

# United States

## Flash PMIs point to lacklustre third quarter growth

- Flash PMI surveys signal ongoing modest economic growth in August
- PMIs signal GDP growth of less than 1% in Q3
- Employment indices signal 130k non-farm payroll rise in August
- Prices rise only modestly

The August Markit flash PMI surveys indicate that the US economy continued to expand at only a modest pace in August. Slower growth of demand and subdued business optimism also caused employment growth to slow to the weakest for over two years. Price pressures meanwhile remained muted.

The seasonally adjusted composite PMI, a weighted average of survey indices covering both manufacturing and services, fell from 51.8 in July to 51.5 in August.

### Disappointing third quarter growth

The ongoing lacklustre economic growth signalled by the PMI suggests the economy has remained in a low gear throughout the year to date, with annualised GDP growth failing to accelerate in the third quarter from the weak 1.2% pace seen in the second quarter.

While the latest reading is in line with the average seen so far this year, historical comparisons suggest that the PMI is signalling an annualised GDP growth rate of just under 1% in the third quarter, based on the data for July and August.

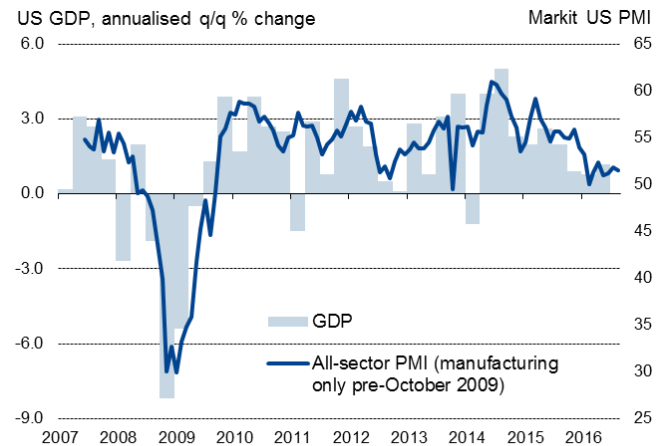
### Manufacturing helps offset weak services

The August PMI numbers showed a marked divergence by sector. Manufacturing enjoyed the strongest monthly gain in output for nine months, buoyed by the largest rise in exports for almost two years. In contrast, service sector business activity grew at the slowest rate since February, signalling one of the worst months seen since the global financial crisis.

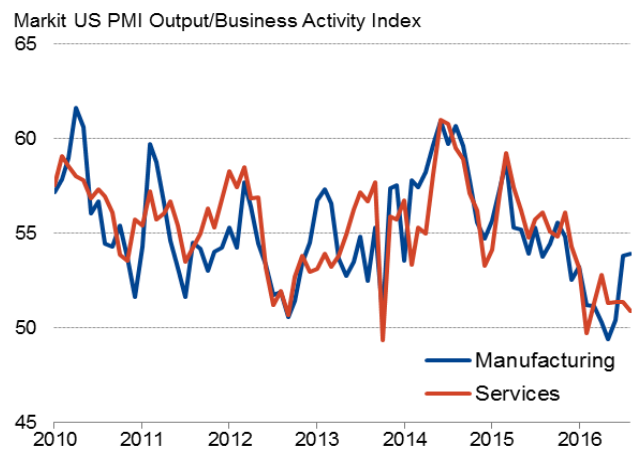
Growth of new orders across the two sectors fell back slightly from the eight-month high seen in July, though remained one of the strongest seen so far this year. However, order book growth remains much weaker than seen in prior post-crisis years.

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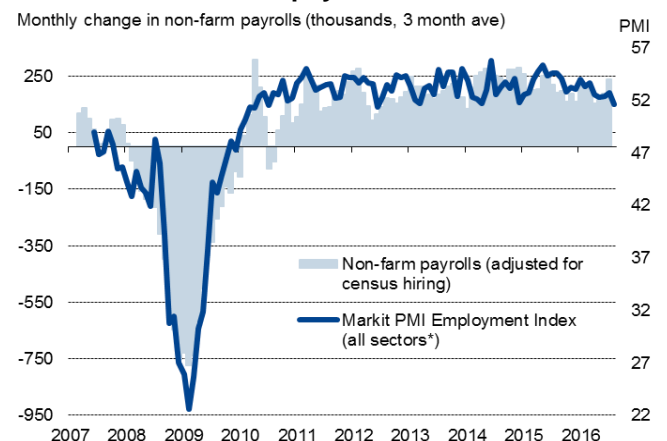
### Markit PMI v GDP



### Manufacturing output v services activity



### Markit PMI v non-farm payrolls



Sources: IHS Markit, Datastream.

Despite the improvement in export sales, manufacturers reported a slowing in new order growth in August, and new business in the service sector showed the smallest rise for three months.

Optimism about future business activity in the service sector also deteriorated compared to July. Although still higher than at any time since January, optimism is running considerably lower than in previous years. Companies often linked their anxiety about the coming year to uncertainty caused by the presidential election, though many also expect business to rebound after the vote.

### Hiring hit by demand worries

With inflows of new work slowing and worries about the outlook intensifying, companies pulled back on their hiring. Employment across both sectors rose at the slowest rate since April 2014, registering one of the smallest gains in the past six years.

Job creation was driven almost entirely by the service sector as factory hiring slowed to near-stagnation, though even in services the rise in employment was the lowest since December 2014. The survey data are broadly consistent with non-farm payrolls rising by just under 130,000 in August.

### Inflationary pressures muted

Input price inflation across the two sectors cooled to a five-month low, feeding through to yet another modest rise in average selling prices for goods and services. Factory gate prices stagnated, failing to rise for the first time since April, whereas prices levied for services rose at the joint-fastest rate since last November. That said, the rate of increase remained subdued.

### Rising backlogs provide ray of hope

While the outlook remains uncertain, one ray of hope is provided by the survey measure of backlogs of work, which has now signalled rising levels of outstanding business for two successive months, contrasting with continual declines seen over the prior eight months. Rising backlogs of work could translate into higher levels of business activity in coming months, building on a post-election upturn, providing inflows of new work also improve.

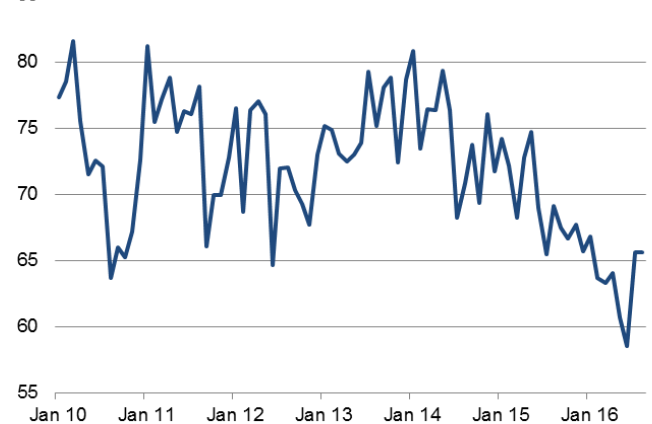
### Fed on hold

With job creation also waning alongside subdued price pressures, the survey will fuel expectations that the Fed will be in no rush to tighten policy again.

However, as anecdotal survey evidence suggests that business activity is being dampened by uncertainty due to the upcoming presidential election, there remains a case for the economy to pick up speed again after the vote, leaving a December rate hike on the table.

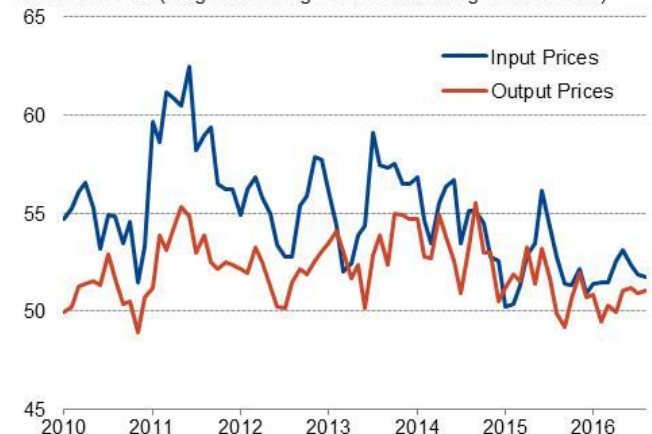
### Future optimism

Markit Services PMI future expectations



### PMI Prices Indices

Markit US PMI (weighted average of manufacturing and services)



Source: IHS Markit.

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