

MARKET SENSITIVE INFORMATION

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S&P Global Flash US Composite PMI™

Inflationary pressures weigh further on US private sector expansion

Key findings:

Flash US PMI Composite Output Index⁽¹⁾ at 53.8 (Apr: 56.0). 4-month low.

Flash US Services Business Activity Index⁽²⁾ at 53.5 (Apr: 55.6). 4-month low.

Flash US Manufacturing Output Index⁽⁴⁾ at 55.2 (Apr: 57.6). 3-month low.

Flash US Manufacturing PMI⁽³⁾ at 57.5 (Apr: 59.2). 3-month low.

Data were collected 12-23 May

Latest 'flash' PMI™ data from S&P Global indicated a slower expansion in business activity across the US private sector during May. Manufacturers and service providers signalled softer upturns in output amid elevated inflationary pressures, a further deterioration in supplier delivery times and weaker demand growth.

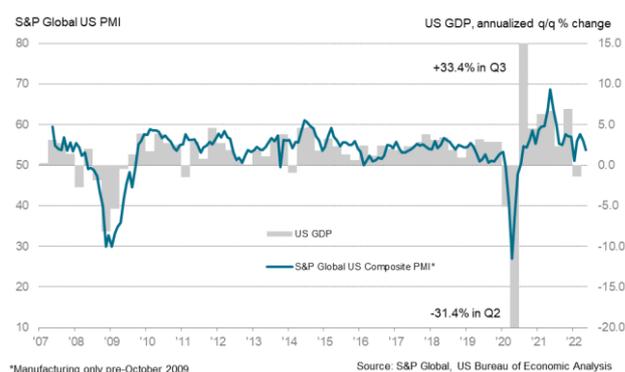
The headline **Flash US PMI Composite Output Index** registered 53.8 in May, down from 56.0 in April, to signal a weakened rate of expansion of output across private sector firms. The rate of growth was the softest for four months, with the index now below the series long-run average of 54.8.

At the same time, **new orders** across the private sector continued to increase during May, albeit at the softest pace since August 2020. The rise in new sales was driven by manufacturing firms who recorded a sharp uptick in client demand, despite the rate of growth softening again from March's recent high. Service providers, however, signalled the slowest upturn in new business for almost two years as hikes in selling prices weighed on demand conditions and the initial boost to demand from the reopening of the economy showed signs of fading.

Although solid overall and quicker than the series average, the rate of expansion in **new export orders** eased to a four-month low in May, easing for both goods and services.

Meanwhile, **input prices** soared higher again, with the pace of increase edging up to a new series high (since October 2009). Firms reported a substantial uptick in cost burdens, largely driven by a record-breaking rise in service sector input prices. The rate of cost inflation at manufacturers also accelerated and was among the fastest in the series history.

S&P Global Flash US PMI Composite Output Index



The surge in input prices was linked by companies to supplier-driven price hikes for a wide variety of goods and services as demand often continued to outstrip supply, as well as higher interest rates, wage bills, fuel costs and higher transportation fees.

Average prices levied for goods and services also rose markedly, albeit with the rate of inflation easing from April's series-record high as some companies reported challenges passing further surges in costs on to customers. The pace of increase was the second-fastest on record, however.

Concurrently, firms continued to raise employment levels midway through the second quarter, and at the fastest pace for 13 months. Manufacturers registered a steeper upturn in job creation, with service providers noting another sharp rise in workforce numbers just shy of April's one-year peak. Staffing numbers rose in line with reports of increased new order inflows and further pressure on capacity. Subsequently, the rate of growth in backlogs of work softened to a three-month low.

Business confidence across the private sector remained upbeat, with firms recording a stronger degree of optimism in the outlook for output over the coming year in May. Firms were buoyed by ongoing sales growth and investment in local supply chains which it is hoped will ease bottlenecks. However, although higher than April, the degree of positive sentiment was below levels seen earlier in the year amid concerns regarding inflation and customer spending patterns.

PMI™

by **S&P Global**

News Release

S&P Global Flash US Services PMI™

At 53.5 in May, down from 55.6 in April, the **S&P Global Flash US Services Business Activity Index** signalled a solid upturn in service sector output midway through the second quarter. That said, the rate of growth eased to the slowest for four months and was well below March's recent high. Although the rise was supported by increased client demand, the pace of expansion was reportedly weighed down by hikes in selling prices and concerns over higher interest rates.

Similarly, new business rose at a solid but softer pace in May. The rate of growth in new sales was the slowest since August 2020 and below the series average. New export business at service providers rose strongly, but at the slowest rate since the start of the year.

Service providers registered the fastest rise in input prices on record in May as cost burdens soared. Hikes in wage bills, interest rates, fuel costs and material prices were all noted as factors behind inflation. Although firms sought to pass higher input prices on to clients, the rate of charge inflation eased from April's record high and was the slowest for three months.

Despite being strong overall, pressure on capacity softened to the least marked for three months in May, as service providers raised their workforce numbers sharply. The rise in employment was the second-fastest in over a year as companies sought to fill long-held vacancies.

Meanwhile, optimism among service sector firms strengthened. Alongside hopes that staffing and material shortages will have eased over the coming year, firms also expressed confidence that any drop in client demand will prove transitory.

S&P Global Flash US Manufacturing PMI™

The **S&P Global Flash US Manufacturing PMI** posted 57.5 in May, down from 59.2 in April. The overall improvement in operating conditions across the manufacturing sector was sharp overall and stronger than the series trend. The headline figure was supported by strong and steep expansions in output and new orders respectively, alongside a faster upturn in employment and longer supplier lead-times.

Growth in production was driven by efforts to clear backlogs of work and process incoming new orders. That said, further reports of raw material shortages and delays in supplier delivery times dampened output growth and led to a quicker rise in work-in-hand. Vendor performance deteriorated markedly, but to the least severe extent since January 2021.

Despite a sharp increase in purchasing activity, material shortages resulted in a slower rise in stocks of purchases and a faster decline in post-production inventories as firms worked through current holdings in an effort to meet order requirements.

At the same time, inflationary pressures remained substantial, with input costs rising at the sharpest pace since November 2021. Inflation stemmed from hikes in key components and logistics including; transportation, metals, fuel and cardboard prices. Output charges rose at the third-steepest pace on record (since May 2007) as a result.

Meanwhile, greater new order inflows sparked the fastest increase in employment since July 2021. Many firms stated that greater staffing numbers were due to hiring to replace voluntary leavers, and the filling of long-held vacancies. Nonetheless, backlogs of work increased at a sharper pace as firms struggled to keep pace with rising demand.

Finally, manufacturers expressed a lower degree of optimism in the outlook for output over the coming year in May. Positive sentiment was the lowest for seven months as hopes of new client acquisitions and greater demand were dampened by inflationary fears.

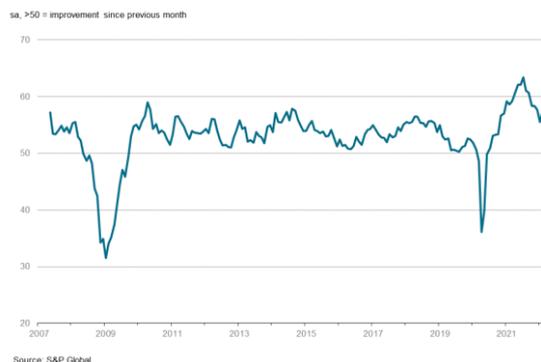
Commenting on the flash PMI data, **Chris Williamson**, Chief Business Economist at S&P Global Market Intelligence said:

"The early survey data for May indicate that the recent economic growth spurt has lost further momentum. Growth has slowed since peaking in March, most notably in the service sector, as pent up demand following the reopening of the economy after the Omicron wave shows signs of waning. Companies report that demand is coming under pressure from concerns over the cost of living, higher interest rates and a broader economic slowdown.

"Manufacturers in particular also report that capacity continues to be constrained by supply shortages, though these bottlenecks showed further encouraging signs of easing.

"Despite all of the headwinds facing businesses, the survey data remain indicative of the economy growing at an annualised rate of 2%, which is also supporting stronger payroll growth. However, cost pressures have risen to a new survey high which, alongside the encouraging output and employment numbers, will fuel further speculation about the need for further imminent aggressive rate hikes."

S&P Global Flash US Manufacturing PMI



News Release

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Note to Editors

Final May data are published on 1 June for manufacturing and 3 June 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 <i>PMI</i> ^P	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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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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