News Release

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S&P Global US Manufacturing PMI™

PMI falls to near two-year low in June amid contraction in client demand

Key findings

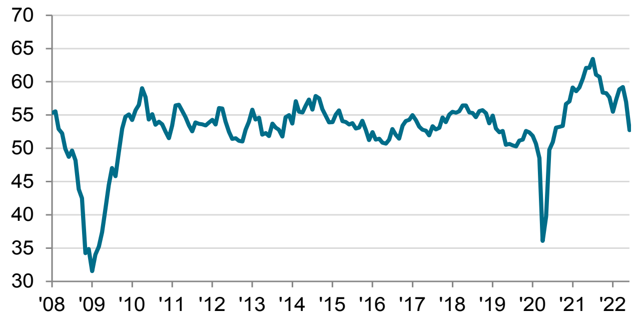
Output broadly flat as firms see fresh drop in new orders

Inflationary pressures ease

Future output expectations drop to lowest since October 2020

US Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 13-27 June 2022.

The US manufacturing sector signalled subdued improvements in operating conditions during June, according to latest PMI™ data from S&P Global. The headline PMI dropped to its lowest level since July 2020 amid a near-stagnation of factory output and a fall in new orders. The decrease in sales was the first since May 2020, with domestic and foreign client demand falling. As a result, firms utilised their current holdings of inputs and finished goods to supplement production, with input buying stagnating and suppy chain delays easing. A reduction in new orders, combined with a sustained rise in employment led to greater success clearing backlogs of work, which increased at a notably weaker pace.

At the same time, inflationary pressures remained historically elevated, but increases in input costs and output charges eased to three-month lows.

The seasonally adjusted S&P Global US Manufacturing Purchasing Managers' Index™ (PMI™) posted 52.7 in June, down notably from 57.0 in May but up slightly on the earlier released 'flash' estimate of 52.4. The latest headline index reading was the lowest for almost two years and pointed to a relatively subdued improvement in operating conditions.

Contributing to the drop in the headline index was a renewed fall in new orders at manufacturing firms in June. The decrease in client demand was the first in over two years. Although only marginal overall, the drop in sales signalled a marked contrast to the sharp upturn seen in May. Firms stated that inflationary pressures, weak client confidence in the outlook and supply-chain disruption drove the decline.

Similarly, new exports returned to contraction territory in June. The fall in foreign client demand was the quickest since June 2020, albeit marginal overall.

Reduced new order inflows weighed on production volumes in June. The respective seasonally adjusted index fell to its lowest for two years. Some companies also highlighted that

Comment

Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, said:

"The PMI survey has fallen in June to a level indicative of the manufacturing sector acting as a drag on GDP, with that drag set to intensify as we move through the summer. Forward-looking indicators such as business expectations, new order inflows, backlogs of work and purchasing of inputs have all deteriorated markedly to suggest an increased risk of an industrial downturn.

"Demand growth is cooling from households amid the cost-of-living crisis, and capital spending by companies is also showing signs of moderating due to tightening financial conditions and the gloomier outlook. However, most marked has been a steep drop in orders for inputs by manufacturers, which hints at an inventory correction.

"Some welcome news is that the drop in demand for inputs has brought some pressure off supply chains and calmed prices for a wide variety of goods, which should help alleviate broader inflationary pressures in coming months."

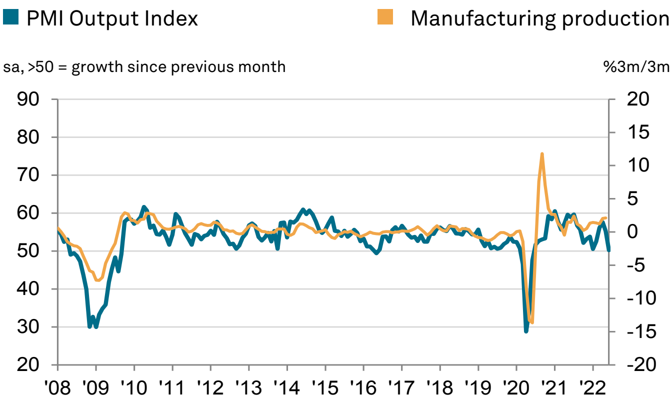
supplier shortages had constrained production capacity. Average supplier delivery times nevertheless lengthened to the smallest extent since November 2020, signalling some easing in the pandemic-induced supply squeeze.

Meanwhile, input costs and output charges continued to rise at substantial rates amid marked increases in supplier prices. Alongside hikes in material costs, firms noted that greater fuel and transportation charges pushed up operating expenses. The rate of input cost inflation was the slowest for three months, however. Output charge inflation also moderated. That said, firms reiterated the need to pass-through higher costs to their clients through greater selling prices.

Inflationary concerns were once again cited by firms, as business confidence regarding the year-ahead outlook slumped to the lowest level since October 2020. Firms were also more cautious regarding their forecasts due to weak customer demand and further disruption to supply chains.

Nevertheless, firms expanded their workforce numbers further in June. Hiring activity reportedly stemmed from efforts to clear backlogs of work and the filling of long-held vacancies. As a result, pressure on capacity eased and the level of work-in-hand was broadly unchanged on the month, a stark contrast to the sharp expansion seen in May.

Buying activity stagnated during June, as weak client demand led firms to work through their current holdings of inputs. As such, stocks of purchases were at a similar level to that seen in May. Firms also used post-production inventories to supplement output, as stocks of finished goods fell once again.



Sources: S&P Global, US Federal Reserve.

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Survey methodology

The S&P Global US Manufacturing PMI™ is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 800 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in April 2004.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html.

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