December PMI™ data from IHS Markit signalled a marked improvement in operating conditions across the U.S. manufacturing sector. The upturn was the sharpest since September 2014. Although supported by further substantial increases in output and new orders, the headline figure was pushed higher by severe supply chain disruption. Amid a significant deterioration in vendor performance, cost burdens and selling prices soared, as firms sought to partially pass on higher input prices. Output expectations moderated slightly, however, as the post-election spike eased and virus cases surged once again.

The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers’ Index™ (PMI™) posted 57.1 in December, up from 56.7 in November, to signal the steepest improvement in the health of the U.S. manufacturing sector for over six years. The headline figure was also up from the earlier released ‘flash’ reading of 56.5.

Production growth remained marked in December, despite the rate of expansion easing slightly from November’s recent high. The pace of increase was the second-strongest since March 2015. Companies continued to link the rise to the release of pent-up demand, but some did temper this by stating that greater virus cases dampened output growth at the end of 2020.

Similarly, the rate of expansion in new orders softened in December, as some firms reported that supplier delays and reduced capacity due to additional coronavirus disease 2019 (COVID-19) restrictions had led to order cancellations. Nonetheless, the upturn was the second-sharpest since November 2018 and steep overall.

New export orders rose at a marginal rate, but one that was the fastest for three months in the final month of 2020. A number of processors of inputs to other industries also fared well, as manufacturers sought to restock their warehouses.

December 2020 data were collected 04-17 December 2020.

Comment

Chris Williamson, Chief Business Economist at IHS Markit said:

“Manufacturers reported a strong end to 2020, with production and order books continuing to grow, albeit with the rates of expansion slowing as a result of rising virus case numbers and related restrictions. Producers of consumer goods reported a marked downturn in orders and production, reflecting weakened consumer expenditure amid the resurgence of COVID-19.

“More encouragingly, producers of machinery and equipment reported sustained strong demand, suggesting companies are increasing their investment spending. Producers of inputs to other factories also fared well, as manufacturers sought to restock their warehouses.

“However, the survey also highlights how manufacturers are now not only facing weaker demand conditions due to the pandemic, but are also seeing COVID-19 disrupt supply chains further, causing shipping delays. These delays are limiting production capabilities as well as driving producers’ input prices sharply higher, adding to the sector’s woes.

“Firms nevertheless remain highly positive about the outlook for the year ahead, anticipating that vaccine roll-outs will help drive a further recovery in 2021, although some of November’s post-election exuberance has been tamed by the recent rise in virus case numbers, suggesting the near-term outlook will remain challenging.”
of respondents reported stronger client demand despite the
greater prevalence of national lockdowns in key export markets.

Driving the headline figure higher, however, was a substantial
deterioration in vendor performance. Supply chain disruptions
escalated amid supplier shortages and transportation delays
stemming from a lack of available drivers, and COVID-19 travel
restrictions. Lead times lengthened to the greatest extent since
data collection began in May 2007.

As a result, cost burdens were pushed higher. The rise in input
prices was substantial and the fastest since April 2018, driven
by raw material shortages and supplier price hikes. Firms were
able to partially pass on higher costs, however, as selling prices
increased at the sharpest rate since May 2011.

Supplier shortages also drove firms to boost efforts to stockpile
inputs, as stocks of purchases fell only fractionally in December.
Post-production inventories were depleted at the fastest pace
since July, however, as firms sold from stock.

At the same time, manufacturers expanded their workforce
numbers at a faster pace in December. Although the rate of
accumulation in backlogs of work eased, firms linked the upturn
in employment to greater production requirements.

Output expectations slid slightly from those seen in November,
as a rise in virus cases weighed on sentiment. Nevertheless, firms
were strongly optimistic of a rise in output over the coming year.