

News Release

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S&P Global US Manufacturing PMI™

Renewed decline in manufacturing sector conditions as weak demand drags on performance

Key findings

New orders fall at solid pace...

...but output supported by further decline in backlogs of work

Input costs drop for the first time in three years

US goods producers registered a renewed decline in the health of the manufacturing sector during May, according to the latest PMI™ survey from S&P Global. The deterioration was only marginal, but was driven by a solid contraction in new orders amid muted demand conditions. Output and employment continued to increase, however, as firms expanded their capacity to fulfil existing backlogs of work amid improved supply conditions. Efforts to run down stocks were met by a steeper contraction in purchasing activity, hinting at lower production growth in coming months. Sharply falling demand for inputs contributed to an unprecedented improvement in vendor performance.

On the price front, input costs at manufacturers fell for the first time since May 2020. The decrease in costs contributed to the slowest rise in selling prices for almost three years as firms also sought to become more competitive and boost new sales.

The seasonally adjusted S&P Global US Manufacturing Purchasing Managers' Index™ (PMI™) posted 48.4 in May, down from 50.2 in April, but broadly in line with the earlier released 'flash' estimate of 48.5. The latest figure indicated the fastest deterioration in operating conditions since February.

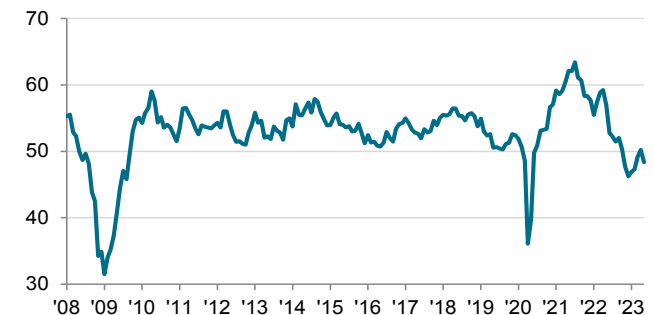
Contributing to the latest overall decline was a renewed and solid fall in new orders at manufacturing firms in May. The decrease was the sharpest in three months. Lower new sales were often attributed to sufficient inventory levels at customers and previous hikes in selling prices which served to dampen demand conditions.

Foreign client demand also weakened midway through the second quarter, as new export orders fell at a sharp pace that was the quickest in three years.

Nonetheless, output at manufacturers continued to increase, thereby extending the current sequence of expansion to three months. The rate of growth slowed to only a marginal

US Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-25 May 2023.

Comment

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

"May saw a renewed deterioration of business conditions in the US manufacturing economy which will add to concerns about broader economic health and recession risks."

"Although a record improvement in supplier delivery performance helped manufacturers fulfil back orders in May, generating a third successive monthly rise in output, the overall rate of production growth remained disappointingly meagre thanks to a further drop in new order inflows."

"Unless demand picks up, production growth will move into decline seen as it is clearly unsustainable to rely solely on backlogs of orders, which are now being depleted at the fastest rate for three years. Hence companies are cutting back sharply on their input buying and seeking to minimise inventory, tightening their belts for tough times ahead."

"All of this is of course disinflationary, with manufacturers and their supply chains having seen pricing power shift rapidly from the seller to the buyer over the course of the past year, resulting in a dramatic cooling of industrial price pressures."

"We are likely to see further downward pressure on both output and prices for goods in the coming months, thanks to the demand environment which has been hit by higher interest rates, the increased cost of living, economic uncertainty and a post-pandemic shift in spend from goods to services."

"The one area of resilience is the labour market, as firms continued to take on more staff to fill long-empty vacancies, though we should bear in mind that employment is typically a lagging indicator. It does nevertheless point to some upward pressure on wages."

PMI™

by S&P Global

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pace, however, as firms linked the rise to greater hiring and the timely delivery of inputs.

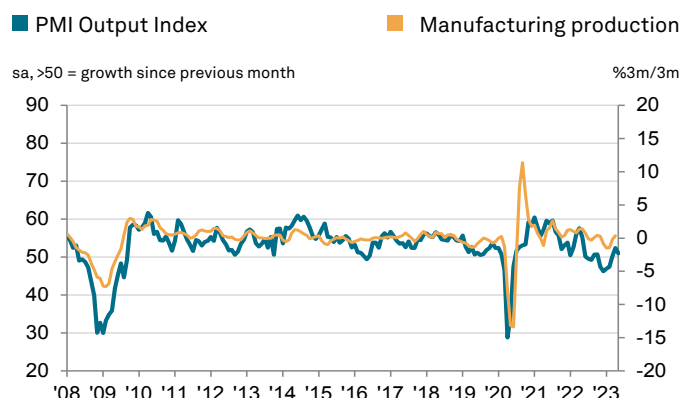
Manufacturers noted that the greater availability of candidates for existing vacancies helped boost workforce numbers in May. Employment grew at a solid pace that was among the fastest in two years. The diversion of resources towards the clearing of backlogs of work amid lower new order inflows led to the steepest fall in outstanding work for three years.

Meanwhile, input prices decreased at a modest pace midway through the second quarter, with firms recording a notable turnaround from the sharp uptick in costs seen in April. Shorter lead times for inputs and subdued input demand led to suppliers reducing their costs, according to panellists.

In response to lower operating expenses, goods producers moderated the pace at which output charges rose. Selling prices increased at only a marginal rate that was the slowest since July 2020. Firms attributed the softer pace of inflation to efforts to remain competitive and drive sales, alongside some reports of the pass-through of lower costs to clients.

May data signalled further efforts among manufacturing firms to reduce their inventory holdings as new orders moved into contraction territory. Stocks of both purchases and finished goods fell at the fastest rates for three months. At the same time, input buying was cut for the tenth successive month, and at the sharpest rate since February.

US manufacturers recorded further confidence in the outlook for output over the coming 12 months in May. Expectations of greater future output were linked to planned investment in new products and marketing, as well as hopes of a boost to new orders from an expansion in client bases. The degree of optimism was solid overall, albeit slightly below the series long-run trend.



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.

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