News Release

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S&P Global US Manufacturing PMI™

Sharper contraction of US manufacturing sector in August

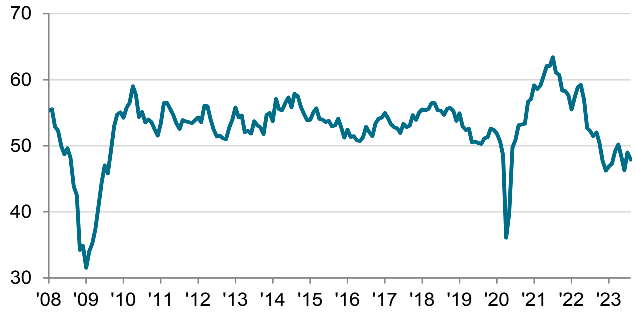
Key findings

Faster decline in new orders pulls output lower

Slowest rise in employment since January

Inflationary pressures remain modest despite ticking higher

US Manufacturing PMI
sa, >50 = growth since previous month



Source: S&P Global PMI.
Data were collected 10-25 August 2023.

Business conditions facing US manufacturers worsened further in August, according to the latest PMI™ survey data from S&P Global. A sharper fall in new orders led to a renewed contraction in output, while firms continued to deplete their backlogged work and stocks of finished goods. Output expectations were the weakest in 2023 so far, reflected in the slowest rise in employment in the sector since January. More positively, supply chains continued to improve and inflationary pressures remained modest despite ticking higher since July.

The headline S&P Global US Manufacturing PMI is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases, and has been compiled since May 2007.

The PMI fell to 47.9 in August, from 49.0 in July, indicating a stronger downturn in operating conditions at US goods producers. The manufacturing sector has contracted every month since November 2022 except for a brief stabilisation in April, and the latest PMI reading was in line with the average over this period. Four components of the headline figure had negative contributions in August (the exception being employment), and four had negative directional influences compared with July (the exception being suppliers' delivery times).

The overall deterioration in business conditions was driven by a further decline in new orders. Lower new orders were blamed on a weakening economy and customers being cautious in placing new contracts. The rate of decline accelerated since July to register the second-steepest reduction seen over the past six months. Demand for US-produced goods has fallen 13 times in the past 15 months. Moreover, new export orders contracted for the fifteenth month running.

Comment

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

"US manufacturers reported another tough month of trading in August. Output has fallen back into decline after a brief respite in July amid an increasingly steep deterioration in order books. Orders are in fact falling faster than factories are cutting output, suggesting firms will need to continue scaling back their production volumes into the near future.

"An increasing sense of gloom about the near-term outlook has meanwhile hit hiring and led to a further major pull-back in purchasing activity.

"The survey meanwhile adds to evidence that the deflationary impact of improving supply chains has peaked, with prices starting to rise at an increased rate again in August. However, falling demand is clearly continuing to dampen pricing power and is keeping overall inflationary pressures in the manufacturing sector very subdued.

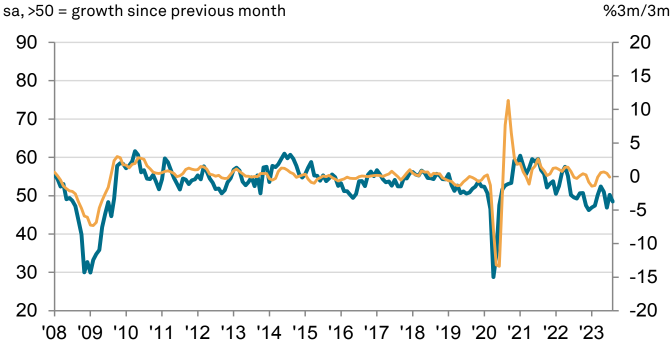
"Policy initiatives such as the CHIPS and Science Act and IRA should start to help buoy production in the medium term as capacity in US manufacturing is expanded. A shifting of the inventory cycle toward restocking should also be evident by the end of the year, given improvements in some survey metrics such as the orders-inventory ratio. However, such rays of hope remain currently overshadowed by business confidence turning lower, which indicates that producers anticipate some further near-term headwinds to any manufacturing revival."

The latest reduction in new orders led firms to further reduce their levels of work-in-hand with backlogs declining for the eleventh month running, the second-longest sequence in the survey history. The latest depletion was strong, but not enough to sustain overall growth of output alongside falling new orders. Production fell for the second time in three months, albeit modestly. Since mid-2022 the Output Index has averaged 49.1, with eight monthly contractions outweighing six expansions. Also weighing on output in the latest period was a fifth successive reduction in finished goods inventories as companies sought to further manage stock levels lower.

Output expectations eased notably since July with the Future Output Index posting one of the biggest falls since the pandemic, leaving confidence at the lowest level in 2023 so far. Nevertheless, manufacturers continued to raise employment to support expected growth of workloads. Jobs have risen every month since August 2020, although the latest increase was the slowest since January.

Purchasing activity continued to fall sharply in August, contributing to another improvement in suppliers' delivery times. Lead times have fallen for eight months in a row, the longest sequence in the survey history.

Weaker demand for inputs helped to contain cost pressures in August. Average input prices rose for the second month running, and at a slightly faster rate, but one that remained well below the long-run survey average. Anecdotal evidence highlighted oil, chemicals, plastics and fuel as being up in price. Higher costs continued to be passed on to customers, as output prices rose at the fastest pace in four months albeit a pace that remained modest overall.



Sources: S&P Global PMI, US Federal Reserve via S&P Global Market Intelligence.

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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.