News Release

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S&P Global US Manufacturing PMI™

PMI at lowest for two years as output and new orders fall in July

Key findings

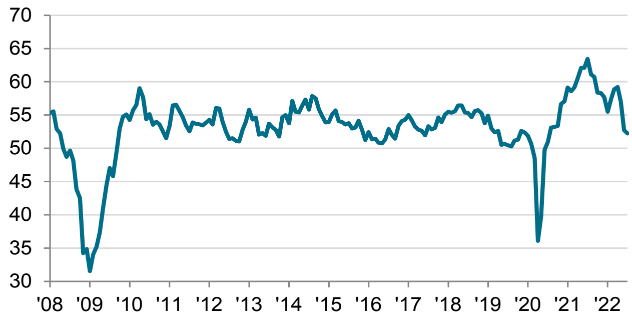
Production falls as demand conditions weaken

Inflationary pressures ease further

Labor and material shortages persist

US Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.
Data were collected 06-26 July 2022.

The US manufacturing sector registered a further weak improvement in operating conditions during July, according to latest PMI™ data from S&P Global. Contributing to subdued conditions was the first drop in output since June 2020 which reflected weaker demand conditions, as new orders fell at the fastest pace for over two years. Nonetheless, backlogs of work continued to increase as labor and material shortages hampered efforts to process incoming new work.

On the price front, rates of input cost and output charge inflation softened again in July. Although still substantial in the context of their respective series histories, the increases were the slowest for over a year.

The seasonally adjusted S&P Global US Manufacturing Purchasing Managers' Index™ (PMI™) posted 52.2 in July, down from 52.7 in June and broadly in line with the earlier released 'flash' estimate of 52.3. The latest index reading was the lowest for two years and signalled a muted improvement in the health of the manufacturing sector.

The decrease in the headline figure was in part linked to a renewed drop in production during July. Output fell for the first time in just over two years, albeit only fractionally. Lower production levels were often attributed to weak client demand and a further fall in new orders. Companies also noted that challenges finding suitable candidates for vacancies and raw material shortages also hampered production.

New orders fell for the second month running in July, with the pace of decline modest but the steepest seen since 2009 with the exception of pandemic lockdown months. Panellists stated that further supply chain disruption and hikes in prices weighed on customer spending. Similarly, foreign client demand weakened at the start of the third quarter. New export orders fell at the fastest rate since May 2020.

Meanwhile, input prices paid by manufacturers rose markedly again in July. The increase in cost burdens was

Comment

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

"With the exception of pandemic lockdown periods, July saw US manufacturers report the toughest business conditions since 2009. A growth spurt in the spring has quickly gone into reverse, with new orders for factory goods down for a second straight month in July, leading to the first drop in production for two years and sharply reduced employment growth.

"The rising cost of living is the most commonly cited cause of lower sales, as well as the worsening economic outlook.

"Companies are also taking an increasingly cautious approach to purchasing and inventories amid the gloomier outlook, and likewise appear to be cutting back on investment, with new orders falling especially sharply for business equipment and machinery in July.

"Supply chain problems remain a major concern but have eased, taking some pressure off prices for a variety of inputs. This has fed through to the smallest rise in the price of goods leaving the factory gate seen for nearly one and a half years, the rate of inflation cooling sharply to add to signs that inflation has peaked."

PMI™ by S&P Global

attributed to greater transportation, fuel and raw material prices. That said, the pace of cost inflation softened to the slowest since March 2021 as some components reportedly fell in price.

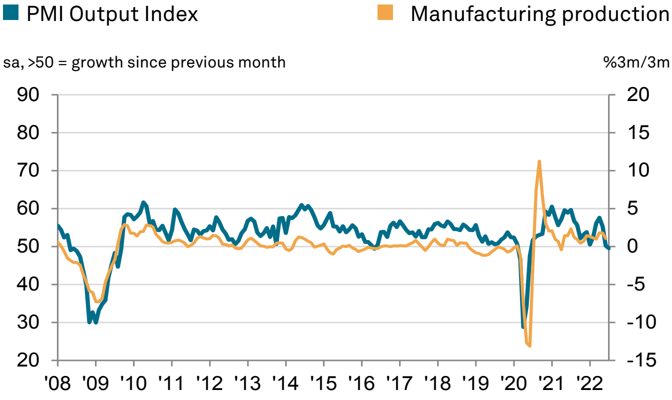
Firms continued to pass-through higher costs to clients, as output charges rose at an historically elevated pace. In line with the trend for input costs, however, the rate of inflation eased and was the softest since February 2021.

The decrease in new order inflows was accompanied by a weakening of payroll growth to the lowest for six months, albeit with some firms continuing to hire additional staff to fill long-held vacancies. Challenges finding suitable candidates hampered the overall pace of job creation, however.

Pressure on staff capacity was met by further reports of material shortages. Although lead times lengthened to the least marked extent since November 2020, supplier delays and material shortages remained substantial. As a result, firms recorded another monthly rise in backlogs of work.

Difficulties sourcing raw materials led firms to expand their input buying, following broadly unchanged levels of purchasing in June. Efforts to secure stock were reflected in a further rise in pre-production inventories, albeit only fractional. Stocks of finished goods were broadly unchanged on the month amid supplier and shipping delays, but also in part reflecting lower than expected sales to customers.

Finally, firms' expectations regarding the outlook for output over the coming 12 months remained at their lowest since October 2020 amid inflation and supply chain concerns, as well as a gloomier global economic outlook.



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.