News Release

Embargoed until 0945 EST (1445 UTC) 3 January 2023

S&P Global US Manufacturing PMI™

US manufacturing operating conditions deteriorate at fastest rate since May 2020

Key findings

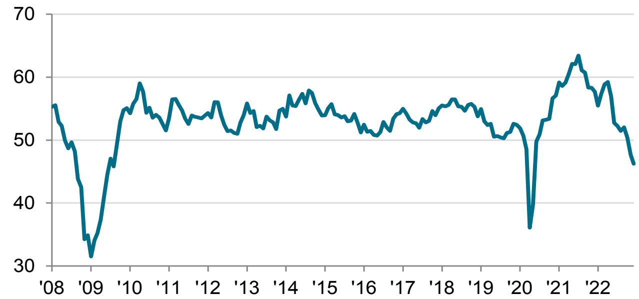
Output falls at sharper rate amid faster drop in new orders

Inflationary pressures ease notably

Employment rises only fractionally

US Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 06-20 December 2022.

Manufacturing firms in the US indicated a solid decline in the health of the sector during December, according to the latest PMI™ data from S&P Global. The downturn stemmed from weak client demand which drove faster contractions in output and new orders. Muted domestic and foreign customer demand led to a slower rise in employment. Staffing numbers rose only fractionally as pressure on capacity waned and backlogs of work fell sharply. At the same time, firms scaled back their purchasing activity as excess stocks built earlier in the year were utilised to fulfil orders.

Meanwhile, lower prices for some inputs such as metals and fuel led to the slowest uptick in cost burdens since July 2020. In an effort to drive sales and pass on cost savings, firms hiked their selling prices at the softest pace for just over two years.

The seasonally adjusted S&P Global US Manufacturing Purchasing Managers' Index™ (PMI™) posted 46.2 in December, down from 47.7 in November, but matched the earlier released 'flash' estimate. The latest data signalled the fastest decline in operating conditions since May 2020, and was among the sharpest since 2009.

Production levels at manufacturing firms contracted for the second month running at the end of the year. Output fell at a solid pace that was the quickest in just over two-and-a-half years, as client demand waned and new orders fell further.

Contributing to the quicker decline in output was a sharper downturn in new sales during December. The decrease in new orders was steep overall and among the fastest on record (since May 2007). Companies noted that weak client demand stemmed from economic uncertainty and inflationary pressures leading to lower purchasing power among customers.

Foreign client demand also contracted as dollar strength and global economic uncertainty weighed on sales made abroad.

Comment

Siân Jones, Senior Economist at S&P Global Market Intelligence, said:

"The manufacturing sector posted a weak performance as 2022 was brought to a close, as output and new orders contracted at sharper rates. Demand for goods dwindled as domestic orders and export sales dropped. Muted demand conditions also led to downward adjustments of stock holdings, as excess inventories built earlier in the year were depleted in lieu of further spending on inputs. With the exception of the initial pandemic period, stocks of purchases fell at the steepest rate since 2009.

"Concerns regarding the outlook for demand weighed on hiring decisions. Job creation was only slight, and largely linked to skilled hires, as firms displayed caution.

"Sinking demand for inputs and greater availability of materials at suppliers led to a further easing of inflationary pressures. In fact, the rate of input price inflation fell below the series trend. Selling price hikes also eased, albeit still rising steeply. Slower upticks in inflation signal the impact of Fed policy on prices, but growing uncertainty and tumbling demand suggest challenges for manufacturers will roll over into the new year."

The fall in new export orders was solid, despite easing to the slowest in three months.

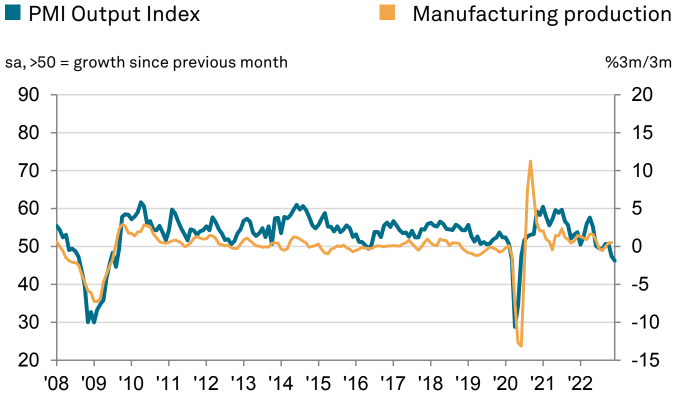
December data signalled a notable slowdown in rates of input cost and output charge inflation at manufacturers. The pace of increase in cost burdens was the softest since July 2020, as firms stated that lower prices for inputs such as fuel, metals and oil-related products dampened the overall upturn in operating expenses. Moreover, the rate of cost inflation was slower than the series average.

In an effort to drive sales, firms also registered a softer uptick in selling prices at the end of the year. Cost savings were largely passed through to customers, as output charges increased at the slowest pace in just over two years. Nonetheless, the rate of inflation was quicker than the series trend and historically sharp.

Lower input prices for some items were in part driven by reduced demand for materials. Purchasing activity dropped markedly and at the fastest pace since May 2020. Such a fall also led to broadly unchanged lead times for inputs, as supplier capacity constraints were less apparent than earlier in the year. Weak demand conditions contributed to firms opting to work through excess stocks built earlier in the year, with pre-production inventories falling sharply and stocks of finished goods broadly unchanged on the month.

Backlogs of work contracted at a steep pace in December amid lower new order inflows. Consequently, firms recorded only a slight increase in employment. The rate of job creation was the second-slowest in the current 29-month sequence of growth, as some firms filled long-held vacancies for skilled workers.

Finally, output expectations picked up to a three-month high, but remained historically subdued. Firms expressed concerns regarding the impact of inflation and weak demand on future output.



Sources: S&P Global, US Federal Reserve.

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Survey methodology

The S&P Global US Manufacturing PMI™ is compiled by S&P Global 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. Data collection began in April 2004.

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.

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About PMI

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.

PMI™ by S&P Global