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## IHS MARKIT US SERVICES PMI™

INCLUDING IHS MARKIT US COMPOSITE PMI™

### Slowest increase in new business since March 2016

#### KEY FINDINGS

New business growth eases to marginal rate

Input prices fall for the first time in the series history

Business confidence slides to fresh series low

August data signalled a loss of momentum across the U.S service sector, with business activity rising at the softest pace since the current sequence of expansion began in March 2016. The slowdown in output was driven by only a marginal upturn in new business, the least marked since early-2016. Moreover, foreign client demand decreased. Subsequently, firms expanded workforce numbers only fractionally and the level of business optimism sank to a fresh series low.

On the price front, input costs and output charges fell in August, with cost burdens decreasing for the first time since data collection began in October 2009.

The seasonally adjusted final IHS Markit U.S. Services Business Activity Index registered 50.7 in August, down from 53.0 in July and slightly lower than the earlier 'flash' figure of 50.9. Although still signalling a marginal expansion in business activity, the rate of increase was the slowest in the current sequence of growth (beginning in early-2016) and well below the long-run series trend. A number of panellists suggested that a slower rise in new orders held back business activity growth.

New business growth eased from July's solid pace to only a marginal rate in August that was the slowest since March 2016. Where firms experienced softer order books, they linked this to less robust corporate spending. That said, some continued to state that a further improvement in consumer demand was driving the sustained expansion. New export orders, meanwhile, decreased for the first time since January, and at the sharpest rate for almost three

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

years.

At the same time, input prices decreased for the first time in the series history in August. Anecdotal evidence suggested the decline in costs was linked to the recent cut in interest rates and lower purchase prices.

Consequently, service providers cut their selling prices at a modest pace. The decrease was the second in four months, but the fastest since data collection began in October 2009. Panellists stated that lower charges were linked to greater discounting in an effort to attract new clients.

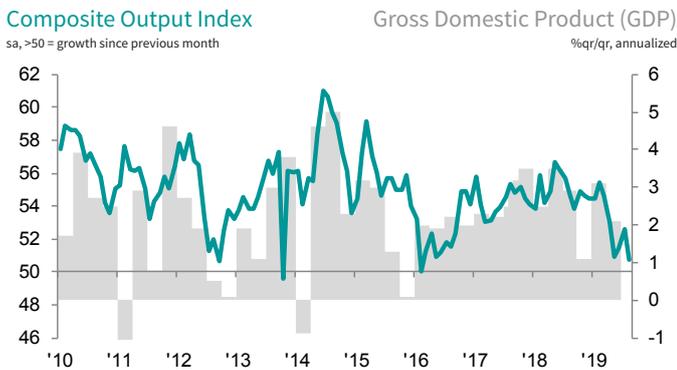
Expectations towards business activity over the coming year hit a fresh series low, as firms expressed greater concerns surrounding ongoing trade wars and a slowdown across the wider economy.

In line with a slower expansion in new business, employment across the service sector rose at only a fractional rate in August. The rate of job creation was the softest since February 2010 as firms expressed greater reluctance to increase staffing, with the vast majority noting no change in workforce numbers.

Further reflecting excess capacity, service providers were able to clear backlogs for the first time in 2019 so far in August. Although only marginal, the rate of backlog depletion was the sharpest since June 2016.

## IHS MARKIT US COMPOSITE PMI™

# Output expansion slows to only a marginal rate in August



Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

The US Composite PMI Output Index is a weighted average of the US Manufacturing PMI Output Index and the US Services Business Activity Index. The Composite PMI Output Index registered 50.7 in August, down from 52.6 in July, and signalling the slowest increase in output since the current sequence of expansion began in March 2016. The slowdown was led by muted upturns across the manufacturing and service sectors, with the latter registering a notably softer rise in activity.

Similarly, new business growth slowed to only a marginal rate that was the joint-weakest since data collection began in October 2009. A softer expansion was driven by a broad-based private sector slowdown. Furthermore, total new export orders decreased at a solid rate.

At the same time, employment rose only fractionally in August as firms held off on increasing workforce numbers amid subdued client demand. The rate of job creation was the slowest since February 2010 as service sector firms signalled greater hesitancy around hiring. A softer expansion in new business was also reflected in a marginal fall in backlogs.

Business confidence across both the manufacturing and service sectors hit fresh series lows amid greater uncertainty surrounding trade wars and concern about a wider economic slowdown through 2019.

Finally, composite inflationary pressures fell in August, with input price decreasing for the first time since data collection began in October 2009.

## COMMENT

Commenting on the PMI data, Chris Williamson, Chief Business Economist at IHS Markit said:

*“US businesses reported one of the toughest months since the global financial crisis in August, with growth of output, order books and hiring all slowing amid steep falls in both export and business confidence.*

*“Only on two occasions since the global financial crisis have the US PMI surveys recorded a weaker monthly expansion, and these were months in which business was hit by the government shutdown and bad weather in 2013 and 2016 respectively. This time, trade wars and falling exports appear to be the main drivers of weakness, exacerbating fears of a broader economic slowdown both at home and globally.*

*“At current levels, the August PMIs are indicating annualized GDP growth of 1.0%, putting the economy on course for growth of just below 1.5% in the third quarter. Such weak readings hint at downside risks to current third quarter growth projections, which generally point to an expansion of just over 2%.*

*“A major factor behind the deterioration was the spreading of the manufacturing downturn to the service sector, via weakened household and business confidence. Jobs growth is also increasingly being affected by worries regarding the outlook. Overall jobs growth in August was the weakest since early-2012, commensurate with non-farm payrolls rising at a monthly rate of under 100,000.”*

## CONTACT

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#### Methodology

The IHS Markit US 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.

August 2019 data were collected 12-27 August 2019.

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