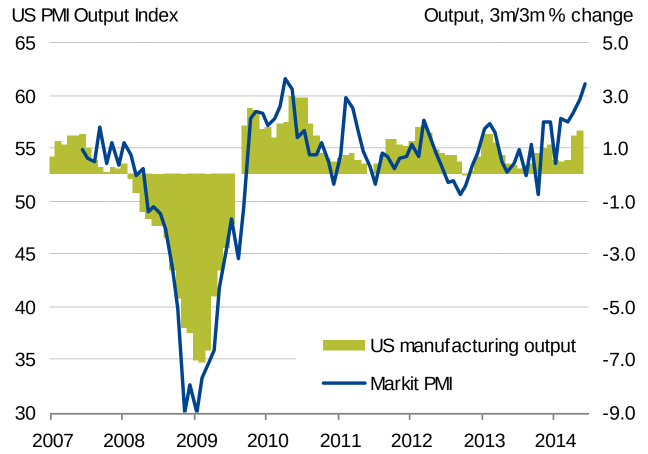
The price trends in part reflect supply chain disruptions earlier in the year. The manufacturing survey showed suppliers' delivery times lengthening markedly, particularly in January and February when extreme weather disrupted transportation. Historically, supply

Service sector growth

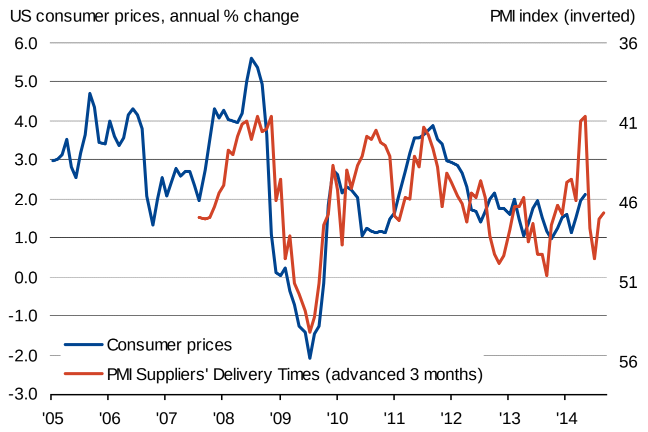


Sources: Markit, NBS (via Ecowin).

Manufacturing output



Supply chain delays and prices



Sources: Markit, Ecowin.

chain events take a few months to feed through to consumer prices (see chart), and the supply chain delays earlier in the year may explain why consumer price inflation has picked up in recent months, reaching a 19-month high of 2.1% in June.

The good news in terms of inflation is that an easing in the number of supply chain delays during the second quarter should filter through to lower consumer price inflation in coming months.

Chris Williamson
Chief Economist, Markit
Tel: +44 207 260 2329
Email: **chris.williamson@markit.com**

Click here for more PMI and economic commentary.
For further information, please visit www.markit.com