News Release

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S&P Global US Manufacturing PMI™

PMI drops to lowest since July 2020 amid further loss of new orders

Key findings

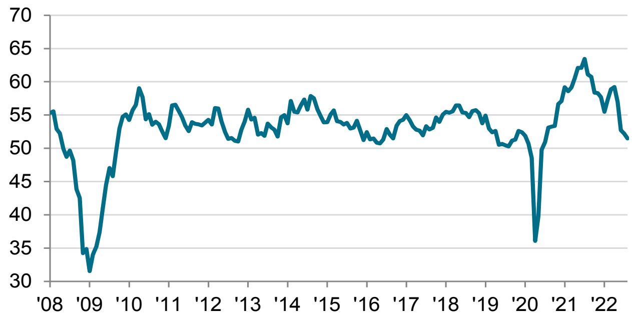
Output and new sales fall further

Input cost inflation slowest since January 2021

Delivery delays least extensive since October 2020

US Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 05-25 August 2022.

The US manufacturing sector experienced relatively muted operating conditions in August, according to latest PMI™ data from S&P Global. Output contracted for a second straight month as new orders fell for a third month in a row amid weak client demand, in turn linked to the impact of inflation and economic uncertainty on customer spending. Although employment rose further, it did so at the slowest pace since January, with backlogs of work rising only marginally. Output expectations strengthened from July's recent low, but stayed below the series trend.

Supply chain disruptions meanwhile remained historically marked, but the extent to which lead times lengthened was the least severe since October 2020. As a result, pressure on costs moderated, with input prices increasing at the slowest pace since the start of 2021. In an effort to drive sales and pass on some of the moderation in cost burdens, selling prices rose at the weakest rate for a year-and-a-half.

The seasonally adjusted S&P Global US Manufacturing Purchasing Managers' Index™ (PMI™) posted 51.5 in August, broadly in line with the earlier released 'flash' estimate of 51.3, but down from 52.2 in July. The headline index reading was the lowest since July 2020, with latest data indicating subdued overall health conditions across the US manufacturing sector.

Contributing to weak operating conditions was a third successive monthly fall in new orders in August. Manufacturers registered a modest decline in new sales, often linking this to muted client demand following greater economic uncertainty and hikes in prices. The rate of decrease was broadly in line with those seen in June and July. External demand remained weak, as new export orders fell at the second-sharpest pace in 27 months.

In line with weak demand conditions, goods producers indicated a back-to-back decline in production. The pace of contraction quickened from July to the fastest since June

Comment

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

"US factory production was down for a second month running in August, with demand for goods having now fallen for three straight months amid the ongoing impact of soaring inflation, supply constraints, rising interest rates and growing economic uncertainty about the economic outlook.

"Barring the initial pandemic lockdowns months, this is the steepest downturn in US manufacturing seen since the global financial crisis in 2009.

"Worryingly, the sharpest drop in demand was recorded for business equipment and machinery, which points to falling investment spending and heightened risk aversion. Similarly, payroll growth slowed close to stalling, reflecting a growing reticence to expand workforce numbers in the face of a deteriorating demand environment.

"Falling demand for raw materials has, however, taken pressure off supply chains and helped shift some of the pricing power away from sellers towards buyers. Likewise, we are seeing more manufacturers reduce their selling prices to drive sales. Although still elevated by historical standards, the survey's inflation gauges are now at their lowest for one and a half years, which should help to bring consumer price inflation down in the coming months."

PMI™ by S&P Global

2020. Some companies also noted that ongoing supply chain disruption hampered output amid raw material delivery delays.

On the price front, average cost burdens increased at a further marked rate in August. Hikes in transportation, fuel and metals prices reportedly drove inflation. That said, a number of firms noted reduced costs for some materials, which contributed to the softest overall rise in operating expenses since January 2021.

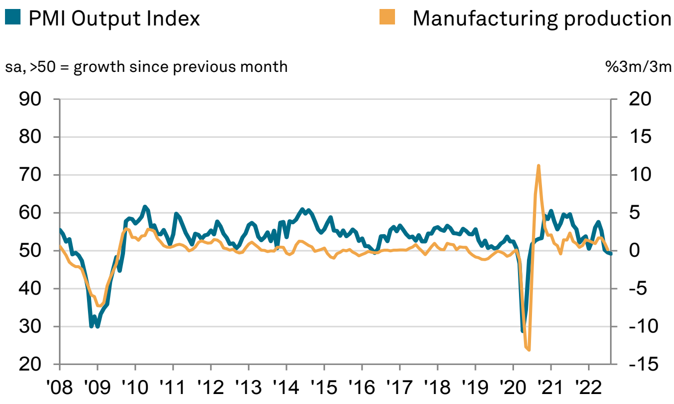
In response to softer increases in costs, firms raised their selling prices at a weaker rate in August. The pace of charge inflation was the slowest in 18 months, as some companies passed through savings to their customers in an effort to remain competitive.

Vendor performance deteriorated again, but at the slowest rate since October 2020. Nonetheless, transportation and logistics issues remained evident.

Input buying was broadly unchanged on the month in August. Weak client demand and deliveries of materials led to a quicker rise in pre-production inventories. Stocks of finished goods meanwhile fell, as orders were shipped in a timely manner and stockbuilding was not prioritised.

Meanwhile, employment rose at the second-slowest rate in over two years. Backlogs of work also grew at a subdued pace, as weak new order inflows led some firms to delay replacing leavers despite some reports of ongoing challenges finding suitable candidates.

Lastly, output expectations picked up in August, with the degree of confidence in the year-ahead outlook reaching a three-month high. Despite hopes of an uptick in demand, the level of optimism was weaker than the series average.



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.

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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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