

Embargoed until 0945 EDT (1345 UTC) 3 June 2021

IHS Markit U.S. Services PMI™

Including IHS Markit U.S. Composite PMI™

Business activity growth rate accelerates to record high in May

Key findings

Stronger client demand spurs sharper output expansion

Cost burdens rise at quickest pace on record

Further steep increase in employment despite hiring

Data were collected 12-25 May 2021.

May PMI™ data indicated the fastest rise in business activity since data collection for the series began in October 2009. The unprecedented expansion in output was supported by a marked increase in new business, in turn buoyed by the quickest rise in new export orders for nine months. Greater business requirements resulted in a further sharp rise in employment. That said, the pace of job creation softened as firms reported difficulties filling vacancies. Strain on capacity was also reflected in another monthly rise in backlogs of work.

At the same time, the rate of input cost inflation accelerated to a series high amid ongoing supplier price hikes. In an effort to pass on greater costs, service providers raised their charges at an unprecedented pace.

The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 70.4 in May, up from 64.7 in April and greater than the earlier released 'flash' estimate of 70.1. The upturn in output was the fastest on record, with the rate of expansion accelerating for the fifth month running. The increase in business activity was often linked to stronger client demand and a sustained rise in new orders. Firms also noted that the continued reopening of the economy following COVID-19 restrictions allowed for a greater range of services to be made available for customers.

Driving the expansion in output was a quicker rise in new business across the service sector during May. The rate of growth was the fastest since data collection began in late-2009. The unprecedented increase in new orders was attributed to stronger business and consumer confidence, stemming from a successful vaccination programme and the reopening of the economy. Greater foreign demand was reflected in the quickest

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



Source: IHS Markit.

rise in new export orders for nine months.

May data indicated a quicker rise in input costs across the service sector, as supplier price hikes intensified cost pressures. The rate of inflation accelerated for the seventh month running and was the sharpest on record.

Consequently, service providers stepped up their efforts to pass on higher costs to clients, with the pace of charge inflation quickening to the steepest in the survey's history. Companies mentioned that greater costs were being progressively passed through to customers amid burgeoning demand.

Meanwhile, greater business requirements owing to rapid sales growth led to a further rise in staffing numbers during May. The rate of job creation remained sharp and outpaced the long-run series average. That said, the pace of increase eased slightly since April amid reported challenges enticing workers back to employment and finding suitable candidates for available vacancies.

Although the rate of backlog accumulation slowed in May, the rise in outstanding business was solid overall and among the steepest on record amid pressure on capacity.

Output expectations among service providers regarding the outlook for activity over the coming year improved in May. The degree of confidence was marked overall, with optimism stemming from looser COVID-19 restrictions and stronger client demand.

IHS Markit U.S. Composite PMI®

Private sector output expansion fastest on record

The IHS Markit U.S. Composite PMI Output Index* posted 68.7 in May, up from 63.5 in April, to signal the steepest upturn in business activity since data collection began in October 2009. Faster output growth was registered across both the manufacturing and service sectors.

The overall upturn was supported by a sharper expansion in new business. Rates of growth were the fastest on record in both the manufacturing and service sectors. Overall sales were also aided by a survey record rise in foreign client demand.

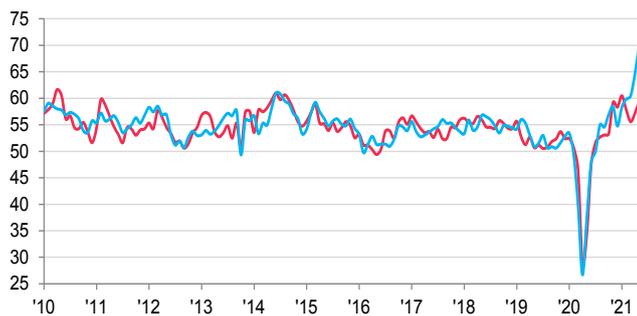
Once again, inflationary pressures intensified in May. The rate of cost inflation was unprecedented amid substantial supplier shortages and delays. As a result, firms sought to pass on greater costs to their clients, with the pace of charge inflation quickening to a new series high.

Constraints on capacity led to a solid accumulation of backlogs of work, with manufacturers noting the fastest rise on record. Alongside component shortages, firms stated that challenges remained finding suitable candidates. Subsequently, the rate of job creation softened from that seen in April.

Finally, the overall degree of confidence improved in May, as service providers noted stronger expectations regarding the outlook for output over the coming year. Manufacturers were less upbeat compared to April however amid concerns about supply-chain disruptions.

Services Business Activity Index Manufacturing Output Index

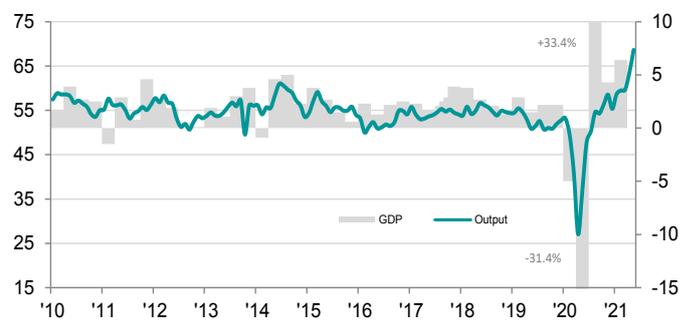
sa, >50 = growth since previous month



Source: IHS Markit.

U.S. Composite PMI Output Index

sa, >50 = growth since previous month



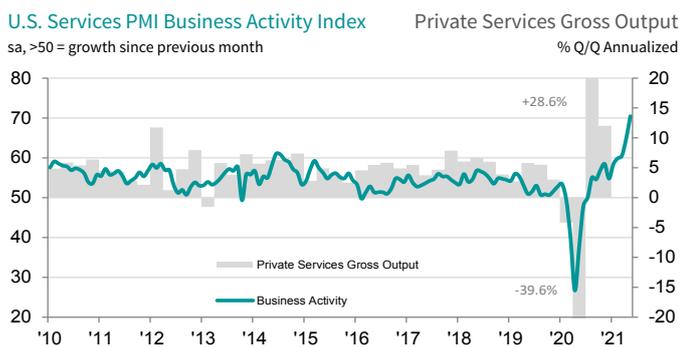
Sources: IHS Markit, Bureau of Economic Analyses.

Comment

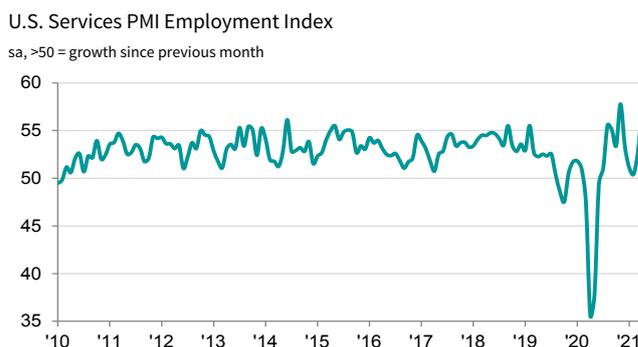
Commenting on the latest survey results, Chris Williamson, Chief Business Economist at IHS Markit, said:

“The US economic recovery shifted up a gear in May, with output of the combined manufacturing and service sectors surging past all prior peaks by an impressive margin. The strong correlation between the PMI and GDP means the economy looks set to enjoy rapid – potentially double-digit – growth in the second quarter.”

“Further robust expansions are indicated for the summer months, with an improving order book situation accompanied by elevated levels of business confidence and the further easing of virus restrictions both at home and abroad. But the survey’s price gauges have also climbed to unsurpassed levels, which will add to inflation worries. These unprecedented output and price growth rates will inevitably lead to speculation about an earlier than previously expected tapering of Fed policy.”



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 12-25 May 2021.

Survey data were first collected October 2009.

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Flash vs. final data

Flash services data were calculated from 85% of final responses. Flash composite data were calculated from 85% of final responses.

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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