

News Release

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S&P Global Electronics PMI™

Trends for electronics demand and production worsen in June

Key findings

Both output and new orders fall at quickest pace since January

Joint-slowest rise in employment in current 33-month sequence of growth

Input costs rise at slowest pace since May 2020

The S&P Global Electronics PMI™ is compiled from survey responses from purchasing managers in electronics manufacturing worldwide. The headline figure is the Purchasing Managers' Index™ (PMI), a weighted average of indices tracking new orders, output, employment, suppliers' delivery times and stocks of purchases. The PMI provides a single-figure snapshot of the underlying health of the electronics sector.

The headline seasonally adjusted PMI posted 47.6 in June, down slightly from 47.9 in May to signal a stronger contraction in the global electronics sector. The moderate deterioration was the strongest recorded for three years and mainly reflected sharper adverse sales developments.

Global electronics production was in contraction territory for the first time in three months during June. Although modest, the rate of decline was the quickest since January. Survey respondents frequently linked the deterioration to weak demand amid inflationary pressures and economic weakness. Three of the four monitored sub-sectors registered lower output in June, led by Consumer electronics. Only Computing saw an increase, and one that was the fastest since February.

New business placed with electronics manufacturers saw a further reduction in June, extending the current sequence to four months. The rate at which new orders fell was sharp, and the steepest recorded since the start of the year. Where lower orders were reported, weaker underlying demand conditions across the US, Europe and China were mentioned by panellists. There were sharp falls across the Consumer, Computing and Industrial sub-sectors, while Communications rose for the first time in four months.

Employment levels continued to rise at global electronics firms, extending the current sequence of workforce expansion to 33 months. According to panellists, increased hiring activity stemmed from the filling of existing vacancies following resignations. That said, the rate of job creation was only marginal and the joint-weakest in the aforementioned

S&P Global Electronics PMI

sa, >50 = improvement since previous month



Source: S&P Global PMI.

Comment

Commenting on the PMI data, Usamah Bhatti, Economist at S&P Global Market Intelligence, said:

"The global electronics sector ended the first half of 2023 on a weak footing, with the latest PMI indicating the strongest deterioration in operating conditions for three years in June. Both new orders and production fell at the strongest rates since January, with firms indicating that high inflation and weaker economic conditions — notably in the US, Europe and mainland China — dampened demand.

"The headline reading was also pushed down by a sustained and strong shortening in suppliers' delivery times. The improvement in vendor performance contributed to a considerably softer uptick in input prices that was the weakest since May 2020. Despite this, electronics manufacturers sought to protect their margins by raising output charges to a greater extent for the first time since the start of the year.

"There was also evidence of excess capacity among global electronics manufacturers, as backlogs continued to fall sharply. At the same time, firms increased employment levels at the joint-weakest pace in the current 33-month sequence of job creation. A renewed increase in new orders could pull the electronics sector out of the current malaise and prevent job shedding, particularly as wage pressures continue to add to cost burdens."

PMI™

by S&P Global

sequence of growth. Industrials posted the best trend for staffing levels, while there were reductions at Computing and Consumer electronics companies.

Average cost burdens at global electronics producers increased only modestly at the end of the second quarter. Where higher prices were reported, firms attributed this to greater raw material, energy and wage costs. That said, some panellists commented that favourable exchange rates and weak demand for inputs stymied price pressures.

At the sub-sector level, Computing recorded the sharpest increase in input prices, while Consumer electronics companies saw cost burdens broadly stabilise.

Contrasting with softer cost pressures, selling price inflation accelerated in June for the first time since the start of 2023. That said, the rate of increase was only modest and below most of those seen over the past two-and-a-half years. Firms often mentioned that they sought to pass higher expenses on to clients.

Only the Industrial sub-sector recorded a quicker upturn in prices charged in June, compared to a slowdown in Computing and falling prices in Consumers and Communications.

The level of work outstanding at global electronics manufacturers fell further at the end of the second quarter. Backlogs have now fallen in each of the latest 12 months, though the rate of depletion was the softest since March. Anecdotal evidence suggested that weak new order inflows had allowed firms to work through existing orders. All four monitored sub-sectors recorded contractions in backlogs in June.

Post-production inventories rose for the second successive month during June. The rate of accumulation was the strongest for ten months, albeit slight. The rise was often linked to unsold goods being placed into warehouses amid

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weaker demand. Growth in the Industrial and Consumer categories was only partially offset by declines in the Communication and Computing sectors.

Global electronics manufacturers reduced their input purchases for the eleventh consecutive month during June. The rate of contraction accelerated to the strongest for three years on the back of muted demand conditions. All four monitored sub-sectors saw a reduction in buying activity midway through 2023, led by Industrials.

Vendor performance in the global electronics manufacturing sector improved further in June. Average lead times shortened to the least extent since March, although one that was among the most marked in the survey history. The latest improvement was linked by survey participants to subdued input demand, which allowed suppliers to provide materials in a more timely manner.

Pre-production inventories rose in the latest survey period, marking the first expansion in three months. According to anecdotal evidence, advance orders placed when material shortages were widespread were received and stored. Stocks of purchases increased in the Industrial and Consumer segments, while softer declines were recorded in the Communication and Computing categories.

Survey methodology

The S&P Global Electronics PMI™ is compiled by S&P Global from responses to questionnaires sent to purchasing managers in electronics manufacturers worldwide. The sample is selected from S&P Global's PMI survey panels in Austria, China, Czech Republic, Germany, France, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, Poland, Russia, South Korea, Spain, Taiwan, UK and the USA.

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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