

# IHS Markit US Manufacturing PMI™

## PMI drops to lowest since October 2020 amid soft demand conditions and labor shortages

### Key findings

Output and new order growth slow amid supply and labor shortages

Rate of job creation eases to softest in 18-month sequence of growth

Business confidence picks up to 14-month high

Data were collected 10-25 January 2022\*.

January PMI™ data from IHS Markit indicated a relatively subdued improvement in operating conditions across the US manufacturing sector. The headline figure dropped to the lowest since October 2020, as output growth was muted. Demand conditions also softened further, with new orders rising at the slowest pace since September 2020. Muted client demand was reflected in only a fractional increase in employment. The softer rise in new orders allowed firms to partially work through backlogs of work, which expanded at the slowest pace for 11 months. Nonetheless, firms were at their most upbeat regarding the outlook for output since November 2020.

Meanwhile, inflationary pressures remained marked. The rate of cost inflation eased to the softest for eight months, however, as firms also moderated the pace at which selling prices increased.

The seasonally adjusted IHS Markit US Manufacturing Purchasing Managers' Index™ (PMI™) posted 55.5 in January, down from 57.7 in December, but higher than the earlier released 'flash' estimate of 55.0. The overall upturn was the slowest seen for 15 months and muted in the context of the substantial expansions seen in 2021.

Output rose only fractionally at the start of the year, following substantial increases through most of 2021. Weighing on the upturn was the impact of the Omicron COVID-19 variant, raw material and labor shortages, and a reluctance among some clients to place orders amid hikes in selling prices and longer lead times. The rise in production was the slowest in the current 19-month sequence of expansion.

Contributing to the slower output increase were softer demand conditions. The rate of new order growth slowed to a 16-month low as domestic and foreign client demand weakened. New export orders fell for the first time since October 2020, as delays dampened interest from foreign customers.

Mirroring softer demand conditions, firms expanded their workforce numbers at the slowest pace in the current 18-month

*continued...*

US Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

### Comment

Chris Williamson, Chief Business Economist at IHS Markit said:

*"The Omicron outbreak has hit manufacturing hard, exacerbating existing headwinds by subduing demand, creating further supply chain issues and causing widespread staff shortages, often through absenteeism due to the surge in COVID-19 infections. The steep downturn in the survey data are indicative of manufacturing production falling in January.*

*"However, the overall impact on supply chains from Omicron has been less marked than in prior covid waves, and raw material price pressures have come down as the global supply crunch appears to be improving. Hence manufacturers are upbeat about the outlook, with future output expectations rising to the highest for over a year to suggest that the current downturn may prove short-lived."*

sequence of job creation. Panellists often mentioned that growth of employment was hampered by challenges retaining staff and labor shortages, however.

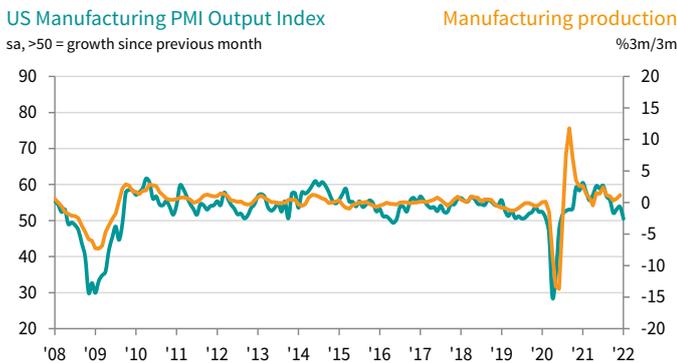
Although still sharp, the rate of expansion in backlogs of work eased to the slowest since February 2021. Slower new order growth partially enabled firms to process work-in-hand, but material and labor shortages continued to push backlogs up.

Meanwhile, business confidence regarding the outlook for output over the coming year improved and reached a 14-month high in January. Firms noted that optimism stemmed from hopes of reduced supply-chain disruption, easing labor market difficulties and greater client demand.

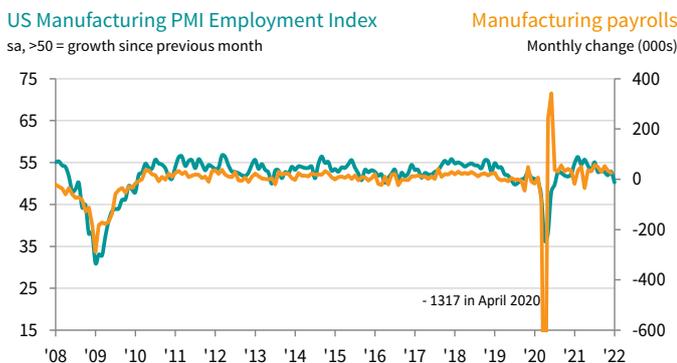
Prices pressures eased at the start of the year, as the rate of cost inflation eased to the slowest since May 2021. The pace of increase was still marked, as firms sought to pass on higher costs to clients. Similarly, the rate of charge inflation softened and was the slowest for nine months.

At the same time, vendor performance deteriorated markedly. The extent to which lead times lengthened worsened from that seen in December, but was less severe than the substantial delays in mid-2021.

Further hikes in input costs led to firms reining in their purchasing activity. Input buying rose at the slowest pace since February 2021 as firms utilised stocks of purchases in production. As such, the rate of growth in pre-production inventories eased to the slowest for ten months. Stocks of finished goods declined further, albeit at the softest pace in four months.



Sources: IHS Markit, US Federal Reserve.



Sources: IHS Markit, Bureau of Labor Statistics.

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**Survey 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 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](mailto:economics@ihsmarkit.com).

**Survey dates and history**

January 2022 data were collected 10-25 January 2022\*.

\*The survey open date of 12 January 2022 originally shown on the US Flash PMI press release has been corrected to show 10 January 2022.

Data collection began in April 2004 from a survey panel of electronics manufacturers. In May 2007, the panel was expanded to cover manufacturers of metal products. In October 2009, the panel was expanded further to cover all manufacturing activity. Data from May 2007 to September 2009 are compiled from responses from manufacturers of electronics and metal products, while data from October 2009 are compiled from responses from all areas of manufacturing.

**Flash vs. final data**

Since October 2009 the average difference between final and flash Manufacturing PMI values is 0.0 (0.3 in absolute terms).

**About IHS Markit**

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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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.

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