News Release

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S&P Global US Manufacturing PMI®

US manufacturing performance declines at sharper pace as demand conditions weaken

Key findings

Renewed contraction in output as orders fall at sharper pace

Rates of inflation pick up

Joint-fastest drop in employment since June 2020

The US manufacturing sector slipped further into contraction during December, according to the latest PMI® survey data from S&P Global, as output returned to decline and the downturn in new orders gathered pace. Lower total new sales reflected weakness in both domestic and external demand conditions, with firms adjusting down their input buying and hiring activity accordingly. Signs of greater spare capacity were seen through a faster fall in backlogs and destocking, with firms also seeking to better manage cashflow. Nonetheless, business confidence picked up to a three-month high.

Inflationary pressures intensified, meanwhile, as cost burdens rose at a sharper pace and selling prices increased at the quickest rate since April.

The seasonally adjusted S&P Global US Manufacturing Purchasing Managers' Index™ (PMI) posted 47.9 in December, down from 49.4 in November and lower than the earlier released 'flash' estimate of 48.2. The latest decline in the health of the sector was modest overall and the quickest since August.

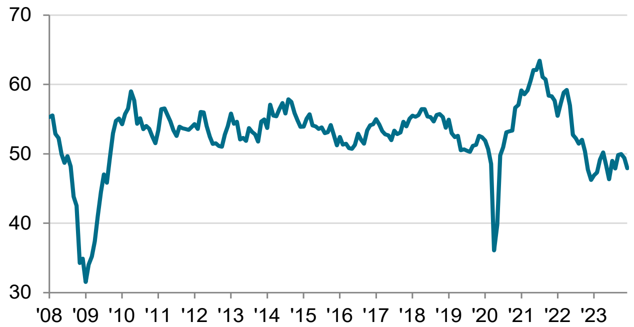
Contributing to the overall decline in operating conditions was a sharper fall in new orders during December. The decrease in sales quickened and was the fastest since August. Many companies stated that weak client demand stemmed from lower purchasing power at customers and global economic uncertainty.

External demand conditions also faltered, as new export orders returned to contraction territory. The pace of decline was only fractional, however.

Subsequently, firms lowered their production levels for the first time in four months at the end of 2023. Output dropped at a modest pace that was the fastest in six months. Some companies also suggested that higher input prices weighed on purchasing decisions, which in turn slowed production processes.

US Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global PMI.

Data were collected 06-19 December 2023.

Comment

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

"US manufacturers ended the year on a sour note, according to S&P Global's PMI survey. Output fell at the fastest rate for six months as the recent order book decline intensified. Manufacturing will therefore likely have acted as a drag on the economy in the fourth quarter.

"The slowdown is spreading to the labor market. Payrolls were cut for a third month running as increasing numbers of firms grew concerned about the development of excess operating capacity. The fourth quarter has consequently seen factories reduce employment at a pace not seen since 2009 barring only the early pandemic lockdown months.

"With factories also cutting back sharply on their purchases of inputs in December, suppliers were also less busy on average, again hinting at the development of spare capacity.

"While there was some uplift in the rate of both raw material and factory gate selling price inflation, firms' costs notably continued to rise at a pace below the survey's long-run average to hint at historically subdued industrial price pressures.

"Given current order book trends, the overall picture from the survey is one of supply exceeding demand for many goods, which points to downside risks to production, employment and prices as we head into 2024. Potential supply chain disruptions need to be monitored, however, notably in terms of shipping, as the survey has clearly demonstrated in the past how supply chain tensions quickly feed through to higher prices."

PMI® by S&P Global

At the same time, cost burdens rose at a quicker pace. Hikes in supplier prices for metals and plastics, alongside greater transportation charges, reportedly drove the uptick in inflation. The pace of increase in input prices was slower than the historical series average, however.

Despite a sluggish sales environment, firms opted to pass through higher costs to customers in December. Selling prices rose at a solid pace that was the steepest since April.

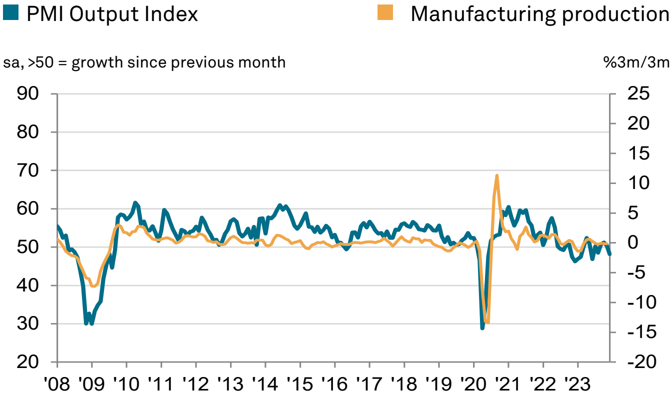
At the same time, muted client demand led to a third successive monthly drop in employment at the end of 2023. The rate of job shedding was slightly quicker than that seen in November and the joint-sharpest since June 2020. Manufacturers reported on the non-replacement of voluntary leavers in a bid to cut costs amid lower new orders.

Evidence of spare capacity remained, however, as backlogs contracted at a steeper pace. Although employment fell again, firms were able to process incoming new work in a timely manner. Moreover, the pace of backlog depletion was the strongest since July.

Although vendor performance improved to the greatest extent since September, shorter lead times for inputs were in part linked to reduced demand for materials. Input buying at goods producers contracted at a steep pace that was the fastest since June.

Firms sought to rundown stocks amid cost-cutting initiatives, with both pre- and post-production inventories declining in December. Nonetheless, lower than anticipated new orders led to slower rates of decrease, according to panellists.

Finally, business optimism at manufacturers ticked higher in December. Hopes of a pick up in client demand and greater investment in advertising supported the strongest degree of confidence in three months.



Sources: S&P Global PMI, US Federal Reserve via S&P Global Market Intelligence.

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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@spglobal.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. www.spglobal.com/marketintelligence/en/mi/products/pmi

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