News Release

MARKET SENSITIVE INFORMATION
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S&P Global Flash US Composite PMI™

US private sector ends year in stronger downturn as demand weakness and price pressures bite

Key findings:

Flash US PMI Composite Output Index(1) at 44.6 (November: 46.4). 4-month low.

Flash US Services Business Activity Index(2) at 44.4 (November: 46.2). 4-month low.

Flash US Manufacturing Output Index(4) at 46.0 (November: 47.4). 31-month low.

Flash US Manufacturing PMI(3) at 46.2 (November: 47.7). 31-month low.

Data were collected 06-15 December

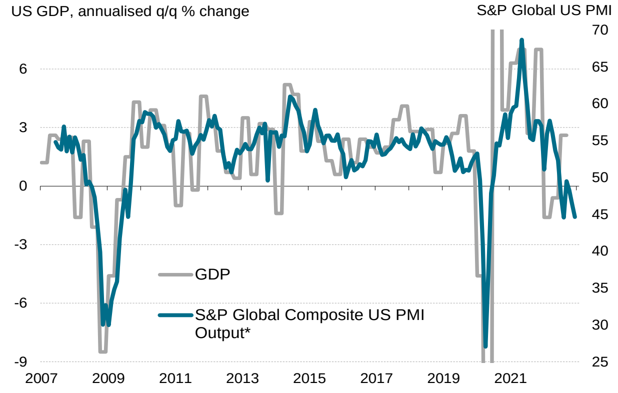
US private sector firms signalled a further decline in output during December, according to latest 'flash' PMI™ data from S&P Global. The downturn gathered pace, as business activity fell at the joint-sharpest rate since May 2020. Manufacturers and service providers alike registered steeper decreases in output, as weaker demand conditions, inflation and hikes in interest rates dampened activity levels.

The headline **Flash US PMI Composite Output Index** registered 44.6 in December, down from 46.4 in November, to signal the joint-fastest decline in business activity for over two-and-a-half years as 2022 was brought to a close. Excluding the initial pandemic period, however, the downturn was the joint-sharpest since 2009.

Driving the fall in total activity was a quicker decrease in **new business** across the private sector. Pressure on purchasing power among customers and company balance sheets led to a strong decline in new orders, and one that was the fastest since May 2020. Weak demand conditions were broad-based, though manufacturing firms saw a steeper decrease in new orders compared to their service sector counterparts. While total **new export orders** contracted further in December, down for a seventh straight month, the rate of decline softened slightly.

Continuing the downward trend seen since June, average **input prices** increased at a notably softer pace in the final month of the year. Cost burdens rose at the slowest pace since October 2020 and at a rate that was broadly in line with the series' long-run average. Companies noted that reduced demand for inputs dampened supplier price hikes, with lower costs reported for fuel and metals in particular.

S&P Global Flash US PMI Composite Output Index



* only manufacturing pre-2009. Source: S&P Global, BEA

In an effort to drive sales and pass through any cost savings, private sector firms recorded a softer uptick in **output charges** during December. Easing to the slowest in over two years, the rate of selling price inflation was only marginally faster than the long-run series average. Moderations in output price hikes were most notable in the manufacturing sector, though the rate of inflation also ticked lower in services.

In line with lower new order inflows, private sector hiring remained subdued in December. **Employment** rose only marginally as manufacturers signalled broadly unchanged workforce numbers on the month and service sector hiring slipped lower to register only a modest gain. Weighing on total employment growth were a growing number of reports of lay-offs following weak demand.

Meanwhile**, backlogs of work** declined for the third month running in December, albeit at a softer rate. The fall in outstanding business was solid overall and broad-based, though led by the manufacturing sector, which recorded a sharper decline. The arrival of key inputs and reduction in new orders reportedly allowed firms to work though their backlogs.

Private sector **business confidence** was weaker than the series trend again at the end of 2022. Although still anticipating higher output over the coming year, expectations were among the lowest in over two years. Higher borrowing costs, inflation and a broad economic slowdown dampened optimism.

PMI™ by S&P Global

S&P Global Flash US Services PMI™

The **S&P Global Flash US Services Business Activity Index** posted 44.4 in the final month of 2022, down from 46.2 in November. The latest data signalled a steep and sharper downturn in service sector output. The fall in activity was the fastest for four months, and among the quickest in the series history (since October 2009).

The decline in activity was led by a further solid decrease in new orders during December. Higher borrowing costs, housing and financial sector weakness, and inflationary pressures all weighed on customer spending. The rate of contraction was little-changed from November, but was the fastest since May 2020. New business from abroad, however, fell at the slowest rate since September.

Inflationary pressures in the service sector cooled notably in December, as input costs rose at the softest pace since October 2020. Despite some material and labor costs rising, reports of lower wholesale and fuel prices eased pressure on cost burdens.

Partly in response to softer input price hikes, but also in an effort to drive sales, service sector firms reported the slowest increase in selling prices for over two years.

Service providers continued to increase their workforce numbers during December, as employment rose marginally. The rate of job creation was the second-slowest since September 2021, however, as the non-replacement of voluntary leavers and reports of lay-offs increased.

At the same time, pressure on capacity waned further, as backlogs of work fell at a solid pace.

Business expectations at service sector firms remained upbeat at the end of the year. That said, the degree of confidence was among the weakest in two years as firms highlighted concerns regarding inflation, hikes in interest rates and dwindling demand.

S&P Global Flash US Manufacturing PMI™

The **S&P Global Flash US Manufacturing PMI** posted at 46.2 in December, down from 47.7 in November, to signal a solid deterioration in operating conditions across the goods-producing sector. The downturn was the fastest since the initial lockdown period in 2020 and driven by subdued demand and a faster fall in output.

Manufacturers registered one of the sharpest declines in new orders since the 2008-9 financial crisis during December, as customer spending waned. The further acceleration in the pace of contraction in new business led to a steeper decrease in production levels.

On a more positive note, inflationary pressures subsided notably at the end of the fourth quarter. Another monthly improvement in supplier delivery times, alongside muted demand for inputs, led to the slowest rise in cost burdens since July 2020. Lower prices for fuel and metals, especially steel, were often mentioned by panellists.

Customer demand weakness, however, and efforts to stay competitive, resulted in a moderation in the pace of output charge inflation during December. Selling prices rose at the softest pace since October 2020 as firms sought to pass through any cost savings made.

Sufficient stocks of inputs and a further reduction in new orders led to the sharpest contraction in purchasing activity in over two-and-a-half years. Firms worked through safety stocks built earlier in the year, as pre-production inventories fell steeply. Meanwhile, stocks of finished goods increased for the second month running amid lower than anticipated new order inflows and the processing of backlogs of work.

The level of work-in-hand (but not yet completed) fell at one of the sharpest rates since 2009, as sales contracted and delayed material deliveries arrived. Lower levels of incomplete work and muted demand led to broadly unchanged employment during December. Manufacturers noted that some lay-offs were due to a lack of new work, whereas others chose not to replace voluntary leavers.

Finally, output expectations among manufacturing firms strengthened during December. The degree of optimism reached the highest for three months, but was notably still far weaker than the long-run series trend. Hopes of greater new orders and investment remained, but some companies expressed concern regarding industry downturns and inflationary pressures.

Commenting on the US flash PMI data, **Chris Williamson**, Chief Business Economist at S&P Global Market Intelligence said:

"Business conditions are worsening as 2022 draws to a close, with a steep fall in the PMI indicative of GDP contracting in the fourth quarter at an annualised rate of around 1.5%. Jobs growth has meanwhile slowed to a crawl as firms across both manufacturing and services take a much more cautious approach to hiring amid the slump in customer demand.

"The upside is that weaker demand has taken pressure off supply chains which had been stretched during the pandemic. December saw a second successive month of faster supplier delivery times, a phenomenon which not only signals improving supply conditions but also tends to herald the shifting of pricing power away from the seller towards the buyer.

"Hence price pressures continue to moderate sharply. In fact, December saw the largest monthly cooling of firms' input cost inflation seen in the 13 year history of the survey barring only the lockdown related slump in April 2020.

"In short, the survey data suggest that Fed rate hikes are having the desired effect on inflation, but that the economic cost is building and recession risks are consequently mounting."

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Note to Editors

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

The US PMI™ (Purchasing Managers' Index™) is produced by S&P Global and is based on original survey data collected from a representative panel of around 800 companies based in the US manufacturing and service sectors. The flash estimate is based on around 85% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The average differences between the flash and final *PMI* index values (final minus flash) since comparisons were first available in October 2009 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

Index	Average difference	Average difference in absolute terms
Composite Output Index[1]	0.1	0.4
Manufacturing *PMI*[3]	0.0	0.3
Services Business Activity Index[2]	0.2	0.4

The *Purchasing Managers' Index*™ (*PMI*™) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. *PMI*™ surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

S&P Global 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 S&P Global. Please contact economics@ihsmarkit.com.

Notes

1. The Composite Output *PMI* is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. 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?"
3. 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.
4. 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?"

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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. To learn more go to https://ihsmarkit.com/products/pmi.html .

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