

United States

Flash manufacturing PMI takes a step back from July's recent high

- Flash manufacturing PMI down from 52.9 to 52.1
- Output growth edges higher to boost Q3 GDP hopes
- Weak domestic demand offsets improved export performance to result in slower order book growth
- Hiring weakest for four months
- Output prices fail to rise for first time in four months

The August Markit Flash US Manufacturing PMI came in below market expectations but still signals an improved performance of factories in the third quarter compared to the first half of the year.

Although exports grew at the fastest rate for almost two years, subdued domestic demand acted as a drag on order book growth. The hiring trend also slowed as firms grew cautious about the outlook and inflationary pressures cooled.

Manufacturing upturn takes a backward step

The seasonally adjusted Markit Flash US Manufacturing PMI™ registered 52.1 in August, down from July's nine-month high of 52.9. However, while the drop in the PMI is a disappointment, it's less worrying when looked at in the context of July's better than expected reading. Taking the July and August readings together suggests that manufacturing is enjoying its best period of expansion so far this year in the third quarter.

The survey found manufacturers increasing their output for the third month running and enjoying the largest rise in exports since September 2014.

The improved production and trade performances should help drive faster economic growth in the third quarter. But that's where the good news stops. Despite the upturn in exports, subdued domestic demand meant total new orders expanded at a slower rate in August.

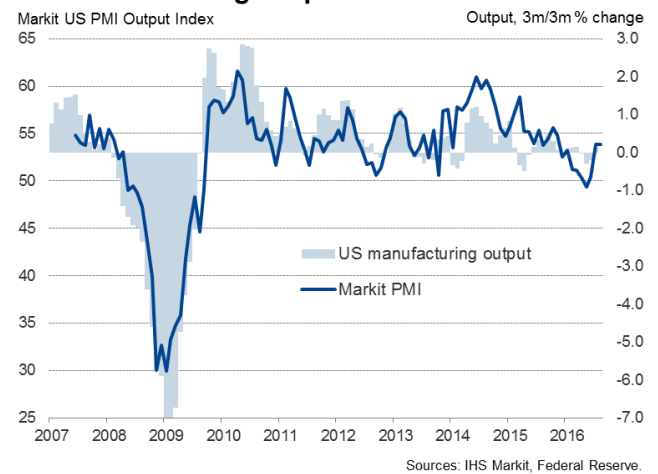
Manufacturing employment increased at the slowest rate for four months. Inventories of finished goods and raw materials both fell as companies generally adopted cautious inventory policies.

Prices charged by manufacturers were meanwhile unchanged in August, thereby ending a three-month sequence of increase, as intense competition in some cases led to price discounting.

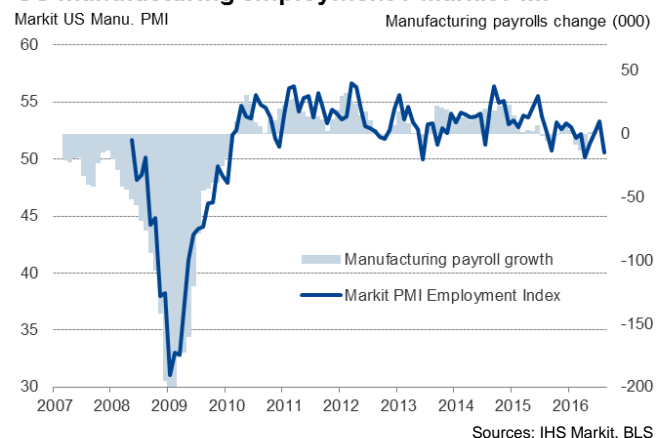
Policy on hold, for now

Policymakers will be pleased to see signs that the economy may have picked up speed in the third quarter compared to the disappointments seen in the first two quarters of the year, but the Fed looks unlikely to tighten policy again until the upturn has stronger foundations. Any interest rate rise therefore looks unlikely before December.

US manufacturing output v Markit PMI



US manufacturing employment v Markit PMI



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