News Release

MARKET SENSITIVE INFORMATION
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S&P Global Flash US Composite PMI™

Faster fall in US private sector output amid weak client demand

Key findings:

Flash US PMI Composite Output Index(1) at 45.0 (July: 47.7). 27-month low.

Flash US Services Business Activity Index(2) at 44.1 (July: 47.3). 27-month low.

Flash US Manufacturing Output Index(4) at 49.3 (July: 49.5). 26-month low.

Flash US Manufacturing PMI(3) at 51.3 (July: 52.2). 25-month low.

Data were collected 05-22 August

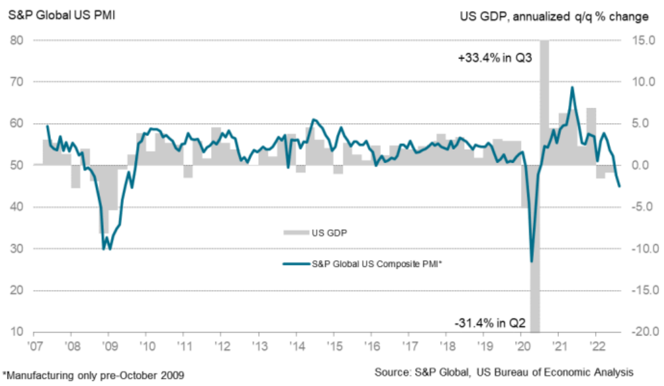
US private sector firms signalled a sharper fall in business activity during August, according to latest 'flash' PMI™ data from S&P Global. The decrease in output was the fastest seen since May 2020 and solid overall. The rate of contraction also outpaced anything recorded outside of the initial pandemic outbreak since the series began nearly 13-years ago.

The headline **Flash US PMI Composite Output Index** registered 45.0 in August, down from 47.7 in July, and indicated a second successive monthly decrease in total business activity. The reduction in output was broad-based, with manufacturers and service providers registering lower activity. Service sector firms recorded the steeper rate of decline, as activity fell sharply, while goods producers saw a modest drop in output.

Material shortages, delivery delays, hikes in interest rates and strong inflationary pressures all served to dampen customer demand, according to panellists. August data signalled a renewed contraction in overall sales as manufacturers and service providers struggled with subdued demand conditions. Though modest, the drop in **new orders** was the sharpest in over two years. New sales were weighed down by weak domestic and foreign client demand, as **new export orders** fell further and at a solid pace.

The rate of **input cost** inflation eased for the third month running midway through the third quarter, with input prices rising at the slowest pace for a year-and-a-half. That said, the pace of increase in operating expenses remained historically marked, with firms linking hikes in cost burdens to increased interest rates, and higher prices for a range of raw materials and transportation. Some companies also stated that increases in wages to attract and retain workers had placed additional pressure on expenses.

S&P Global Flash US PMI Composite Output Index



In line with the trend for cost burdens, firms increased their **selling prices** at the softest pace in 18 months in August. The softer rise in output charges was linked to efforts to pass through any concessions to customers to encourage the placement of orders. That said, the rate of inflation was marked overall and faster than in any period before March 2021.

Weak client demand and lower new orders led firms to scale back their hiring efforts, as **employment** rose at the slowest pace in 2022 to date. Although some companies continued to note challenges finding suitable replacements for voluntary leavers, a growing number of firms stated that uncertainty and rising costs led them to delay the immediate replacement of staff.

A reduction in pressure on capacity was also evident in a third successive monthly decline in private sector **backlogs of work**. The fall in the level of outstanding business was the fastest in over two years and solid overall. Softer demand conditions allowed firms to successfully complete work-in-hand.

Despite weak client demand, private sector firms were more upbeat regarding the outlook for output over the coming 12 months in August. Manufacturers and service providers recorded greater **optimism**, as the level of total positive sentiment reached the highest for three months. Confidence stemmed from hopes of greater client demand and the acquisition of new customers through advertising and marketing campaigns. That said, the degree of optimism was below the series trend as firms anticipate a challenging few months ahead.

PMI™ by S&P Global

S&P Global Flash US Services PMI™

The **S&P Global Flash US Services Business Activity Index** posted at 44.1 in August, down from 47.3 in July, to indicate a further reduction in overall services activity. The decrease in business activity was sharp overall and the fastest since May 2020. Service providers noted that hikes in interest rates and inflation dampened customer spending as disposable incomes were squeezed.

Driving the fall in output was a renewed decline in new business. New orders contracted at the steepest pace for over two years, as companies highlighted greater client hesitancy in placing new work. At the same time, new business from abroad decreased at the second-fastest rate since December 2020.

In line with a sharper fall in backlogs of work, service sector firms recorded a slower rise in employment during August. The level of outstanding business decreased at the quickest rate since May 2020, with reduced pressure on capacity resulting in the softest expansion in service sector workforce numbers in 2022 so far.

Meanwhile, input costs continued to rise markedly. Although the rate of input price inflation eased to the slowest for seven months, firms noted that wage pressures, transportation surcharges and greater supplier costs had pushed up business expenses.

In an effort to encourage new sales, output charges rose at the softest pace in 17 months. Despite being robust in the context of the series history, firms stated that greater competition had led to the moderation in selling price inflation.

Hopes of an uptick in new business drove the degree of optimism regarding the outlook for output over the coming year to the highest for three months. The impact of tighter monetary policy on customer demand continued to weigh on overall expectations, however.

S&P Global Flash US Manufacturing PMI™

At 51.3 in August, down from 52.2 in July, the **S&P Global Flash US Manufacturing PMI** continued to signal subdued operating conditions across the manufacturing sector. The headline reading fell to its lowest level in just over two years, amid muted demand conditions and production cutbacks.

Output contracted for the second successive month in August. Though marginal, the rate of decline was the sharpest recorded since June 2020. Ongoing supply chain issues, paired with weak client demand, led to the drop in output. Higher input prices also served to dampen customer demand, as some firms stated that clients were monitoring inventories and essential spending more closely. New export orders fell solidly as inflationary pressures in key export markets weighed on demand.

At the same time, manufacturers registered the slowest rise in cost burdens since January 2021. Although marked, the pace of inflation reportedly softened following lower prices for some key inputs. At the same time, goods producers raised their selling prices at the slowest pace for a year-and-a-half in an effort to drive sales.

Signs of improvements in supply chain disruption emerged, as delivery times lengthened to the least marked extent since October 2020. Efforts to keep stable stocks led to a quicker rise in pre-production inventories, with stocks of finished goods broadly unchanged on the month.

Meanwhile, the rate of backlog accumulation slowed to only a marginal pace in August. Combined with weak client demand, this led to firms increasing their staffing levels only fractionally and at the joint-slowest pace in over two years. The softer uptick in employment was often linked to reports of voluntary leavers not being replaced.

Nonetheless, manufacturers recorded a greater degree of optimism regarding the outlook for output over the next year. Firms pinned confidence to hopes of stable supply chains and increased customer demand.

Commenting on the flash PMI data, **Siân Jones**, Senior Economist at S&P Global Market Intelligence said:

"August flash PMI data signalled further disconcerting signs for the health of the US private sector. Demand conditions were dampened again, sparked by the impact of interest rate hikes and strong inflationary pressures on customer spending, which weighed on activity. Gathering clouds spread across the private sector as services new orders returned to contractionary territory, mirroring the subdued demand conditions seen at their manufacturing counterparts. Excluding the period between March and May 2020, the fall in total output was the steepest seen since the series began nearly 13 years ago.

"Lower new order inflows and continued efforts to rein in spending led to the slowest uptick in employment for almost a year. Reports of challenges finding suitable candidates started to be countered by those companies noting that voluntary leavers would not be replaced with any immediacy due to uncertainty regarding demand over the coming months.

"One area of reprieve for firms came in the form of a further softening in inflationary pressures. Input prices and output charges rose at the slowest rates for a year-and-a-half amid reports that some key component costs had fallen. Although pointing to an ongoing movement away from price peaks, increases in costs and charges remained historically robust. At the same time, delivery times lengthened at the slowest pace since October 2020, albeit still sharply, allowing more firms to work through backlogs."

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Note to Editors

Final August data are published on 1 September for manufacturing and 6 September 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 *PMI*[3]	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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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. To learn more go to https://ihsmarkit.com/products/pmi.html .

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