

MARKET SENSITIVE INFORMATION

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S&P Global Flash US Composite PMI™

US expansion loses momentum as service sector growth slows in July

Key findings:

Flash US PMI Composite Output Index⁽¹⁾ at 52.0 (June: 53.2). 5-month low.

Flash US Services Business Activity Index⁽²⁾ at 52.4 (June: 54.4). 5-month low.

Flash US Manufacturing Output Index⁽⁴⁾ at 50.2 (June: 46.9). 2-month high.

Flash US Manufacturing PMI⁽³⁾ at 49.0 (June: 46.3). 3-month high.

Data were collected 12-21 July 2023.

S&P Global Flash US PMI



Source: S&P Global PMI.
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Overview

US companies signalled a further rise in business activity during July, with the service sector continuing to drive growth. Nonetheless, the rate of expansion eased to the slowest for five months, as service providers registered a softer uptick in output and manufacturers reported broadly unchanged levels of production at the start of the third quarter.

New orders remained in expansion territory, albeit rising at a softer pace. A sustained rise in new export orders for services helped support the uptick as domestic demand lost some momentum, often due to higher interest rates.

On the price front, elevated cost pressures continued to be led by the service sector. However, manufacturers saw a renewed rise in input prices, and services firms reported a slower uptick in operating expenses.

Output and demand

At 52.0 in July, down from 53.2 in June, the headline S&P Global Flash US PMI Composite Output Index indicated a modest expansion in private sector business activity. The rate of growth eased to the slowest since February amid a softer uptick in service sector output.

Manufacturing firms saw production broadly unchanged on the month, following a contraction in June, supported by producers relying on backlogs of work and a shallower drop in new orders. Where companies registered a rise in output, this was linked to sustained demand and the acquisition of new customers. That said, constraints on client spending, including higher interest rates, reportedly dampened demand.

Total new orders rose further in July. The rate of expansion in slowed for the second month running, however, to the softest since April. Goods producers continued to see demand conditions deteriorate, thereby extending the current sequence of decline to three months. Service sector firms, meanwhile, recorded a weaker rise in new sales.

Similarly, manufacturers saw export demand conditions worsen in July. Service providers, however, recorded the fastest rise in new business from abroad since May 2022, signalling rising spending from foreign customers. Some firms noted that domestic interest was stymied by ongoing pressure on customers' disposable incomes.

Challenges in foreseeing future demand trends weighed on expectations for the outlook over the coming year, driving confidence to the lowest in 2023 to date. Relatively subdued optimism stemmed from the service sector, where predictions for business activity weakened. Manufacturers, however, expressed greater positive sentiment towards the outlook, as expectations reached the strongest since April 2022. Hopes of lower cost pressures, a greater ability to hire new workers, the Inflation Reduction Act and increased marketing investment spurred confidence.

Employment

US firms expanded their workforce numbers further at the

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start of the third quarter. The rate of job creation was only marginal, however, and the weakest since January. Manufacturers and service providers alike recorded growth in employment, with goods producers registering a stronger uptick in staffing numbers. Some manufacturing companies noted that the solid rise in payrolls was due to greater ease of hiring, with some also mentioning an improvement in employee retention and improved confidence in the outlook.

In contrast, services firms reported the slowest rise in employment for six months in July, continuing to highlight challenges retaining and attracting staff due to rising wage costs. Some firms also noted a lack of skilled candidates for open vacancies.

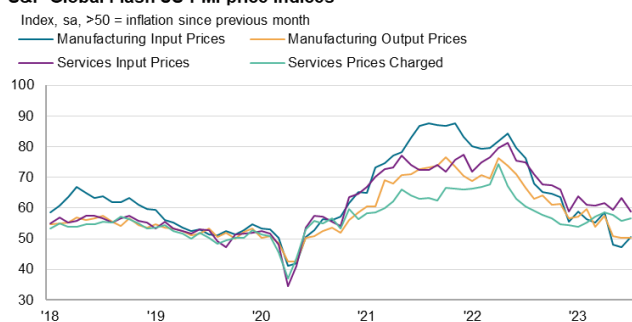
Backlogs of work were broadly unchanged during July, amid a divergence in pressure on capacity at the sector level. Manufacturers relied further on backlogs of work to support output, with work-in-hand dropping sharply again. Service providers, however, recorded a marginal rise in outstanding business, with the pace of growth little changed from that seen in June.

Prices

Following a resurgence in cost inflation during June, the rate of increase in total input prices softened in July to the slowest since October 2020, dropping in line with the long-run series average. Companies stated that higher input costs were due to greater raw material prices, including oil, and increased wage bills. Although manufacturers saw a renewed rise in costs, the rate of inflation was only slight. Service providers recorded an elevated pace of increase in operating expenses, with wage costs the main driver behind inflation amid greater challenges to retain staff.

The rate of output charge inflation meanwhile picked up in July. Firms sought to pass through higher costs and increased interest rate payments to customers, with the overall rise driven by service providers. The pace of increase at services firms was steeper than the long-run series average. Goods producers noted little change in selling prices, with the rate of inflation the joint-slowest in the current 38-month sequence of increase.

S&P Global Flash US PMI price indices



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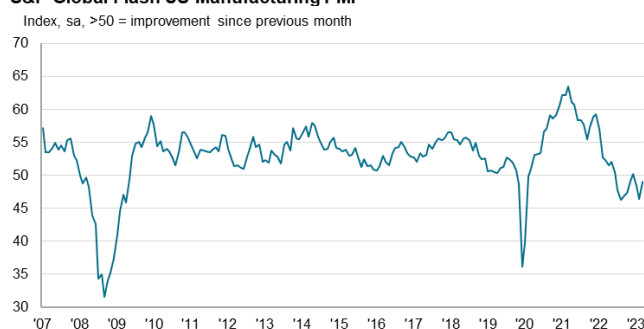
by **S&P Global**

Manufacturing PMI

The S&P Global Flash US Manufacturing PMI posted 49.0 in July, up from 46.3 in June, to signal the slowest deterioration in operating conditions in the current three-month sequence of decline. The softer downturn in the health of the sector was linked to broadly unchanged output levels and a smaller drop in new orders.

Despite a slower contraction in new sales, manufacturers registered further decreases in input buying and holdings of both pre- and post-production inventories in July. Rates of reduction were strong overall, as firms sought to trim stocks further and engage in cost-cutting efforts amid muted domestic and international demand conditions. Weak demand for inputs led to another decrease in supplier delivery times, as vendor performance improved solidly and to a greater extent than in June.

S&P Global Flash US Manufacturing PMI



Source: S&P Global PMI.
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Comment

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

“July is seeing an unwelcome combination of slower economic growth, weaker job creation, gloomier business confidence and sticky inflation.

“The overall rate of output growth, measured across manufacturing and services, is consistent with GDP expanding at an annualized quarterly rate of approximately 1.5% at the start of the third quarter. That’s down from a 2% pace signalled by the survey in the second quarter.

“However, growth is being entirely driven by the service sector, and in particular rising spend from international clients, which is helping offset a becalmed manufacturing sector and increasingly subdued demand from US households and businesses.

“Furthermore, business optimism about the year-ahead outlook has deteriorated sharply to the lowest seen so far

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this year. The darkening picture adds downside risks to output growth in the coming months which, alongside the slowing in the pace of expansion in July, will keep alive fear that the US economy may yet succumb to another downturn before the year is out.

“The stickiness of price pressures meanwhile remains a major concern. As the survey index of selling prices has acted as a reliable leading indicator of consumer price inflation, anticipating the easing to 3% in June, it sends a worrying signal that further falls in the rate of inflation below 3% may prove elusive in the near term.”

US PMI order book indicators



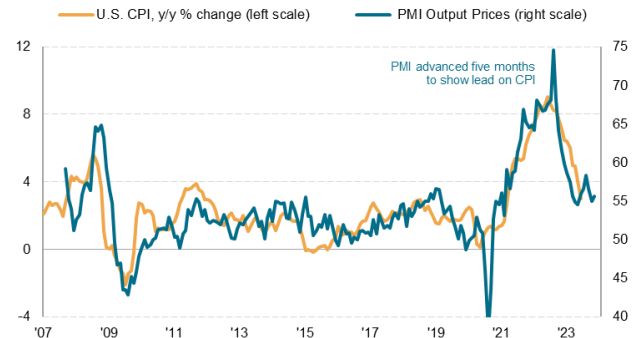
Data compiled July 24, 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month.
Source: S&P Global PMI.
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US PMI employment and future expected output



Data compiled July 24, 2023.
PMI (Purchasing Managers' Index) 50 = no change, covers manufacturing and services.
Source: S&P Global PMI.
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US inflation and the PMI output prices index



Data compiled July 24, 2023 using flash PMI data for July.
PMI covers manufacturing only prior to 2009 but manufacturing & services thereafter.
Source: S&P Global PMI, BEA via S&P Global Market Intelligence.
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Notes 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 <i>PMI</i> 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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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.

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