Markit Economic Research

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United States

Flash PMI results paint picture of slowing economy and falling prices

- **September's flash 'all sector' PMI of 55.3 points to 2.2% GDP growth in Q3**
- **Employment index points to payroll slowdown**
- **Business optimism close to post-recession low**
- **Prices charged for goods and services fall at steepest rate in survey's six-year history**

The survey data point to sustained steady expansion of the US economy at the end of the third quarter, but various warning lights are now flashing brighter, meaning growth may continue to weaken in coming months.

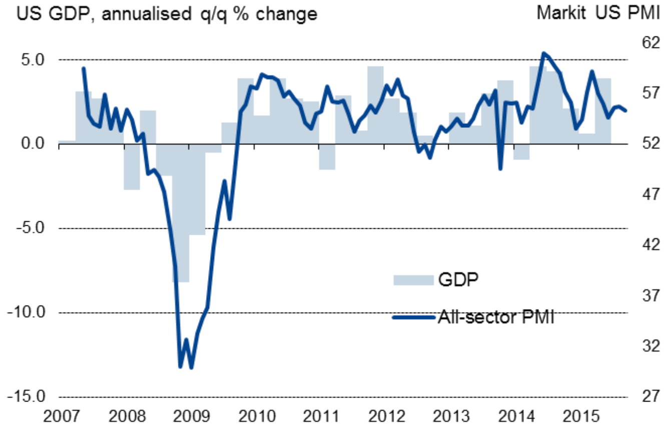
Although the surveys suggest the economy expanded at a 2.2% annualised rate in the third quarter, growth slowed in September and could weaken further in coming months. Business optimism slumped to one of the lowest levels seen since the global financial crisis, inflows of news business rose at the weakest rate for eight months and job creation slipped to a six-month low. Growth is also becoming increasingly reliant on the services economy as manufacturers struggle against the strong dollar and weak demand in export markets.

Average prices charged for goods and services are meanwhile falling at the fastest rate seen since the survey began in late-2009, suggesting consumer price inflation will weaken in coming months.

With growth slowing, warning lights flashing and prices falling at the fastest rate for at least six years, the survey data play into the hands of dovish policymakers and will reduce the odds of interest rates rising any time soon.

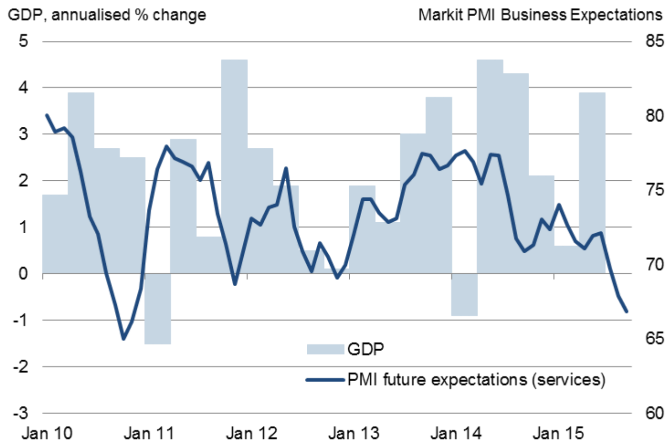
Here are five key charts from the flash PMI surveys:

1. Growth set to slip to 2.2% in third quarter



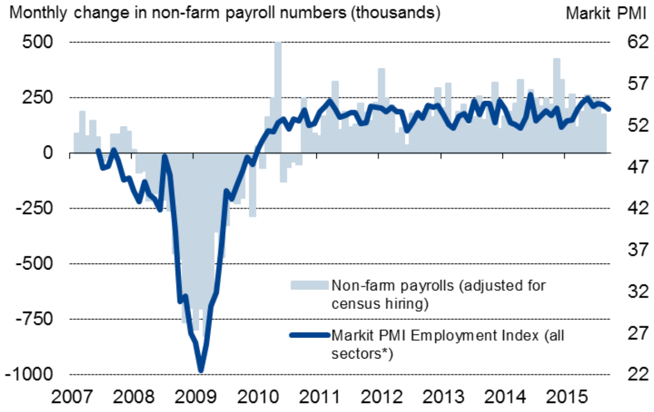
At 55.3 the weighted average of the flash Markit Manufacturing and Services PMI business activity measures fell below the 55.7 readings seen in the prior two months. The data indicate that economic growth will have slowed from the 3.9% annualised pace seen in the second quarter, down to around 2.2% in the third quarter.

2. Business optimism slump bodes ill for Q4



Business expectations about the year ahead slumped lower in the service sector, a weakening that commonly presages a slowing in the wider economy. Unless business confidence revives, GDP growth could slow further in the fourth quarter, possible quite markedly as optimism is now running at one of the lowest levels seen since the global financial crisis.

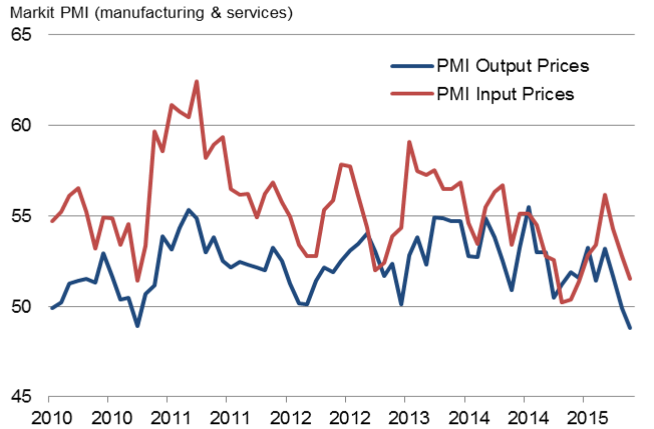
3. Smallest rise in employment since March



Sources: Markit, Bureau of Labor Statistics. *Manufacturing only pre-October 2009

The all-sector Employment Index fell to a six-month low in September, but remained elevated by historical standards. A regression-based comparison against official data indicates that the surveys are consistent with a 207,000 increase in non-farm payrolls in September, which would be sufficiently strong to boost the argument for interest rates to rise this year. The survey data also suggest August's additional 173,000 payroll count will also be revised higher.

4. Prices fell at steepest rate in survey history

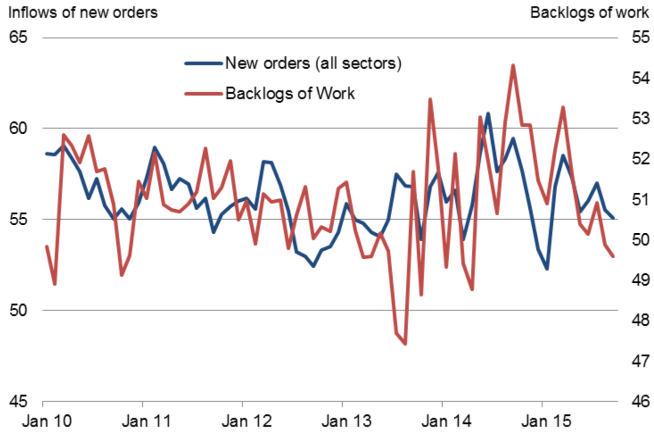


Source: Markit..

Average prices charged for goods and services fell for a second successive month in September, with the rate of decline accelerating to the highest seen since data from the two PMI survey was first available back in October 2009.

Input costs, measured across manufacturing and services, meanwhile showed the smallest rise for six months, largely reflecting lower commodity prices, especially for fuels, as well as cheaper imports due to the stronger dollar.

5. Order book growth has turned down sharply



Across both manufacturing and services, backlogs of work fell for a second successive month, suggesting firms could start cutting capacity in coming months unless demand starts picking up. However, inflows of new orders grew at the slowest rate for eight months in September. Manufacturing fared especially badly, with export orders having stagnated over the third quarter as producers suffered the double whammy of weakened demand in key export markets (notably China) and the stronger dollar.

Click here for more detail on the US manufacturing sector in September.

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