News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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IHS Markit Flash US Composite PMI™

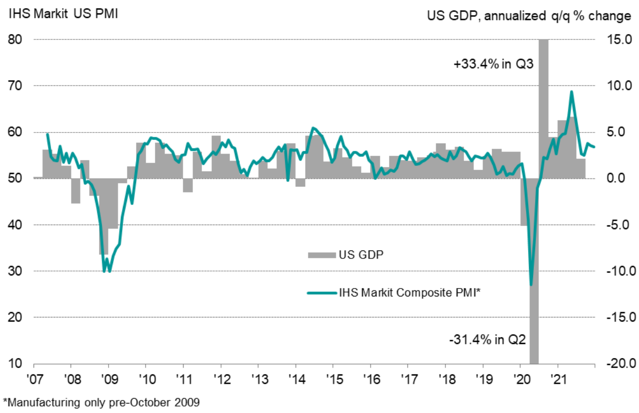
US sees resilient output growth in December, as service sector reports record inflation but supply shortages ease

Key findings:

- Flash US Composite Output Index at 56.9 (57.2 in November). 3-month low.
- Flash US Services Business Activity Index at 57.5 (58.0 in November). 3-month low.
- Flash US Manufacturing PMI at 57.8 (58.3 in November). 12-month low.
- Flash US Manufacturing Output Index at 53.6 (53.2 in November). 3-month high.

Data collected December 06-15

IHS Markit Composite PMI and US GDP



Sources: IHS Markit, US Bureau of Economic Analysis

US private sector businesses indicated a strong upturn in output at the end of 2021, despite the rate of expansion easing to the slowest for three months. Service sector business activity growth remained especially sharp, with manufacturers registering a slight uptick in the pace of expansion in production.

Adjusted for seasonal factors, the **IHS Markit Flash US Composite PMI Output Index** posted 56.9 in December, down slightly from 57.2 in November, but still signalling a strong rise in private sector business activity. Although slower than rates seen earlier in the year, the pace of output growth was faster than the historic trend.

Supporting the upturn in activity was a quicker increase in new orders during December. The pace of expansion was the sharpest for five months, and largely driven by a faster rise in service sector new business. New order inflows to the manufacturing sector eased to the slowest since October 2020, however. Meanwhile, new export orders increased at the strongest pace since September.

At the same time, inflationary pressures continued to mount, with firms facing ever increasing input prices. The pace of cost inflation accelerated again to reach a fresh series record. Companies reported broad-based upticks in cost burdens, with a range of key materials noted higher in price, alongside soaring transportation and distribution fees.

Despite the increase in costs, the pace of inflation of prices charged for goods and services softened for the second month running in December, with some firms mentioning efforts to boost sales amid stronger competition. With the exception of rates seen in October and November, the latest uptick in selling prices was nevertheless the fastest on record (since October 2009).

Ongoing disruptions to supply chains and labor shortages hampered firms' ability to work through outstanding business at the end of 2021. The expansion in backlogs of work was among the fastest in the series' history. Challenges securing suitable candidates and retaining staff led to only a marginal rise in employment, which served to exacerbate pressures on capacity. Staffing difficulties were especially acute in the service sector, which drove the slowdown in job creation.

Private sector firms recorded the strongest degree of confidence regarding the 12-month outlook for output for just over a year in December. Optimism stemmed from hopes of further upticks in client demand and that the impact of the Omicron variant is less severe than prior virus waves.

IHS Markit Flash US Services PMI™

The seasonally adjusted **IHS Markit Flash US Services PMI™ Business Activity Index** fell to 57.5 in December, down slightly from 58.0 in November. The upturn in business activity remained sharp despite slowing to a three-month low as demand conditions strengthened at the end of the year. The pace of new business growth accelerated to the fastest for five months. Foreign client demand also rose.

Employment growth slowed to the softest for three months in December, as pressure on capacity remained substantial. Subsequently, backlogs of work rose at the third-fastest pace on record.

Labor and input shortages, alongside greater distribution costs, led to the steepest increase in input prices on record in December. Output charges rose at the second-sharpest pace in the series history despite some reports of greater competition for clients.

Meanwhile, business expectations for the year ahead improved to the strongest since November 2020. Hopes of new client acquisitions and greater inflows of new orders reportedly drove optimism.

IHS Markit Flash US Manufacturing PMI™

Operating conditions improved in December, as highlighted by the **IHS Markit Flash US Manufacturing *Purchasing Managers' Index*™ (*PMI*™)**[1] posting at 57.8 in December, down from 58.3 in November. That said, the health of the sector improved at the slowest pace for a year as output growth remained subdued. The headline index is also continuing to reflect a severe deterioration in input delivery times, with longer supplier lead times ordinarily signalling a stronger sector performance.

Although the pace of output growth quickened to the fastest for three months in December, the rate of expansion was muted compared to those seen earlier in the year as material shortages – although easing to the lowest since May, as measured by suppliers' delivery times – hampered production again. An inability to source components also weighed on demand as clients reportedly worked through their existing stocks of goods.

Despite supply chain delays moderating markedly during the month, a further overall deterioration in vendor performance led to another substantial increase in backlogs of work in December. The rate of job creation quickened to the fastest since June, but numerous panellists stated that problems finding and retaining staff persisted.

At the same time, the rate of cost inflation softened to the slowest for seven months at the end of 2021. That said, input prices continued to rise at a marked pace, offering firms little respite from inflationary pressure. Greater transportation, distribution and material costs were commonly mentioned. Output charges also rose sharply, albeit at the softest rate since April. Firms continued to note the partial pass-through of costs to clients.

Finally, output expectations for the year ahead were the greatest for four months in December, amid hopes of smoother supply flows in 2022.

Comment

Commenting on the PMI data, **Chris Williamson, Chief Business Economist** at IHS Markit, said:

"The survey data paint a picture of an economy showing encouraging resilience to rising virus infection rates and worries over the Omicron variant. Business growth slipped only slightly during the month and held up especially well in the vulnerable service sector. Manufacturing output growth even picked up slightly amid a marked easing in the number of supply chain delays, which also helped to take pressure off raw material prices. Barring the initial price slide seen at the start of the pandemic, December saw the steepest fall in factory input price inflation for nearly a decade.

"The worry is that rising wage growth, greater transport costs and higher energy prices have pushed service sector cost inflation to a new high, and that any renewed disruption to global supply lines resulting from the Omicron wave could lead to renewed upward pressure on goods prices."

-Ends-

[1] Please note that IHS Markit's PMI data, flash and final, are derived from information collected by IHS Markit from a different panel of companies to those that participate in the ISM surveys. No information from the ISM survey is used in the production of IHS Markit's PMI.

PMI™ By IHS Markit

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Note to Editors:

Final December data are published on January 3 2022 for manufacturing and January 5 2022 for services and composite indicators.

The Composite Output PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"

The Manufacturing PMI is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?".

The US Services *PMI*™ (*Purchasing Managers' Index*™) is produced by IHS Markit and is based on original survey data collected from a representative panel of over 400 companies based in the US service sector. IHS Markit began collecting monthly PMI data in the US service sector in October 2009. The flash estimate is typically based on approximately 85%–90% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final *PMI* data.

The IHS Markit US Services PMI complements the IHS Markit US Manufacturing PMI and enables the production of the IHS Markit US Composite PMI which tracks business trends across both the manufacturing and service sectors, based on original survey data collected from a representative panel of over 1,000 companies.

IHS Markit began collecting monthly *Purchasing Managers' Index™ (PMI™)* data in the U.S. in April 2004, initially from a panel of manufacturers in the US electronics goods producing sector. In May 2007, IHS Markit's US PMI research was extended out to cover producers of metal goods. In October 2009, IHS Markit's US Manufacturing PMI survey panel was extended further to cover all areas of US manufacturing activity. Back data for IHS Markit's US Manufacturing PMI between May 2007 and September 2009 are an aggregation of data collected from producers of electronic goods and metal goods producers, while data from October 2009 are based on data collected from a panel representing the entire US manufacturing economy. IHS Markit's total US Manufacturing PMI survey panel comprises over 600 companies.

The panel is stratified by North American Industrial Classification System (NAICS) group and company size, based on industry contribution to US GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indictors the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.