

News Release

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S&P Global Electronics PMI™

Sustained deterioration in health of global electronics manufacturing sector

Key findings

Output falls at fastest pace in just over three years

Steepest fall in backlogs since May 2020

Cost pressures accelerate for the first time in ten months

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 was unchanged at 47.6 in July, signalling a deterioration in operating conditions across the global electronics manufacturing sector for the fifth consecutive month. A solid decline in order book volumes contributed to the sharpest fall in output since June 2020. While demand conditions were muted, firms took the opportunity to clear outstanding work, as backlogs of work fell by the greatest extent since May 2020. At the same time, electronics goods producers signalled an acceleration in input price pressures for the first time since last September, with the latest round of input price inflation the strongest for three months.

Global electronics manufacturers recorded a sustained contraction in output at the start of the third quarter of the year. The downturn was sharp, and the strongest recorded since June 2020. Panel members suggested the second successive reduction was reflective of subdued global demand conditions, lower orders and weak production capacity.

Consumer and Industrial electronics manufacturers led the downturn, and both reported the strongest reductions since June 2020.

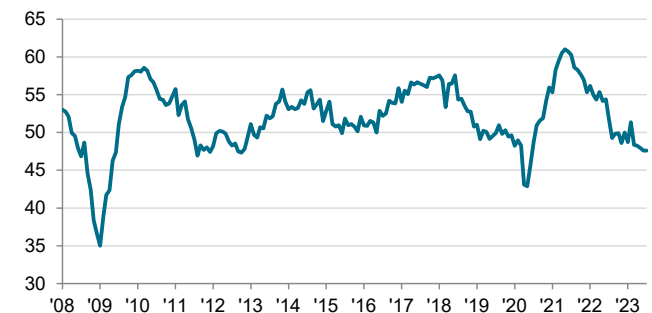
New orders placed with global electronics producers fell for the fifth month in a row during July. The reduction was solid overall and often attributed to weak demand conditions in the US, Europe and China due to general economic weakness and market uncertainty.

On a sector level, all four monitored subsectors registered declines in incoming new business, led by Consumer electronics.

As has been the case for the past 34 months, global electronics firms increased their staffing levels in July. The expansion was

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 headline PMI remained in contraction territory at the start of the second half of 2023, to signal subdued operating conditions in the global electronics sector. Weak global demand remained a running theme throughout the survey data and was reportedly a driving factor behind downturns in output, new orders and purchasing activity during July. Some firms used the opportunity provided by lower intakes of new work to build inventories, but the marked rate of backlog depletion coupled with the quicker fall in output suggests that demand conditions are likely to remain muted in the coming months.

"Companies also suggested that price pressures were flaring up once again, as average cost burdens accelerated for the first time since September 2022 to reach a three-month high. This in turn contributed to the strongest increase in selling prices since March, as firms looked to pass on higher costs to clients."

PMI™

by S&P Global

only marginal however, and the joint-softest in the current sequence. Where an increase was reported, companies often cited that additional staff were taken on to prepare for an eventual rebound in demand, though other firms mentioned that workforces were reduced in response to lower production requirements.

The seasonally adjusted Backlogs of Work Index remained below the neutral 50.0 level, thereby signalling a thirteenth consecutive depletion in outstanding business. The latest reduction was the strongest since May 2020 and linked to weaker new order inflows. All four monitored categories posted lower volumes of unfinished business, with Industrials manufacturers noting the sharpest depletion for over three years.

There was a sustained expansion in holdings of finished goods at global electronics companies in July, the third in as many months. Anecdotal evidence suggested that firms were holding stocks to allow for timely deliveries when demand recovers, although some firms noted that weak orders and production led to instances of stocks being wound down. Subsector trends were mixed as there were sustained rises at Communications and Industrials firms. Concurrently, Consumer goods producers saw the sharpest reduction since June 2021, while there was a further fall in Computing.

In response to muted demand, global electronics manufacturers trimmed buying levels in July. The contraction was sharp overall and extended the current sequence of decline to a year. The downturn was led by steep decreases in input buying at Communications and Industrials firms, alongside further moderate falls among Consumer and Computing manufacturers.

For the fifth month in a row, average vendor performance improved during July. While the respective index signalled the least marked shortening of lead times in the sequence, the improvement was still historically strong overall. Firms often mentioned that subdued demand conditions had eased pressure on suppliers and allowed supply chains the opportunity to recover. Three of the four monitored subsectors

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recorded shorter lead times, with only Consumer electronics seeing a slight lengthening in July.

Global electronics firms noted a renewed decrease in stocks of purchases in July. Inventories have now fallen in three of the last four months, though the latest depletion was only marginal. Subsector data revealed diverging trends for input holdings. Both Consumer and Computing saw a depletion, while Industrial and Communication electronics registered expansions.

As has been the case since April 2016, input prices across the global electronics sector increased in July. The rate of inflation accelerated for the first time since September 2022 and was the strongest for three months. Companies continued to cite high raw material, energy and staff costs as factors behind rising cost burdens. All four monitored categories registered a quicker increase in average cost burdens in July, led by Computing.

Global electronics manufacturers signalled an increase in their selling prices in July, extending the current run of inflation to three years. The rate of inflation picked up for the second month running to reach the highest since March. Anecdotal evidence suggested that firms aimed to protect profits by partially passing higher costs on to clients. Computing and Industrial goods producers signalled broadly unchanged rates of inflation in July, while Consumer and Communications manufacturers signalled softer reductions in selling prices.

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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