News Release

Embargoed until 0945 EST (1445 UTC) 1 February 2023

S&P Global US Manufacturing PMI™

Further solid decline in manufacturing performance at start of the year

Key findings

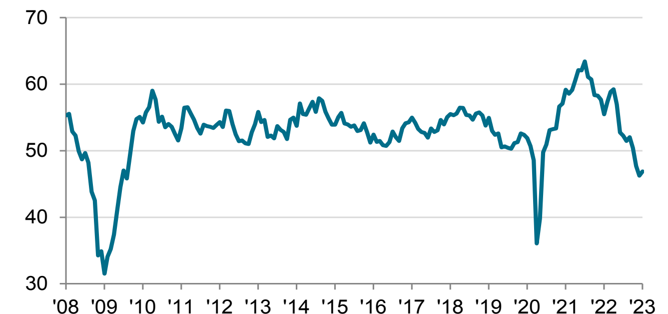
Falls in output and new orders soften only slightly

Price pressures regain momentum

Job creation slows to only a fractional rate

US Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 09-26 January 2023.

The health of the US manufacturing sector continued to decline at the start of 2023, according to the latest PMI™ data from S&P Global, albeit deteriorating at a reduced rate compared to December. The overall downturn in January was driven by a sharp contraction in new orders, a further drop in output and ongoing efforts to reduce inventories. Weak demand conditions stemmed from subdued sales across both domestic and export markets. Meanwhile, input costs and output charges rose at increased rates as price pressures strengthened again, despite suppliers' delivery times broadly stabilising and a marked contraction in input buying.

Lower new order inflows and a strong decline in backlogs of work caused the rate of job creation to slow further, with employment rising only fractionally. Nonetheless, business confidence ticked higher amid hopes of stronger demand in the months ahead, greater supply chain stability and investment in new products.

The seasonally adjusted S&P Global US Manufacturing Purchasing Managers' Index™ (PMI™) posted 46.9 in January, up slightly from 46.2 in December and broadly in line with the earlier released 'flash' estimate of 46.8. The latest data signalled a solid deterioration in operating conditions across the US manufacturing sector, and one that was the second-fastest since May 2020.

Demand conditions across the sector remained muted at the start of the year, as new orders fell at a steep rate. The decrease in new sales softened from that seen in December, but was nevertheless the second-sharpest in just over two-and-a-half years. Client hesitancy and order postponements following the impact of inflation and economic uncertainty on customer spending reportedly drove the downturn.

New export orders also declined further in January, down for an eight straight month, albeit with the pace of contraction easing.

Comment

Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, said:

"Despite rising in January, the PMI remains at one of the lowest levels recorded since the global financial crisis, indicating a worryingly steep rate of decline in the health of the goods producing sector. Production has now fallen for three successive months, signalling a sharp fall in output which is now becoming increasingly evident in the official statistics and suggesting that the manufacturing sector has become a major drag on GDP.

"New orders are also slumping as demand from both domestic and export customers comes under increasing pressure from a mix of inflation and slower economic growth. The drop in orders also means that excess capacity is developing, which has in turn meant companies have scaled back their hiring and purchasing, and are also increasingly focusing on reducing their inventory levels.

"Improved supply chains and weaker demand should meanwhile help keep a lid on manufacturing price pressures in the months ahead, though a slight uptick in the survey's input cost and selling price gauges in January suggests that the road to lower inflation could be bumpier than previously anticipated, reflecting still elevated prices for many raw materials relative to pre-pandemic levels and sustained upward wage pressures."

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Production levels at goods producers also decreased at a solid pace. The rate of contraction was among the fastest since the global financial crisis, despite slowing slightly from December.

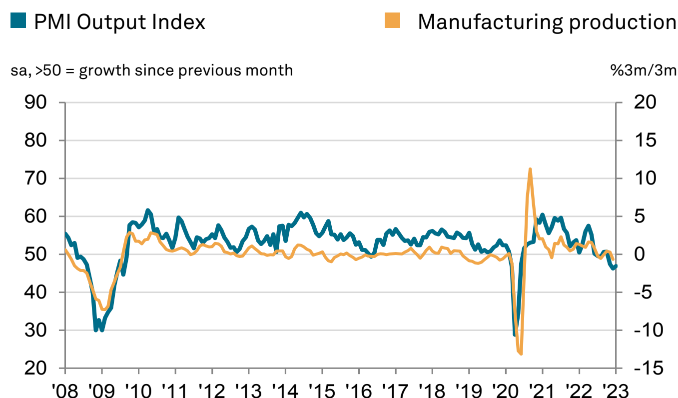
Reversing the downwards trend seen since last June, the rate of cost inflation ticked higher in January. Greater input prices were attributed to hikes in material and transportation costs. The pace of increase was slower than the series average, however, and was the second-softest since October 2020.

Similarly, output charges rose at a quicker rate at the start of 2023. Efforts to pass higher costs through to customers pushed selling prices up, according to panellists. The pace of charge inflation was historically elevated despite being slower than seen throughout the last two years.

January data indicated only a fractional rise in workforce numbers at manufacturers. The rate of job creation eased for the fourth month running amid challenges hiring suitable staff and retaining skilled workers.

Meanwhile, suppliers' delivery times were broadly stable in January amid some reports of easing logistics delays. Partially contributing to stable vendor performance was a drop in demand for inputs among manufacturers. Input buying fell at one of the steepest rates on record as firms sought to run down stocks following weak demand and cost reduction efforts. Both pre- and post-production inventories contracted at the start of the year, often reflecting deliberate cost-driven inventory reduction policies.

Finally, US manufacturers were strongly confident of an uptick in output over the coming 12 months in January. The degree of optimism picked up to an eight-month high amid hopes of a soft landing for the economy, further supply chain stability, greater demand and additional investment in new products and marketing.



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.

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