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IHS Markit US Manufacturing PMI™

Manufacturing production growth remains constrained by shortages in December

Key findings

Output expansion muted, as firms register slower upturn in new orders

Rate of cost inflation remains marked despite easing to softest since June

Backlogs of work rise at slowest pace for ten months

Data were collected 06-21 December 2021.

December PMI™ data from IHS Markit indicated a further subdued upturn in production across the US manufacturing sector. With the exception of October and November, the pace of output growth was the slowest since October 2020. At the same time, companies recorded the softest rise in new orders for a year and a further substantial deterioration in vendor performance amid severe material shortages. Longer lead times for inputs also led to another sharp increase in backlogs of work, albeit the slowest for ten months.

Meanwhile, cost burdens continued to increase markedly despite the rate of inflation softening to the slowest since June. Efforts to pass-through greater costs to clients were hampered by softer demand conditions, as charges rose at the slowest rate since April.

The seasonally adjusted IHS Markit US Manufacturing Purchasing Managers' Index™ (PMI™) posted 57.7 in December, down from 58.3 in November but broadly in line with the earlier released 'flash' estimate of 57.8. The improvement in the health of the US manufacturing sector was the slowest in 2021 amid subdued output and new order growth. Ongoing efforts to build safety stocks and a severe deterioration in vendor performance, ordinarily signs of improving conditions, continued to lift the headline PMI, however.

The rate of output growth picked up slightly to the fastest for three months, but was much slower than those seen earlier in the year. Manufacturers noted further constraints on production due to severe material shortages and input delivery delays.

An inability to source key inputs also weighed on new orders, which expanded at the softest rate for a year. Although some firms stated that demand was sustained at a strong pace, many suggested that customers were working through their stocks of goods before placing orders. The rise in foreign client demand was only marginal overall.

Higher transportation and freight fees, alongside shortages of key items, led to a further marked increase in input costs during

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US Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Siân Jones, Senior Economist at IHS Markit said:

“December saw another subdued increase in US manufacturing output as material shortages and supplier delays dragged on. Although some reprieve was seen as supply chains deteriorated to the smallest extent since May, the impact of substantially longer lead times for inputs thwarted firms’ ability to produce finished goods yet again.

“Adding to the sector’s challenges was an ebb in client demand from the highs seen earlier in 2021, with new orders rising at the slowest pace for a year, largely linked to a reluctance at customers to place orders before inventories were worked through. Alongside a slight pick-up in hiring, softer demand conditions contributed to the slowest rise in backlogs of work for ten months.

“While shortages remained significant, the end of the year brought with it some signs that cost pressures have eased. The uptick in input prices was the slowest for six months, and firms recorded softer increases in selling prices amid efforts to entice customer spending.”

December. Although slowing to the softest for six months, the pace of increase remained among the quickest seen in the series history (since May 2007).

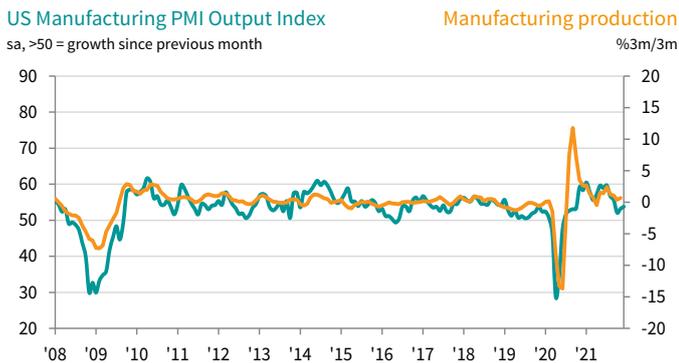
Reflecting a slightly softer uptick in cost burdens, firms raised their output charges at the slowest rate for eight months. Nonetheless, the pace of increase was marked as firms sought to partially pass on higher costs to clients.

Input delivery delays were extensive in December, albeit the least marked since May. Material shortages, port congestion and a lack of availability of trucking and shipping containers all reportedly led to a substantial deterioration in vendor performance.

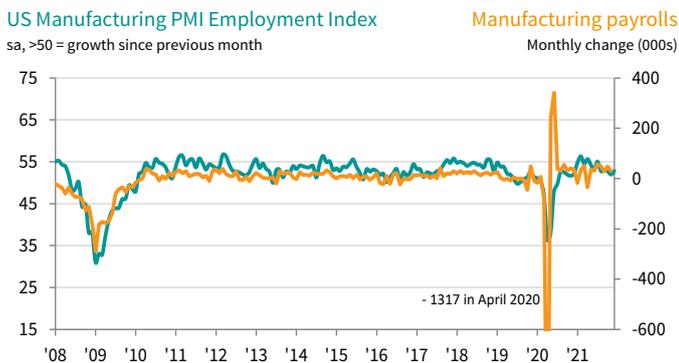
As a result, backlogs of work rose sharply. That said, the pace of accumulation was the slowest for ten months. Some firms highlighted that this was linked to softer demand conditions. Others stated that a quicker upturn in employment had helped to ease pressure on capacity.

Amid severe material shortages, firms mentioned notable challenges building sufficient safety stocks as inputs were often required to supplement production and stocks of finished goods were depleted as sales were made from current holdings. Subsequently, input buying rose sharply.

Finally, output expectations for the year ahead strengthened to the highest since November 2020. Optimism stemmed from hopes of reduced supply disruption and a greater ability to hire suitable workers.



Sources: IHS Markit, US Federal Reserve.



Sources: IHS Markit, Bureau of Labor Statistics.

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Contact

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

Siân Jones
 Senior 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 US 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 2021 data were collected 06-21 December 2021.

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

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.

ihsmarkit.com/products/pmi.html