Manufacturing output continues to recover amid further new order growth

December data pointed to a further recovery in operating conditions across the U.S. manufacturing sector. The sustained improvement was supported by a solid rise in new business and a further upturn in production. Output expectations remained historically muted, however.

Meanwhile, rates of both input price and output charge inflation quickened amid higher cost burdens and the ongoing impact of tariffs.

The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers’ Index™ (PMI™) posted 52.4 in December, down slightly from 52.6 in November and in line with the flash figure. The latest data indicated a modest improvement in the health of the U.S. manufacturing sector. The final quarterly average of 2019 was in fact the strongest since the opening three months of the year.

Output growth across the sector softened from November’s recent peak, but was moderate nonetheless. The expansion was linked to greater client demand and a rise in new order volumes. The rate of increase was still well below those seen at the end of 2018, however.

New business received by manufacturing firms grew at a solid rate in December, and one that was the second-strongest since April. The sustained rise in client demand was partially attributed to the acquisition of new clients and reviving export sales. Goods producers reported a third consecutive upturn in new export orders.

On the price front, cost burdens rose at a solid pace at the end of the fourth quarter. The rate of input price inflation accelerated to a nine-month high as firms stated that higher supplier costs and tariffs had driven prices up.

The pace of output charge inflation also quickened to the

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Comment

Chris Williamson, Chief Business Economist at IHS Markit said:

"The US manufacturing sector continued to recover from the soft-patch seen in the summer, ending 2019 with its best quarter since the early months of 2019. The overall rate of expansion nevertheless faltered somewhat in December and remains well below that seen this time last year, suggesting producers are starting 2020 on a softer footing than they had enjoyed heading into 2019.

"Business sentiment about the outlook remains especially subdued compared to a year ago, reflecting ongoing worries about geopolitics and trade wars, especially the impact of tariffs, as well as fears that political and economic uncertainty surrounding the 2020 elections could dampen demand.

"The impact of tariffs was clearly evident via higher prices, while the relatively subdued level of business confidence manifested itself in a pull-back in hiring, hinting at risk aversion and cost-cutting."
joint-fastest since February and was solid overall. Companies commonly attributed the rise to the partial pass-through of higher costs on to clients. Despite an increase in client demand, output expectation towards the coming year remained relatively muted at the end of 2019. Nonetheless, the degree of confidence picked up from that seen in November, with optimism reportedly stemming from new product development, new client wins and investment in new facilities. Meanwhile, a further upturn in new business drove firms to expand their workforce numbers in December. Employment growth was the second-fastest since May, with firms stating the increase largely stemmed from greater production requirements.

Strain on capacity was also reflected in a further accumulation of backlogs of work. That said, the rate of growth in the level of outstanding business was only marginal and eased from that seen in November.

Finally, input buying rose for the third month running amid efforts to stockpile raw materials. Post-production inventories were little-changed, however, as sales from stock weighed on growth.

**PMI Output Index**

| sa >50 = growth since previous month | Manufacturing production %y/y
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**Sources:** IHS Markit, U.S. Federal Reserve.

**PMI Employment Index**

| sa >50 = growth since previous month | Manufacturing payrolls Monthly change (000s)
| 65 | 60 | 55 | 50 | 45 | 40 | 35 | 30 | 25 | 20 | 15 | 10 | 5 | 0 | -5 | -10 | -15 | -20 | -25 | -30 |

**Sources:** IHS Markit, Bureau of Labor Statistics.