News Release

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

Challenging demand conditions and inflation concerns weigh on US private sector in October

Key findings:

Flash US PMI Composite Output Index(1) at 47.3 (September: 49.5). 2-month low.

Flash US Services Business Activity Index(2) at 46.6 (September: 49.3). 2-month low.

Flash US Manufacturing Output Index(4) at 50.7 (September: 50.6). 5-month high.

Flash US Manufacturing PMI(3) at 49.9 (September: 52.0). 28-month low.

Data were collected 06-21 October

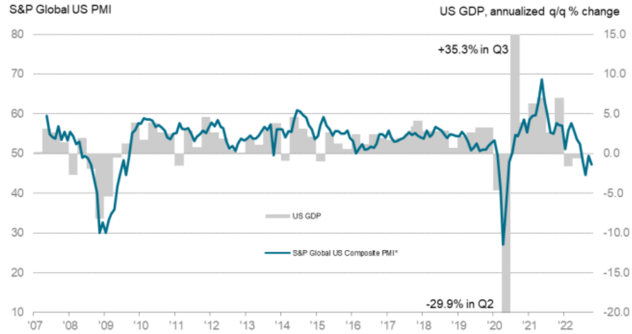
Private sector firms in the US recorded a further downturn in output at the start of the fourth quarter, according to latest 'flash' PMI™ data from S&P Global. The fall in business activity was solid and stronger than that seen in September, as service providers signalled a quicker decline. Manufacturers, on the other hand, saw output rise for the second month running, albeit only marginally.

The headline **Flash US PMI Composite Output Index** registered 47.3 in October, down from 49.5 in September. With the exception of the initial pandemic period, the rate of decrease was the second-fastest since 2009.

New orders returned to contraction territory in October. The decrease in new business was only marginal, but was broad based as manufacturers and service providers alike recorded weaker client demand. Goods producers drove the decline, with companies highlighting the impact of inflation and stockbuilding earlier in the year on customer demand, as clients utilised current holdings of inputs and semi-finished items. A reduction in foreign customer demand was also indicated as a strong dollar and challenging economic conditions in key export markets reportedly weighed on **new export orders**. New business from abroad fell sharply and at the quickest pace since May 2020.

On the price front, **input cost** inflation picked up at the start of the fourth quarter, following a four-month period of softer price rises. The increase in cost burdens remained historically elevated, despite being the second-slowest since January 2021. Interest rates, material shortages and greater wage bills were linked to the uptick.

S&P Global Flash US PMI Composite Output Index



*Manufacturing only pre-October 2009

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

In an effort to drive new sales and remain competitive, firms reportedly offered concessions to customers following the decrease in some costs such as transportation. The rate of **output charge** inflation eased to the softest since December 2020, but was still quicker than the long-run series average.

In line with weaker client demand, private sector firms scaled back their hiring activity, leaving **employment** broadly unchanged on the month. The seasonally adjusted Employment Index posted below the 50.0 neutral mark for the first time since June 2020, largely driven by a fall in service sector staffing numbers. Meanwhile, manufacturers registered a slower pace of job creation.

A reduction in pressure on capacity was reflected in a fall in **backlogs of work** across the private sector. The service sector indicated a renewed fall in the level of outstanding business. Manufacturers, meanwhile, saw work-in-hand contract for the first time in over two years. Lower new order inflows allowed firms to begin working through incomplete business.

Firms' optimism about the outlook meanwhile deteriorated markedly in October. The resulting degree of confidence was among the lowest in the survey history and the weakest for just over two years. Although hopeful of a boost to customer demand after inflation peaks, companies remain concerned regarding price pressures and the cost of living, as well as the worsening broader economic outlook amid interest rate hikes and weak customer sentiment.

PMI™ by S&P Global

S&P Global Flash US Services PMI™

The **S&P Global Flash US Services Business Activity Index** posted at 46.6 in October, down from 49.3 in September, to indicate a solid decline in service sector output. The latest data signalled an acceleration in the decline in business activity to the second-fastest fall in almost two-and-a-half years. Firms linked the decrease to weak client demand and the impact of inflation and higher interest rates.

At the same time, new business fell for the second time in the last three months, albeit only marginally overall. Weighing on total new sales was a drop in foreign client demand. New export orders declined at a solid pace due to inflationary pressure in key export markets.

The rate of input price inflation at service providers quickened in October. Although the second-slowest since the start of 2021, the latest uptick reversed the recent trend of easing price pressures. Companies partially passed on higher cost burdens to their customers, as the pace of charge inflation picked up slightly.

A return to decline in the level of outstanding business led to service sector firms reducing their workforce numbers during October. Companies noted the non-replacement of voluntary leavers, alongside some reports of lay-offs. The decrease in employment was the first since June 2020.

Meanwhile, service sector business confidence fell to the weakest level since September 2020, as higher operating costs and client hesitancy weighed on optimism.

S&P Global Flash US Manufacturing PMI™

The **S&P Global Flash US Manufacturing PMI** registered 49.9 at the start of the final quarter of 2022, down from 52.0 in September. The latest data signalled broadly unchanged operating conditions on the month.

Output across the manufacturing sector increased for the second month running in October, as firms noted easing supply chain pressures and the delivery of some key inputs. The rise in production was slight, but the quickest for five months. Vendor performance continued to deteriorate, but to the smallest extent since July 2020 as firms noted less marked extensions to input delivery times.

At the same time, new orders fell back into contraction territory following a marginal expansion in September. The decrease in client demand was solid and the sharpest since May 2020. Alongside domestic inflationary pressures, total new orders were dampened by challenging economic conditions in key export destinations and dollar strength, as new export orders fell steeply.

Cost inflationary pressures at manufacturers softened in October, with the pace of increase easing to the slowest in almost two years. Although still marked in the context of the series history, the rate of inflation reportedly eased following reductions in the price of some key materials including plastics and chemicals. Softer hikes in cost burdens were reflected in a slower rise in output charges. Manufacturers noted the weakest increase in selling prices since the end of 2020 in an effort to boost demand.

Weak demand and easing supply chain delays allowed firms to work through their backlogs during October. Work-in-hand fell solidly. Goods producers moderated the overall rate of job creation in response to the drop in order book backlogs, largely via the non-replacement of voluntary leavers.

Less marked delays in input deliveries in part reflected weaker demand for materials as firms scaled back purchasing and utilised their current inventories. Input buying fell steeply and at the fastest pace since May 2020.

Finally, output expectations regarding the year-ahead outlook at manufacturing firms slipped to the lowest in almost two-and-a-half years. Muted customer demand and inflation concerns reportedly dampened confidence.

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

"The US economic downturn gathered significant momentum in October, while confidence in the outlook also deteriorated sharply. The decline was led by a downward lurch in services activity, fuelled by the rising cost of living and tightening financial conditions. While output in manufacturing remains more resilient for now, October saw a steep drop in demand for goods, meaning current output is only being maintained by firms eating into backlogs of previously placed orders. Clearly this is unsustainable absent of a revival in demand, and it's no surprise to see firms cutting back sharply on their input buying to prepare for lower output in coming months.

"One upside of this drop in input buying has been a further alleviation of supply constraints, which alongside the stronger dollar have helped cool price pressures in the manufacturing sector.

"Although price pressures picked up slightly in the service sector due to high food, energy and staff costs, as well as rising borrowing costs, increased competitive forces meant average prices charged for services grew at only a fractionally faster rate. Combined with the easing of price pressures in the goods-producing sector, this adds to evidence that consumer price inflation should cool in coming months.

"The surveys therefore present a picture of the economy at increased risk of contracting in the fourth quarter at the same time that inflationary pressures remain stubbornly high. However, there are clearly signs that weakening demand is helping to moderate the overall rate of inflation, which should continue to fall in the coming months, especially if interest rates continue to rise."

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Contact

S&P Global Market Intelligence
Siân Jones
Senior Economist
S&P Global Market Intelligence
Telephone +44-1491-461-017
Email: sian.jones@spglobal.com

Katherine Smith
Corporate Communications
S&P Global Market Intelligence
Telephone +1 (781) 301-9311
Email katherine.smith@spglobal.com

Note to Editors

Final October data are published on 1 November for manufacturing and 3 November 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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