Output growth picks up to four-month high in January

**KEY FINDINGS**

- Production and new orders both rise at sharper rates
- Pace of employment growth accelerates
- Input price inflation eases to one-year low

Overall operating conditions across the U.S. manufacturing sector improved in January, supported by faster expansions in output and new orders. Domestic demand drove new business growth, as new export orders rose only marginally and at the weakest rate since last October. Business confidence about the year ahead also picked up markedly to reach a three-month high. Meanwhile, goods producers increased their workforce numbers strongly amid a quicker rise in new orders. Nonetheless, backlogs continued to expand. On the price front, input cost inflation eased to a 12-month low but remained marked and above the series trend.

The seasonally adjusted IHS Markit final U.S. Manufacturing Purchasing Managers’ Index™ (PMI™) posted 54.9 in January, up from 53.8 in December. The latest headline figure signalled a strong and faster improvement in the overall health of the sector, and was above the long-run series average.

Supporting the higher PMI reading was a sharp and quicker expansion in production across the manufacturing sector in January. The rise in output was the fastest since last September and stronger than the series trend. Output growth reportedly stemmed from greater client demand and efforts to clear backlogs.

Similarly, the upturn in new orders accelerated and was steep overall. The latest rise in new business extended the trend seen throughout the series history. Anecdotal evidence suggested that new client acquisitions and more favourable domestic demand conditions drove the increase.

Furthermore, the rate of new export order growth softened in January. The pace of expansion was the slowest since last October and only marginal overall.

In line with greater production requirements, manufacturing firms expanded their workforce numbers at a solid rate, with growth picking up from December’s recent low. At the same time, surveyed companies also registered a modest rise in backlogs of work.

Meanwhile, upward price pressures across the manufacturing sector remained marked in January. Panellists continued to note that increased input costs were due to tariffs on steel and aluminium, alongside greater demand for inputs. That said, the rate of cost inflation was the slowest for one year, aided by the feeding through of lower oil prices. Manufacturing firms were able to take advantage of increased client demand and raised their factory gate charges at a faster rate.

Higher production requirements led to a further rise in buying activity, with many respondents also noting a greater need to stockpile for future output.

Finally, business confidence picked up among manufacturers. Panellists stated that positive sentiment stemmed from new client acquisitions and expectations of firmer demand conditions. The degree of optimism was the second-highest since last May.
COMMENT

Chris Williamson, Chief Business Economist at IHS Markit said:

“January saw US manufacturers start the year with renewed vigour. Production rose at a markedly increased rate, commensurate with the factory sector contributing to robust economic growth of approximately 2.5% in the first quarter if such momentum can be sustained in coming months.

“Other encouraging signs included an improved rate of job creation and increased purchasing of inputs, suggesting firms are in the mood for expanding capacity.

“The upturn in business activity in January helped lift confidence in the outlook, though many companies clearly remain concerned about the impact of trade wars and rising protectionism.

“Domestic markets provided the main source of new work for manufacturers, offsetting a near-stalling of export trade, the latter linked to subdued demand for US goods in foreign markets. Although higher than December, the overall rise in new orders was the second-lowest since last August, hinting at a slight cooling of demand growth in recent months which served to keep the headline PMI below the average recorded last year.”

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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 in inverted so that it moves in a comparable direction to the other indices.

January 2019 data were collected 11-25 January 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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