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IHS Markit U.S. Manufacturing PMI™

Operating conditions improve at fastest pace since September 2014

Key findings

Expansions in output and new orders remain marked

Supply chain disruptions most severe on record

Sharpest rise in cost burdens since April 2018

December 2020 data were collected 04-17 December 2020.

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.

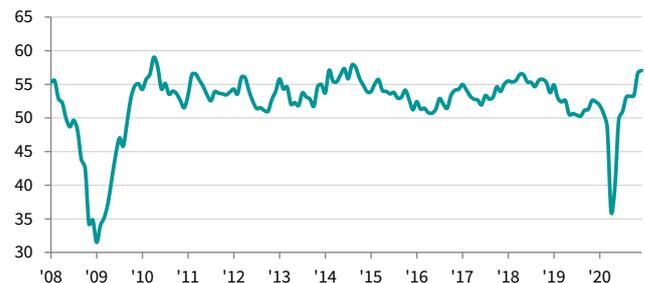
Production growth remained marked in December, despite the rate of expansion easing slightly from November's recent high. The pace of increase was the second-strongest since March 2015. Companies continued to link the rise to the release of pent-up demand, but some did temper this by stating that greater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

continued...

U.S. Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

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.

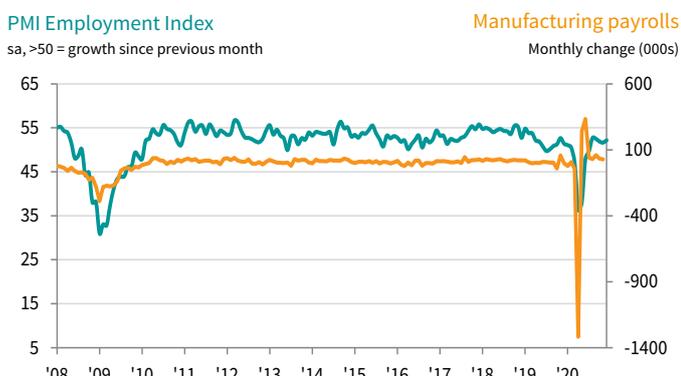
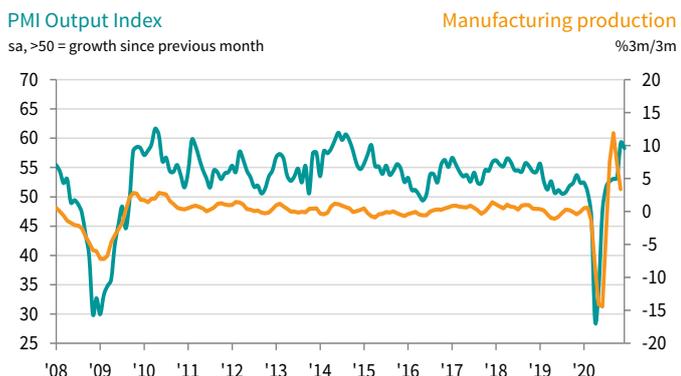
Driving the headline figure higher, however, was a substantial deterioration in vendor performance. Supply chain disruptions escalated amid supplier shortages and transportation delays stemming from a lack of available drivers, and COVID-19 travel restrictions. Lead times lengthened to the greatest extent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



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Contact

Chris Williamson
 Chief Business Economist
 IHS Markit
 T: ++44-20-7260-2329
chris.williamson@ihsmarkit.com

Siân Jones
 Economist
 IHS Markit
 T: +44-1491-461-017
sian.jones@ihsmarkit.com

Katherine Smith
 Corporate Communications
 IHS Markit
 T: +1 (781) 301-9311
katherine.smith@ihsmarkit.com

Survey methodology

The IHS Markit U.S. Manufacturing PMI™ is compiled by IHS Markit 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.

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.

Survey dates and history

December 2020 data were collected 04-17 December 2020.

Data collection began in April 2004 from a survey panel of electronics manufacturers. In May 2007, the panel was expanded to cover manufacturers of metal products. In October 2009, the panel was expanded further to cover all manufacturing activity. Data from May 2007 to September 2009 are compiled from responses from manufacturers of electronics and metal products, while data from October 2009 are compiled from responses from all areas of manufacturing.

Flash vs. final data

Flash data were calculated from 85% of final responses. Since October 2009 the average difference between final and flash Manufacturing PMI values is 0.0 (0.3 in absolute terms).

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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.

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