

MARKET SENSITIVE INFORMATION

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S&P Global Flash US Composite PMI™

Further loss of service sector momentum weighs on overall US economic performance

Key findings:

Flash US PMI Composite Output Index⁽¹⁾ at 50.1 (August: 50.2). 7-month low.

Flash US Services Business Activity Index⁽²⁾ at 50.2 (August: 50.5). 8-month low.

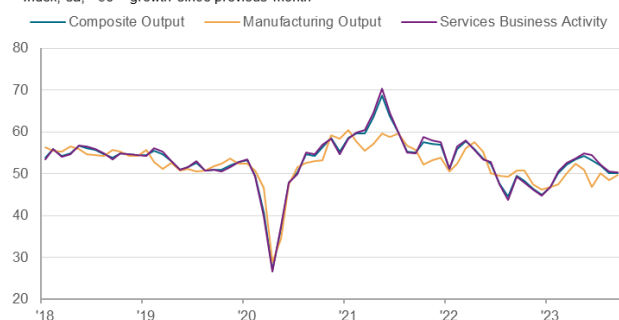
Flash US Manufacturing Output Index⁽⁴⁾ at 49.7 (August: 48.5). 2-month high.

Flash US Manufacturing PMI⁽³⁾ at 48.9 (August: 47.9). 2-month high.

Data were collected 12-21 September 2023.

S&P Global Flash US PMI

Index, sa, >50 = growth since previous month



Source: S&P Global PMI.
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Overview

US businesses signalled a broad stagnation in output at the end of the third quarter as manufacturers and service providers alike indicated muted demand conditions. September data indicated the worst performance across the private sector since February, as the service economy lost further momentum.

New orders fell at the strongest pace this year so far as demand for services slipped further into contractionary territory. Manufacturers also saw a drop in new sales, albeit at a slightly softer pace.

Cost pressures ticked higher again, as input prices rose at a marked pace. Nonetheless, the rate of cost inflation was much softer than those seen on average throughout the last three years. Firms continued to pass through

higher costs to clients, but weak client interest stymied their ability to hike selling prices as the pace of increase matched that seen in August.

Output and demand

The headline S&P Global Flash US PMI Composite Output Index posted 50.1 in September, down fractionally from 50.2 in August, to signal a broad stagnation in activity across the private sector. The headline index reading fell for the fourth successive month and indicated the weakest overall performance since February.

Although manufacturing firms continued to register a decline in production, the pace of decrease softened from August and was only slight overall. Driving the slowdown was the service sector, where firms recorded the slowest rise in business activity in the current eight-month sequence of growth. Companies often noted that high interest rates and inflationary pressure led to weak client demand which weighed on overall output. Some also mentioned cancellations of customer orders as market conditions worsened.

Subsequently, the subdued demand environment sparked a faster decline in new business in September. The rate of contraction was the sharpest since December 2022, with service providers leading the downturn. Service sector firms saw a solid decrease in new business, following pressure on customer purchasing power from high inflation and interest rate hikes. Manufacturers recorded a further drop in new orders, albeit the slowest in the current five-month sequence of decline.

At the same time, a renewed fall in service sector new export orders led to another marginal decrease in total foreign client demand. Higher prices charged for exported goods and recession concerns in key export markets in Europe reportedly dragged on external demand.

Business confidence across the US private sector dipped to a nine-month low at the end of the third quarter. Despite still expecting output to increase over the coming 12 months, the degree of optimism was weaker than the series average as strikes, inflation, higher borrowing

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costs and muted demand conditions dampened expectations. Manufacturers expressed greater positive sentiment amid improving supply chains and increased investment in marketing. However, service providers were at their least optimistic in 2023 so far as strain on disposable incomes worsened.

Employment

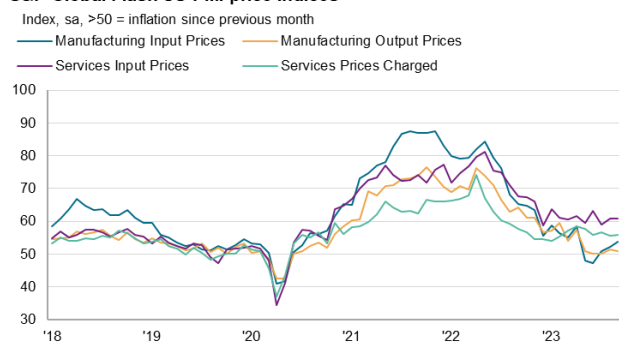
Despite a muted sales environment, US businesses registered greater hiring activity during September. The rate of job creation quickened to the fastest since May and was solid overall. In fact, the pace of employment growth was among the most elevated seen in the past year amid some reports that staff retention was improving. Companies also noted that vacancies were filled with greater ease than had been seen in recent months.

The pace of increase in staffing numbers accelerated at both manufacturing and services firms, with the latter signalling a notable uptick in hiring. Anecdotal evidence highlighted a greater ability to find suitable candidates for roles.

Pressure on capacity continued to wane as backlogs of work were depleted at a steep pace. The rate of decline gained further momentum, with outstanding business falling at the sharpest rate since May 2020. Efforts to sustain output through work on incomplete orders led to a substantial decrease in backlogs, as firms noted that lower new order inflows led to increased spare capacity.

Prices

S&P Global Flash US PMI price indices



Source: S&P Global PMI.
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Hikes in wage bills, borrowing costs and material prices, with many panellists mentioning greater fuel expenses, drove up cost inflation in September. The overall rate of input price inflation quickened to the sharpest since June. The faster uptick was led by manufacturing firms where the pace of increase accelerated to the steepest since April as higher oil prices pushed up chemicals, plastics and transportation costs.

Meanwhile, firms found it challenging to pass through the full extent of higher cost burdens to clients amid soft

demand conditions and reduced purchasing power among customers. The rate of charge inflation was historically elevated but matched that seen in August and was among the slowest in three years. Manufacturers saw only a marginal rise in output prices as they sought to pass on any cost savings to clients in a bid to remain competitive.

Manufacturing PMI

The S&P Global Flash US Manufacturing PMI posted at 48.9 at the end of the third quarter, up slightly from 47.9 in August, to signal a further deterioration in performance across the sector. The overall decline slowed, however, and was only marginal as contractions in output and new orders softened.

Sufficient stocks of inputs and finished items, alongside still subdued demand, led firms to reduce their purchasing activity sharply again in September. Firms continued to work through inventories in lieu of expanding their input buying, which contributed to a further improvement in supplier performance. The fall in input purchasing was the slowest since April, however, with pre-production inventories also decreasing at the softest pace in five months. At the same time, a reduced need to hold stock of finished goods led to the second-fastest drop in post-production inventories since November 2021.

S&P Global Flash US Manufacturing PMI



Source: S&P Global PMI.
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Comment

Commenting on the data, Siân Jones, Principal Economist at S&P Global Market Intelligence said:

“PMI data for September added to concerns regarding the trajectory of demand conditions in the US economy following interest rate hikes and elevated inflation. Although the overall Output Index remained above the 50.0 mark, it was only fractionally so, with a broad stagnation in total activity signalled for the second month running. The service sector lost further momentum, with the contraction in new orders gaining speed.

“Subdued demand did not translate into overall job losses

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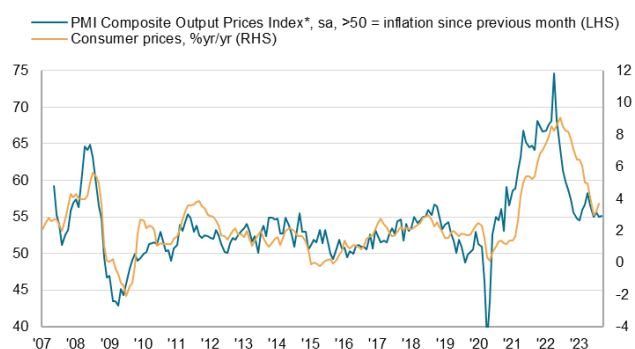
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in September as a greater ability to find and retain employees led to a quicker rise in employment growth. That said, the boost to hiring from rising candidate availability may not be sustained amid evidence of burgeoning spare capacity and dwindling backlogs which have previously supported workloads.

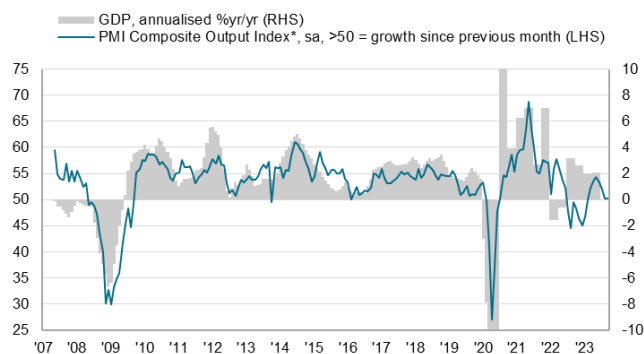
“Inflationary pressures remained marked, as costs rose at a faster pace again. Higher fuel costs following recent increases in oil prices, alongside greater wage bills, pushed operating expenses up. Weak demand nonetheless placed a barrier to firms’ ability to pass on greater costs to clients, with prices charged inflation unchanged on the month.”

S&P Global Flash US PMI vs inflation



Sources: S&P Global PMI, Bureau of Economic Analysis via S&P Global Market Intelligence.
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S&P Global Flash US PMI vs gross domestic product (GDP)



Sources: S&P Global PMI, Bureau of Economic Analysis via S&P Global Market Intelligence.
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Notes to editors

Final September data are published on 2 October for manufacturing and 4 October 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> ²	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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