

United States

US PMI slips back into contraction territory for first time this year in July

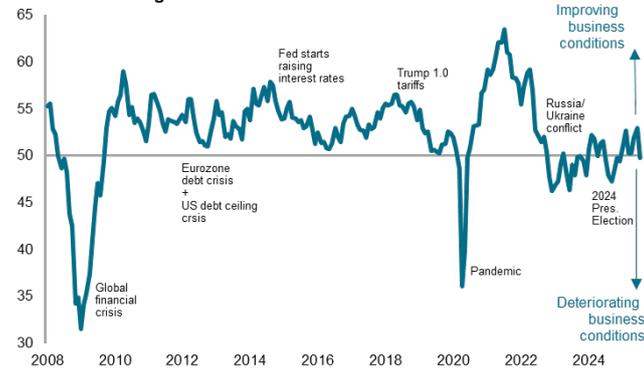
July saw the first deterioration of US manufacturing operating conditions since last December as tariff worries continued to dominate the business environment.

The downturn at the start of the third quarter in part reflects the passing of a busy period of tariff-related inventory accumulation in prior months. Factories reported little change in inflows of new orders and reduced stock holdings of both raw materials and finished goods in July. This comes after companies had built up inventories in May and June amid concerns over higher import prices and worsening supply availability resulting from tariff hikes.

Input prices continued to rise at a steep rate, with these higher costs often being passed on to customers to drive another month of elevated selling price inflation, but there are signs that these price pressures may have peaked back in June.

Optimism about the year ahead has meanwhile taken a knock as factories worry about reduced demand from customers, especially in export markets, and the inflationary impact of tariffs. Employment consequently fell as factories trimmed headcounts amid concerns over rising costs and lower sales.

US Manufacturing PMI

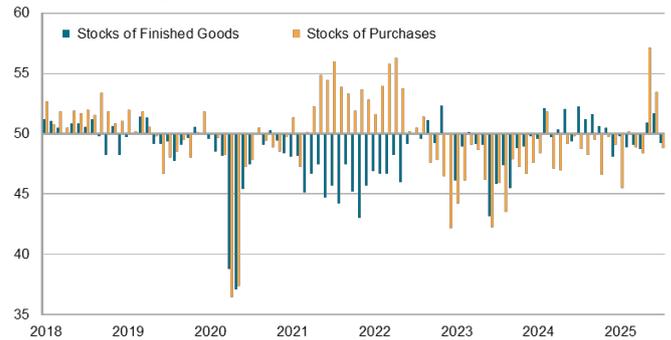


Data compiled August 2025.
PMI (Purchasing Managers' Index) 50 = no change on prior month
Source: S&P Global PMI, S&P Global Market Intelligence.
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Inventory shift

A key development in the manufacturing sector during July was a switch away from inventory building, leading to reduced activity. Whereas both May and June had seen unusually strong back-to-back increases in inventories of inputs and finished goods (May's rise in raw material inputs had been the largest on record), the July PMI survey saw both fall.

US manufacturing PMI inventories

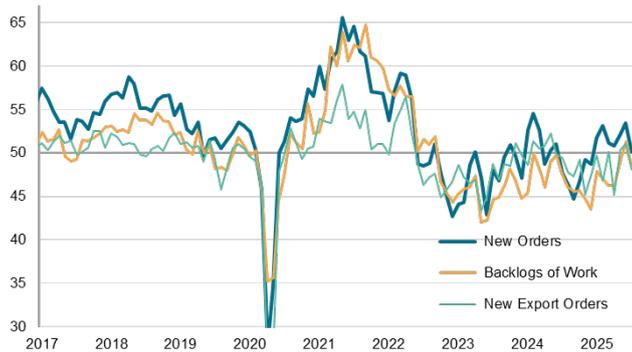


Data compiled August 2025.
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Source: S&P Global PMI, S&P Global Market Intelligence.
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This change in inventory behavior has largely reflected recent tariff news. Factories had rushed to buy raw materials in May and June ahead of tariff-related price hikes that had been announced in April. They had also stepped up their production of goods using these cheaper inputs. But July saw increased reports of warehouses reaching satisfactory capacity, as well as reports of manufacturers deliberately winding down this tariff-related buying in response to high prices or weaker order book growth.

New orders barely rose in July, posting the smallest gain since order inflows started rising at the start of the year, led by a drop in export sales.

US manufacturing PMI

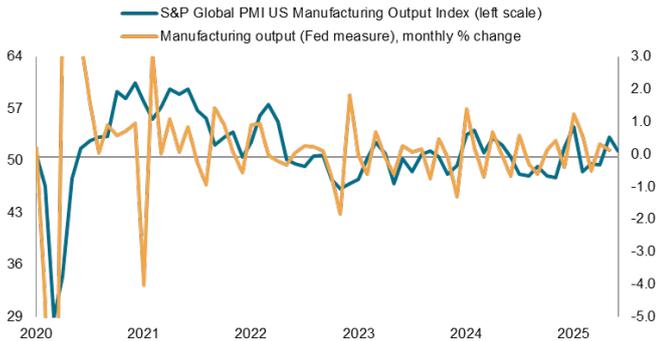


Data compiled August 2025.
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Producing to meet (lower) demand

Backlogs of work consequently fell again, after having risen in June for the first time since September 2022 amid the clamor to meet pre-tariff demand. Similarly, manufacturing production growth also waned in July in the face of dwindling demand compared to June, posting a markedly smaller rise than June's four-month high.

US manufacturing output

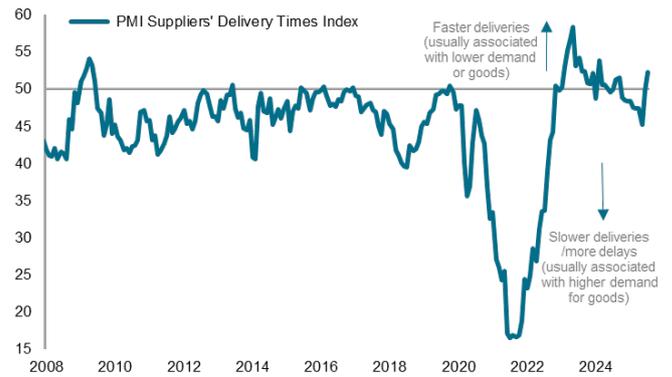


Data compiled August, 2025.
 PMI (Purchasing Managers' Index), 50 = no change on prior month. All data seasonally adjusted.
 Sources: S&P Global PMI, US Federal Reserve via S&P Global Market Intelligence.
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Supply improves as demand cools

A positive consequence of the reduced input buying and weakening demand for raw materials was an improvement in supplier performance. Average supplier delivery times shortened for the first time in ten months in July, having lengthened markedly throughout the second quarter thanks to the surge in pre-tariff demand for inputs.

US PMI manufacturing supplier performance

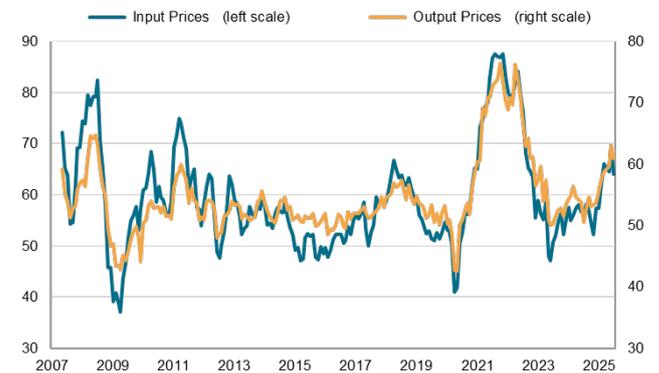


Data compiled August 2025.
 PMI (Purchasing Managers' Index) 50 = no change, covers manufacturing only. Note inverted scale as this index is inverted when included in the headline PMI.
 Source: S&P Global PMI.
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Cooler, but still elevated, price pressures

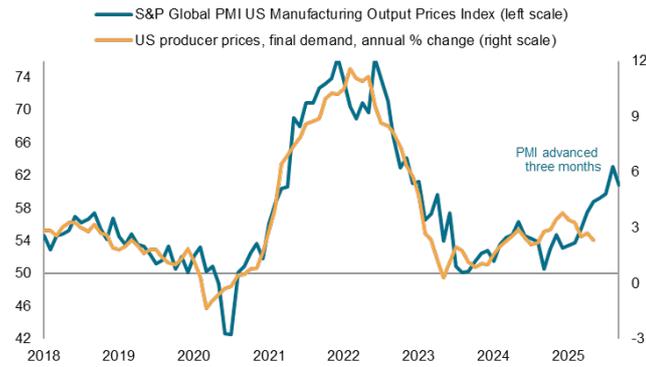
Improved supply and moderating demand in turn alleviated some of the price pressures that have been faced by manufacturers in recent months, helping reduce the rate of input cost inflation reported in July. However, the overall rate of input price increase remained elevated by historical standards, feeding through to a still elevated rate of factory selling price inflation. Barring the pandemic, this year has so far seen the broadest and most sustained period of factory gate price inflation since 2008.

US manufacturing PMI costs and prices



Data compiled August, 2025.
 PMI (Purchasing Managers' Index) 50 = no change on prior month
 Source: S&P Global PMI, S&P Global Market Intelligence.
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US manufacturing producer output prices



Data compiled August, 2025.
 PMI (Purchasing Managers' Index), 50 = no change on prior month. All data seasonally adjusted.
 Sources: S&P Global PMI, US Commerce Dept. via S&P Global Market Intelligence.
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Reasons provided by manufactures for higher prices underscored the broad-based impact of higher tariffs on a wide variety of goods, but especially highlighted the higher costs of steel and aluminum, which have been subject to particularly higher tariff rates (on June 4, the US tariff rates on steel and aluminum imports rose from 25% to 50%).

Analysis of reasons cited for higher manufacturing prices in July



Data compiled: August, 2025.
 Source: S&P Global PMI (manufacturing survey)
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Dimmer expectations mean fewer jobs

In the face of cooling demand, cost increases and broad-based concerns regarding recent US policy announcements (ranging from tariffs to federal spending cuts), business optimism about the year ahead slipped lower in July. The Future Output Index, which monitors factories' expected production volumes in the year ahead, fell to its lowest since April.

US Manufacturing PMI future expected output



Data compiled August 2025
 PMI 50 = no expected change over next 12 months.
 Source: S&P Global PMI.
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The upshot of these reduced output expectations was a reduction in manufacturing payroll numbers. July's PMI survey saw employment fall for only the second time over the past nine months.

Although coming on the heels of a strong rise in June, July's drop in manufacturing employment represents a disappointing development given the recent policy focus on generating jobs in the sector. However, it remains to be seen whether the goods producing sector will see demand revive again after the current soft patch linked to inventory adjustment and tariff-related uncertainty. Encouragingly, we note that, despite the July dip in the PMI's Future Output Expectations Index, the gauge is in line with the average seen over the past three years amid reports of buoyant optimism about the year ahead among many firms.

Access the press release [here](#).

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