News Release

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S&P Global US Manufacturing PMI™

Manufacturing output continues to rise, but weak demand conditions dampen growth

Key findings

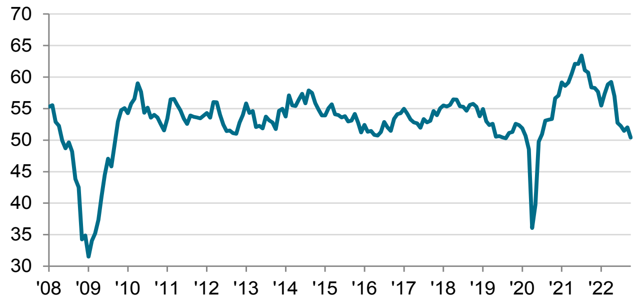
Easing supply chain issues support output growth...

...but new orders fall at sharpest rate since May 2020

Inflationary pressures soften further

US Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.
Data were collected 06-26 October 2022.

US manufacturing firms signalled only a slight improvement in operating conditions during October, according to latest PMI™ data from S&P Global. Despite a further expansion in production, firms recorded a renewed decline in new orders amid greater client hesitancy. Easing supply chain disruption led to the first decrease in backlogs of work since July 2020, and supported a further marginal gain in output. Nevertheless, weaker client demand and more subdued expectations for the year-ahead resulted in one of the slowest upticks in employment in over two years.

Meanwhile, rates of input price and output charge inflation softened again. There were reports that lower demand for inputs had dampened cost pressures, and efforts to stimulate sales had contributed to the softer rise in selling prices.

The seasonally adjusted S&P Global US Manufacturing *Purchasing Managers' Index™ (PMI™)* posted 50.4 in October, down from 52.0 in September, but up from the earlier released 'flash' estimate of 49.9. Nonetheless, the latest index reading indicated the least marked improvement in the health of the US manufacturing sector in the current 28-month sequence of growth.

Supporting the headline figure was a further rise in output in October. The increase was the second in successive months and reportedly stemmed from easing supplier bottlenecks, which allowed firms to work through backlogs. Although the fastest since May, the rate of production growth was only marginal and slower than the series trend.

Weighing on the upturn in output was a fresh decline in new orders at the start of the final quarter of 2022. Subdued demand conditions were linked by panellists to greater client hesitancy amid marked inflation. The decrease in new orders was solid overall and the quickest in almost two-and-a-half years. Alongside muted domestic demand, new export orders fell sharply as dollar strength and challenging

Comment

Siân Jones, Senior Economist at S&P Global Market Intelligence, said:

"October PMI data signalled a subdued start to the final quarter of 2022, as US manufacturers recorded a renewed and solid drop in new orders. Domestic and foreign demand weakened due to greater hesitancy among clients as prices rose further and amid dollar strength. As such, efforts to clear backlogs of work, rather than new order inflows, drove the latest upturn in production.

"Confidence in the outlook waned as underlying data also highlighted efforts to cut costs and adjust to more subdued demand conditions in the coming months. Input buying fell sharply and resilience in employment stumbled, as the pace of job creation eased to only a marginal rate.

"On a more positive note, input costs rose at the slowest pace in almost two years amid signs of reduced disruption in supply chains. Lower demand for inputs was a contributing factor to this, however. Nevertheless, softer hikes in costs were reflected in a slower uptick in output charges, as firms sought to pass on cost savings where possible to try and boost sales."

PMI™ by S&P Global

economic conditions across key export markets dampened foreign demand.

On the price front, average cost burdens continued to rise at a historically elevated rate in October. Hikes in material and transportation costs were often cited as factors driving inflation. That said, less marked disruption across supply chains and reduced demand for inputs led to the slowest uptick in input costs since November 2020.

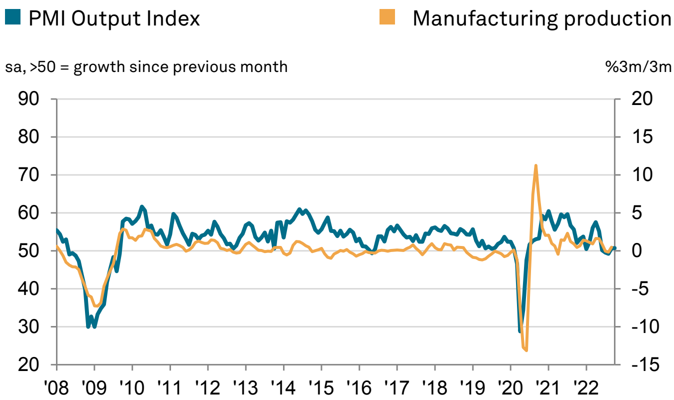
In an effort to drive sales, firms reportedly passed on cost savings to clients where possible, which resulted in the slowest rise in selling prices since February 2021.

Vendor performance continued to deteriorate in October, but to the least marked extent since August 2020 as supplier capacity improved in some cases. Nonetheless, weak client demand reduced manufacturer's requirements for inputs. As such, input buying fell sharply and at the quickest rate since May 2020.

Firms instead chose to work through their stocks of purchases and finished goods to supplement production and sales, with both pre- and post-production inventories contracting.

At the same time, the delivery of delayed materials allowed firms to reduce their backlogs of work for the first time since July 2020. The fall in the level of work-in-hand (but not yet completed) was solid overall. Cost-cutting measures, uncertainty regarding future demand, and lower production requirements led to only a modest rise in employment. Firms noted that the non-replacement of voluntary leavers weighed on job creation.

Finally, output expectations for the coming 12 months weakened in October. Although still generally upbeat, the degree of confidence was the lowest since May 2020 as firms expressed concerns regarding inflation and overall demand conditions.



Sources: S&P Global, US Federal Reserve.

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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.

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. ihsmarkit.com/products/pmi.html.