News Release

Embargoed until 0945 EDT (1345 UTC) 1 August 2023

S&P Global US Manufacturing PMI™

Decline in manufacturing performance softens in July

Key findings

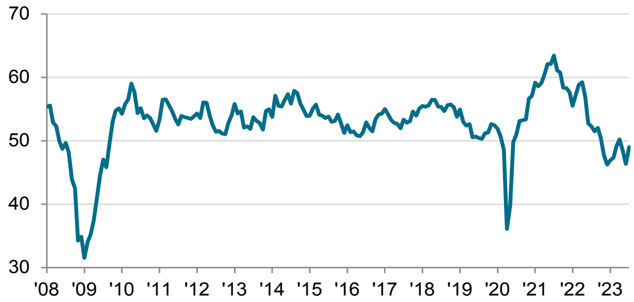
Output little-changed as contraction in new orders eases

Renewed rise in input costs

Employment growth quickens amid stronger optimism

US Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global PMI.
Data were collected 12-26 July 2023.

US manufacturers signalled a further decline in the health of the sector during July, according to the latest PMI™ survey from S&P Global. The downturn stemmed from another monthly contraction in new orders, as domestic and external demand conditions remained muted. A challenging sales environment led firms to scale back their input buying, causing inventory holdings to be depleted strongly. Despite a sharp fall in backlogs of work as new orders dropped, companies expanded employment at a faster rate amid greater confidence in the outlook for output.

Meanwhile, firms reported a renewed rise in raw material costs, albeit only marginal overall. Selling prices, however, were broadly stable for a second month running as manufacturers sought to remain competitive and drive sales.

The seasonally adjusted S&P Global US Manufacturing Purchasing Managers' Index™ (PMI™) posted 49.0 in July, up from 46.3 in June, to signal a further but slower downturn in operating conditions at US goods producers. The deterioration was the third in as many months, albeit the weakest in this period of decline.

Driving the downturn was a further fall in new order inflows at manufacturers in July. Firms reported that the dearth in new sales stemmed from client hesitancy and reduced impetus to spend among customers amid difficult demand conditions. The rate of decline softened, however, to the slowest in the current three-month sequence of contraction.

Alongside evidence of subdued domestic demand, new export orders fell for the fourteenth month running. Challenging economic conditions across key export markets, especially in Europe, were often linked by panellists to the decrease.

Output levels were broadly unchanged in July, however, following a solid contraction in June. Although firms noted that weak demand weighed on production, others stated that working through backlogs helped support increases in

Comment

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

"Manufacturing continues to act as a drag on the US economy, the recent spell of malaise persisting at the start of the third quarter. However, producers are clearly shrugging off recession fears and planning for better times ahead.

"The sector continued to suffer from lower demand, as a post-pandemic shift in spending from goods to services, and an ongoing trend of cost-focused inventory reduction, led to a further drop in orders. The overall rate of order book decline nevertheless moderated during the month, helped by a slower decline in exports, to help stabilize production.

"There were several other encouraging bright spots in the survey, most notably including a marked improvement in business expectations for output in the year ahead. Firms are therefore anticipating the current soft patch to soon pass, and importantly are hiring more staff as a result.

"There was also good news on the inflation front. The combination of weak demand and improved supply led to a further "buyers' market" for many goods. Prices charged for goods consequently barely rose for a third straight month, which should help subdue consumer price inflation in the near term."

output, in turn aided by improved supply conditions.

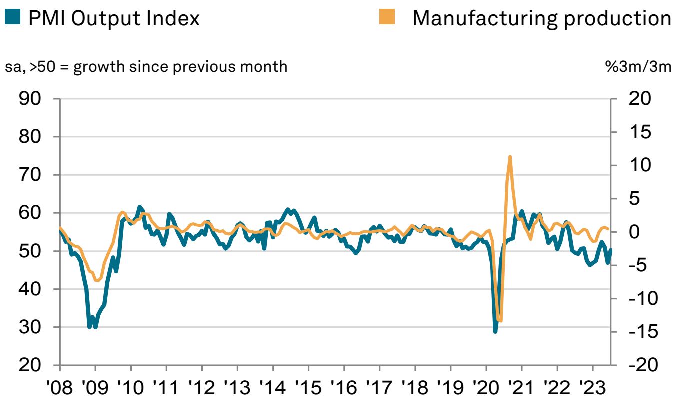
At the same time, input prices faced by manufacturers increased for the first time in three months. The rate of input cost inflation was only marginal and much slower than the rises seen over the last three years, but companies attributed the rise to greater supplier charges. Some suggested that vendors were passing on higher wage bills to clients.

In an effort to remain competitive, firms left their selling prices broadly unchanged during July. Although some sought to pass on higher costs to customers, inflation was dampened by those offering discounts to boost new orders.

Despite a sharp fall in backlogs of work and reduced new order inflows, firms reported a stronger rise in employment at the start of the third quarter. Staffing numbers increased at a solid pace that was among the fastest in a year. Manufacturers mentioned that challenges finding suitable workers encouraged staff retention, with some firms continuing to fill long-held vacancies.

In some instances, job creation stemmed from projections of greater client demand over the coming months. Business optimism strengthened in July, with the degree of confidence reaching the highest since May 2022. Upbeat expectations were also supported by planned investment in expanding capacity, and spending on marketing to bring in new customers.

Goods producers continued to run down their stock levels, as weak demand and a further solid improvement in lead times led to greater material availability. Subsequently, a sharp contraction in input buying was recorded as firms reined in spending in line with lower new orders.



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.

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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.