News Release

MARKET SENSITIVE INFORMATION
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S&P Global Flash US Composite PMI™

US private sector output contracts for the first time in over two years amid muted client demand

Key findings:

Flash US PMI Composite Output Index[1] at 47.5 (June: 52.3). 26-month low.

Flash US Services Business Activity Index[2] at 47.0 (June: 52.7). 26-month low.

Flash US Manufacturing Output Index[4] at 49.9 (June: 50.2). 25-month low.

Flash US Manufacturing PMI[3] at 52.3 (June: 52.7). 24-month low.

Data were collected 06-21 July

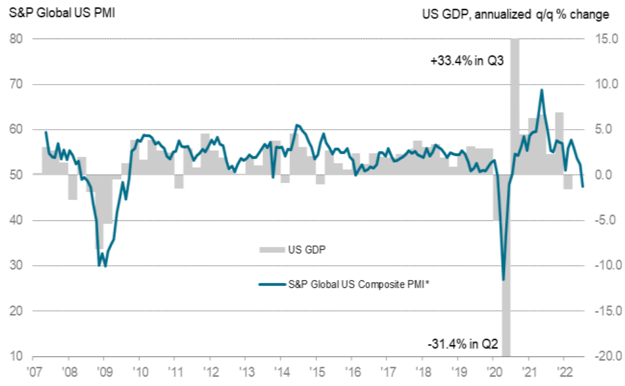
US private sector firms indicated the first contraction in business activity since June 2020 in July, according to latest 'flash' PMI™ data from S&P Global. The downturn in output signalled a further loss of momentum across the economy of a degree not seen outside of COVID-19 lockdowns since 2009. The downturn was led by a steep drop in service sector activity, though production at manufacturers also fell marginally, down for the first time in over two years.

The headline **Flash US PMI Composite Output Index** registered 47.5 in July, down notably from 52.3 in June to signal a solid contraction in private sector output. The rate of decline was the sharpest since the initial stages of the pandemic in May 2020, as both manufacturers and service providers reported subdued demand conditions.

Although **new orders** returned to expansion territory during July, following a contraction in demand during June, the increase was only modest and, with the exception of June's decline, was the weakest in the past two years. Service providers registered only a marginal upturn in new business while manufacturers recorded a second successive fall in new order inflows. Companies noted that weak demand conditions stemmed from severe inflationary pressures and hikes in interest rates, which have exerted further strain on domestic client spending. Foreign client demand also weakened, causing **new export orders** to fall for a second successive month.

On the price front, firms continued to highlight marked upticks in **input costs** at suppliers, as fuel, transportation, raw material and wage expenses rose further. However, the pace of input price inflation eased again from May's series peak and was the softest for six months, despite

S&P Global Flash US PMI Composite Output Index



*Manufacturing only pre-October 2009

Source: S&P Global, US Bureau of Economic Analysis

being faster than in any period seen before May 2021.

Similarly, US companies recorded a substantial hike in **selling prices** during July. Again, firms highlighted the pass-through of higher costs to their clients as a driving factor behind greater output charges. A number of firms stated that slower input cost inflation, greater competition and softer demand conditions led to some concessions being made to customers, however, helping to cool the pace of charge inflation to its slowest since March 2021.

Challenges retaining employees and some reports of cost-cutting initiatives led to the weakest rise in **staffing numbers** since February. Job creation was led by service sector firms who continued to register a strong upturn in employment. Manufacturers, on the other hand, recorded only a slight rise in workforce numbers.

A softer rise in hiring activity also stemmed from reduced pressure on capacity in July. **Backlogs of work** fell for the second month running and at the steepest rate since May 2020. Broadly unchanged levels of work-in-hand at manufacturing firms was accompanied by a solid decline in incomplete business at service providers as softer demand conditions allowed firms to catch up with work outstanding.

At the same time, **business confidence** among US companies slipped to the lowest since September 2020. Although firms hope for greater new order inflows and increased stability in supply chains, inflationary and recession concerns weighed on optimism amid muted demand conditions.

S&P Global Flash US Services PMI™

At 47.0 in July, down notably from 52.7 in June, the **S&P Global Flash US Services Business Activity Index** indicated a solid decline in business activity at service providers. The seasonally adjusted index continued its downward trajectory seen since March's recent high and signalled the sharpest fall in output since May 2020.

Following a slight contraction in June, new business returned to expansion. The marginal upturn in client demand was much softer than that seen in the last two years, however. Inflation and weak demand conditions reportedly continued to weigh on new sales. At the same time, new export business decreased for the second successive month amid challenging economic conditions in key export destinations.

Input prices rose markedly in July, albeit at the softest pace since January. Alongside greater material and fuel costs, firms linked the uptick to hikes in wage expenses amid increased competition for skilled staff. Some reports of discounts made to customers, and slower input price increases, led to the softest rise in output charges since March 2021.

Meanwhile, service providers raised their workforce numbers strongly in July, as firms sought to fill long-held vacancies. The rate of job creation was the weakest for five months, however, as pressure on capacity subsided. Backlogs of work decreased at a faster pace, and one that was the sharpest since May 2020.

Relatively subdued client demand and growing inflationary concerns hampered expectations, as service providers signalled the lowest degree of confidence in the outlook for output since September 2020.

S&P Global Flash US Manufacturing PMI™

The **S&P Global Flash US Manufacturing PMI** posted at 52.3 in July, down from 52.7 in June, to signal weak improvements in operating conditions across the US manufacturing sector. A subdued improvement in the health of the goods-producing economy contrasted with marked upturns in April and May.

Driving the decrease in the headline index reading were broadly unchanged production levels and a further fall in new order inflows. The seasonally adjusted Output Index dropped below the 50.0 no-change mark for the first time since June 2020, as total new sales and new export orders fell at the sharpest rates since the initial stages of the pandemic over two years ago.

Although softer than those seen during the second half of 2021, the pace of cost inflation was among the fastest on record. Greater energy, fuel, transportation and material prices reportedly pushed up expenses further. The rate of increase slowed to the softest since April 2021, however.

Manufacturers still sought to pass through higher costs to clients, as output charges rose further in July. In line with a softer uptick in input costs, selling prices increased at the slowest pace since February 2021.

Vendor performance deteriorated again in July. Despite lead times lengthening at one of the slowest rates in over a year-and-a-half, delays were substantial in the context of the series history and greater than any seen before December 2020. As a result, firms sought to build input inventories. Buying activity returned to expansion and stocks of purchases rose at a slightly faster pace.

At the same time, efforts to clear backlogs were successful as work-in-hand was broadly unchanged on the month. Subsequently, more firms mentioned plans to cut costs and reduce staffing numbers as the rate of job creation slowed to the second-weakest in the current two-year sequence of employment growth.

Finally, positive sentiment regarding the outlook for output was the lowest since October 2020. Although firms expressed hopes of a return to new order growth, weak client demand and the impact of further inflationary pressure on customer spending weighed on expectations.

Commenting on the flash PMI data, **Chris Williamson**, Chief Business Economist at S&P Global Market Intelligence said:

"The preliminary PMI data for July point to a worrying deterioration in the economy. Excluding pandemic lockdown months, output is falling at a rate not seen since 2009 amid the global financial crisis, with the survey data indicative of GDP falling at an annualised rate of approximately 1%. Manufacturing has stalled and the service sector's rebound from the pandemic has gone into reverse, as the tailwind of pent-up demand has been overcome by the rising cost of living, higher interest rates and growing gloom about the economic outlook.

"An increased rate of order book deterioration, with backlogs of work dropping sharply in July, reflects an excess of operating capacity relative to demand growth and points to output across both manufacturing and services being cut back further in coming months unless demand revives. However, with companies' expectations of future growth slumping to the lowest since the early days of the pandemic, any such revival is not being anticipated. Instead, firms are already reassessing their production and workforce needs, resulting in slower employment growth.

"Although supply constraints remained problematic, constraining economic activity, the weakening demand environment has helped to alleviate inflationary pressures. Average prices charged for goods and services consequently rose at a much reduced rate in July, the rate of inflation still running high by historical standards but now down to a 16-month low to provide some much needed good news amid the ongoing cost of living crisis."

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Note to Editors

Final July data are published on 1 August for manufacturing and 3 August for services and composite indicators.

The US PMI™ (Purchasing Managers' Index™) is produced by S&P Global and is based on original survey data collected from a representative panel of around 800 companies based in the US manufacturing and service sectors. The flash estimate is based on around 85% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The average differences between the flash and final *PMI* index values (final minus flash) since comparisons were first available in October 2009 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

Index	Average difference	Average difference in absolute terms
Composite Output Index[1]	0.1	0.4
Manufacturing *PMI*[3]	0.0	0.3
Services Business Activity Index[2]	0.2	0.4

The *Purchasing Managers' Index*™ (*PMI*™) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. *PMI*™ surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

S&P Global do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from S&P Global. Please contact economics@ihsmarkit.com.

Notes
1. The Composite Output *PMI* is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"
3. The Manufacturing *PMI* is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.
4. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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. To learn more go to https://ihsmarkit.com/products/pmi.html .

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