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IHS Markit U.S. Services PMI™

Including IHS Markit U.S. Composite PMI™

Softest rise in business activity since February

Key findings

Further marked expansions in output and new business

Joint-quickest rise in backlogs for almost a year

Inflationary pressures ease but remain historically strong

Data were collected 12-30 July 2021.

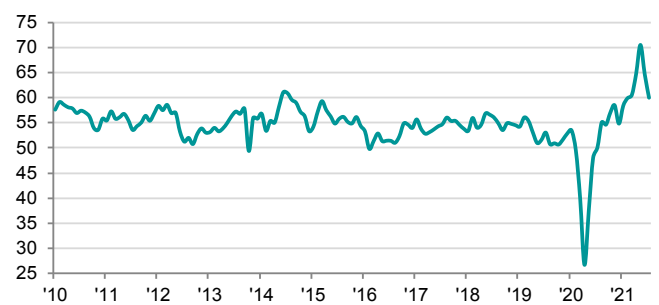
July PMI™ data indicated another robust expansion in U.S. service sector business activity. The upturn softened to the slowest since February, but was much quicker than the series average. Contributing to the less marked upturn in output was a softer rise in new business. Nonetheless, domestic and foreign client demand remained historically strong. In line with larger inflows of new business, backlogs of work rose solidly and at the joint-fastest pace since August 2020. Efforts to ease pressure on capacity was hampered by reports of a shortage of suitable candidates.

Meanwhile, input costs and output charges rose substantially despite their respective rates of inflation softening again from May's historic highs.

The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 59.9 at the start of the third quarter, down from 64.6 in June. This was broadly in line with the earlier released 'flash' estimate of 59.8 in July. The latest upturn in business activity was marked overall, despite easing to a five-month low. Greater output was linked to strong demand conditions and a sustained increase in new orders. Some companies stated that capacity constraints hampered activity growth, however.

New business continued to rise in July, and at one of the fastest rates since data collection began in October 2009. The upturn was supported by a pick-up in client demand following vaccinations and the relaxation of COVID-19 restrictions. The robust expansion was one of the quickest in over three years despite softening to the slowest since February.

U.S. Services PMI Business Activity Index
sa, >50 = growth since previous month



Source: IHS Markit.

At the same time, new export orders increased for the fifth month running in July, amid the further reopening of key export markets. The expansion was solid overall but eased to a four-month low.

Reflecting strong client demand and a further increase in new business, service providers registered a solid accumulation in backlogs of work. Pressure on capacity also reportedly stemmed from staff shortages and difficulties hiring new workers. As a result of challenges finding staff, the rate of job creation eased for the third month running.

On the price front, cost burdens increased at a substantial pace in July. Input prices rose due to supplier shortages, while service firms also highlighted greater fuel costs. The rate of inflation was much quicker than the series average, despite easing further from May's historic peak.

Service providers sought to pass on higher costs to their clients where possible in July. Output charges rose markedly but, in a similar manner to input prices, the rate of increase softened.

Finally, expectations regarding the outlook for output over the coming 12 months remained strongly upbeat in July. Optimism was largely attributed to hopes of further boosts to demand following an increase in customer numbers as COVID-19 restrictions relax. The degree of confidence dropped to a five-month low, however, amid concerns about the strength of customer demand over the coming months.

IHS Markit U.S. Composite PMI®

Private sector output growth eases to four-month low

The IHS Markit U.S. Composite PMI Output Index* posted 59.9 in July, down from 63.7 in June and falling further from May's recent high. The rate of expansion was the softest since March amid a slower upturn in service sector activity, but was quicker than the series average.

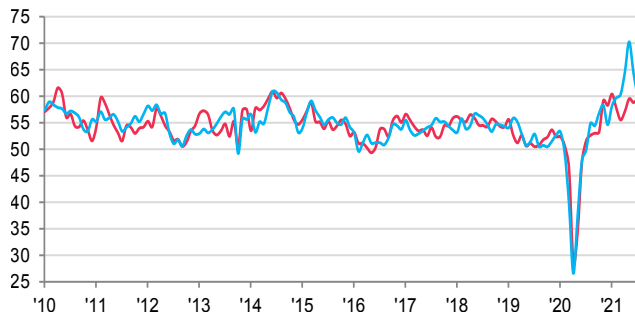
Private sector new order growth softened to a four-month low in July, despite manufacturers registering a faster upturn in new business. New export orders, meanwhile, continued to rise solidly.

Inflationary pressures remained substantial at the start of the third quarter. Input costs rose markedly, and at one of the fastest rates on record amid significant supplier delays and material shortages. Private sector firms noted further efforts to pass on higher costs, where possible, to their clients. As a result, output charges rose at the third-steepest pace since data collection began in October 2009.

At the same time, pressure on capacity following supplier and staff shortages worsened in July. Although manufacturers and service providers registered further expansions in workforce numbers, hiring was stymied by difficulties finding suitable candidates for vacancies.

Services Business Activity Index Manufacturing Output Index

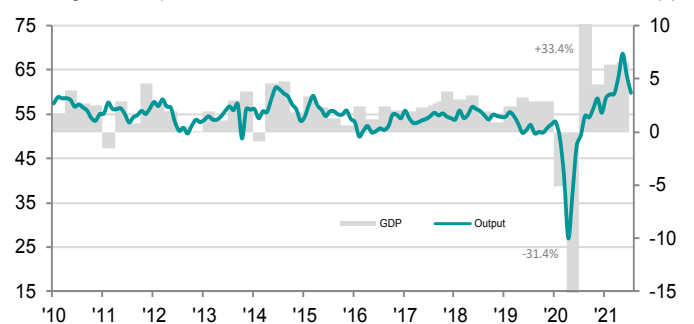
sa, >50 = growth since previous month



Source: IHS Markit.

U.S. Composite PMI Output Index

sa, >50 = growth since previous month



Sources: IHS Markit, Bureau of Economic Analyses.

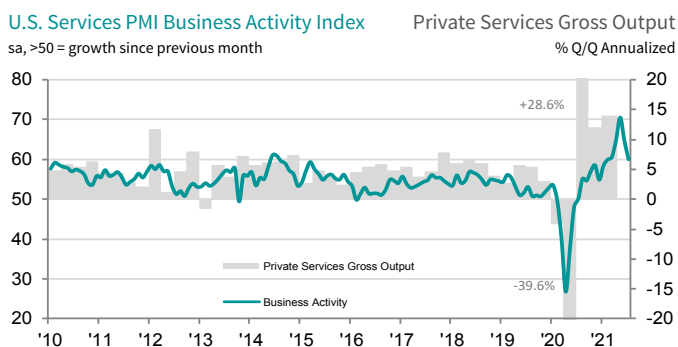
Comment

Commenting on the latest survey results, Chris Williamson, Chief Business Economist at IHS Markit, said:

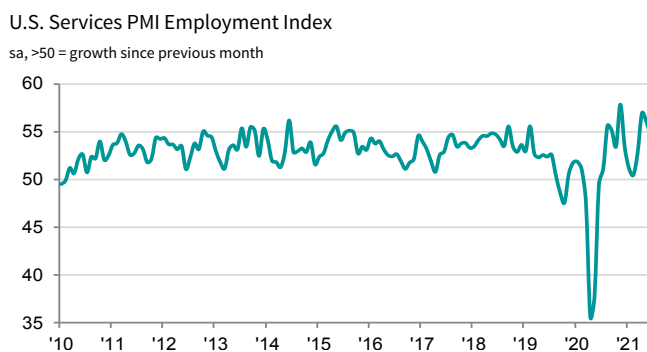
“The pace of US economic growth cooled in July, according to the final PMI data, but remained impressively strong to suggest that GDP will rise robustly again in the third quarter. Stimulus measures combined with the vaccine roll out and reopening of the economy continued to boost demand for goods and services, most notably among households and especially in consumer-facing services such as travel and hospitality.”

“Some further easing in the rate of expansion is likely in coming months, however, as future growth expectations mellowed considerably during the month. This waning of optimism in part reflected the likely peaking of demand in the second quarter as the economy opened up, but also reflected a rising concern over the potential for the Delta variant to disrupt the economy again.”

“With the survey once again bringing signs that capacity is being constrained by a lack of raw materials and labour, inflationary pressures look set to persist in the coming months, though it is encouraging to note that the overall rate of increase of selling prices for goods and services continued to moderate from May’s recent peak.”



Sources: IHS Markit, Bureau of Economic Analysis.



Sources: IHS Markit.

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Survey methodology

The IHS Markit U.S. Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. 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 Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

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.

Survey dates and history

Data were collected 12-30 July 2021.

Survey data were first collected October 2009.

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Flash vs. final data

Since October 2009 the average difference between final and flash Services Business Activity Index values is 0.2 (0.4 in absolute terms). Since October 2009 the average difference between final and flash Composite Output Index values is 0.1 (0.4 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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