

News Release

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S&P Global US Manufacturing PMI™

Renewed drop in output as demand dwindles, with price pressures dissipating in June

Key findings

Sharper fall in new orders sparks decline in production

Faster decrease in input costs, with selling prices little-changed

Destocking at manufacturers intensifies

US manufacturing firms recorded a second successive monthly decline in the health of the sector in June, according to the latest PMI™ survey from S&P Global. The overall rate of contraction gained momentum amid a renewed fall in output and a sharper downturn in new orders. Despite a steep drop in backlogs of work, manufacturers still sought to replace voluntary leavers and fill long-held vacancies, meaning employment grew further. Nonetheless, future output expectations weakened. A dearth of new orders led firms to continue in their efforts to run down stocks with input buying also contracting markedly.

On the price front, cost burdens fell at the fastest pace for over three years. Weak demand conditions, meanwhile, led to broadly unchanged output charges on the month as firms sought to attract new sales.

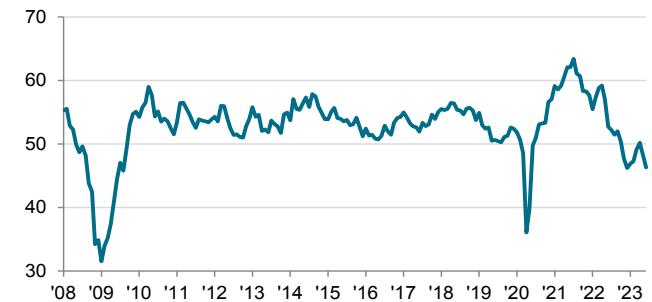
The seasonally adjusted S&P Global US Manufacturing Purchasing Managers' Index™ (PMI™) posted 46.3 in June, down from 48.4 in May. The index therefore signalled the steepest decline in operating conditions in 2023 so far, as the recent downturn intensified. Manufacturing performance has deteriorated in seven of the last eight months.

Underpinning the latest PMI reading was a marked contraction in new orders in June. The decrease was the steepest of the year so far and the second-fastest in over three years. Firms commonly attributed the decline to suppressed demand due to inflationary pressure and higher interest rates.

At the same time, external demand weakened. New export orders fell for the thirteenth month running and at a sharp rate that was among the fastest in the last three years.

Subsequently client reticence ensured that production moved back into contraction territory following a three-month period of expansion. The rate of decline was the joint-sharpest in 2023 to date. Some companies also stated that additional production was no longer being used to replenish

US Manufacturing PMI
sa, >50 = growth since previous month



Source: S&P Global PMI.
Data were collected 12-27 June 2023.

Comment

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

“The health of the US manufacturing sector took a sharp turn for the worse in June, adding to concerns over the economy potentially slipping into recession in the second half of the year.

“Leading the darkening picture was a severe drop in demand for goods, with new orders slumping at a rate among the steepest since the global financial crisis of 2009. Companies report that customers have become increasingly reticent to spend amid the rising cost of living, higher interest rates, growing concerns about the economic outlook and a switch in spending to services.

“Exacerbating the downturn has been a continued focus on inventory reduction as manufacturers, their suppliers and their customers all seek to cut warehouse stocks in the face of weakening demand.

“In this environment, pricing power is fading rapidly. Prices charged for inputs by suppliers are now falling at a rate not seen since 2009 barring only the early pandemic lockdown months. Prices charged for goods leaving the factory gate meanwhile barely rose in June amid increasing reports of discounting, indicating a near-total collapse of inflationary pressures in the goods-producing sector.

“The focus now turns to the service sector, where inflationary pressures have been more stubborn in recent months amid resurgent post-pandemic demand. The big question is how long this service sector spending can be sustained in the face of headwinds from the cost of living and higher interest rates.”

PMI™

by S&P Global

stocks amid weak demand.

Prices pressures dissipated in June as input costs fell for a second month running. Manufacturers saw the sharpest drop in material prices since May 2020. Suppliers were often reported to offer promotions in an effort to entice purchases of inputs.

Output charges, meanwhile, were broadly unchanged on the month. The respective seasonally adjusted index was at its lowest level in three years. Although some firms noted the pass through of cost savings to customers, others stated that they continued to transfer previous cost increases to clients in an effort to protect margins.

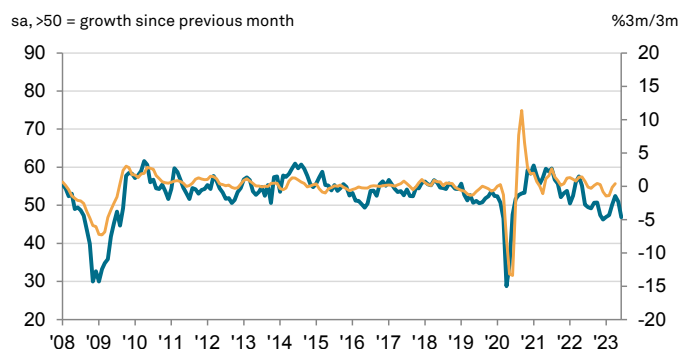
Input buying at goods producers contracted at the steepest rate since January, as dwindling new orders led firms to adjust their spending downwards. Some companies also mentioned that lower purchasing activity reflected efforts to destock and wind down inventories.

Subsequently, stocks of purchases fell at an accelerated pace that was the second-fastest since May 2020. Firms sought to reduce current holdings of inputs for cost considerations. At the same time, stocks of finished goods declined sharply, and at the quickest rate since November 2021.

Despite fragile demand conditions, manufacturers hired new workers in June. Employment growth was modest overall, and softer than in May. Companies continued to highlight more successful recruitment campaigns for long-held vacancies as driving job creation. Nonetheless, backlogs of work were depleted at the second-fastest pace in over three years.

Subdued sentiment at customers was reflected in weaker business confidence in June. The degree of optimism in the year ahead outlook for output softened. Although still forecasting an increase in output, expectations were the lowest in 2023 to date.

■ PMI Output Index ■ Manufacturing production



Sources: S&P Global PMI, US Federal Reserve via S&P Global Market Intelligence.

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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.

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