New business growth accelerates to fastest since March 2019

Key findings

Business activity rises further amid stronger expansion in new sales

Employment growth remains historically elevated

Selling prices increase at sharpest pace for two years

Data were collected 11-25 September 2020.

September PMI™ data signalled a solid upturn in U.S. service sector business activity, albeit one that was slightly slower than August’s recent high. The expansion was largely driven by a faster rise in new business. Quicker growth in new sales was supported by another strong increase in foreign client demand. As a result, employment growth remained historically marked, with firms mentioning strains on capacity. Business confidence, however, sank to a four-month low amid concerns regarding the coronavirus disease 2019 (COVID-19) pandemic.

Input costs rose at a strong rate, but one that was outpaced by the increase in selling prices, as firms passed on higher costs to clients.

The seasonally adjusted final IHS Markit US Services PMI Business Activity Index registered 54.6 in September, down slightly from 55.0 in August, but matching the earlier released ‘flash’ estimate. The solid rise in business activity was commonly linked to stronger demand conditions. The rate of growth was the second-fastest since March 2019 and solid overall despite softening from that seen in August.

The rate of new business growth accelerated in September, as the respective seasonally adjusted index moved further away from April’s nadir. The strong expansion was the sharpest since March 2019, as total new sales were boosted by strengthening customer demand. The upturn was aided by a fourth successive monthly rise in new export orders. Moreover, the expansion in foreign client demand was the second-strongest since data collection for the series began six years ago.

In line with greater new business inflows, firms increased their workforce numbers in September. The rate of job creation was strong overall and the second-quickest since February 2019, as many firms stated that insufficient capacity to process new orders had driven hiring.

At the same time, backlogs of work rose for the third month running and at a solid pace.

Meanwhile, input costs increased at a sharp, albeit softer pace in September. Service providers noted that higher input prices were due to greater wage and equipment costs, with many highlighting the uptick in PPE prices. The rate of inflation was faster than the series trend and among the quickest since November 2018.

Reflecting higher input prices and sharper new business growth, firms were able to pass on cost burdens to their customers through greater output charges. Selling prices rose at the fastest rate since September 2018 and outpaced the rise in cost burdens, as firms took advantage of stronger demand conditions.

Nevertheless, business expectations regarding the outlook for output over the coming 12 months slumped at the end of the third quarter. Although optimistic of a rise in business activity, hesitancy among service providers reportedly stemmed from concerns relating to the ongoing COVID-19 pandemic and the impact on future demand.
The upturn in U.S. private sector output remained solid despite a slight slowdown in service sector growth. The IHS Markit Composite PMI Output Index* posted 54.3 in September, down fractionally from 54.6 in August. Manufacturing firms registered the fastest increase in output since November 2019, as service sector companies noted a solid rise in activity. New business rose at a sharper rate in September, as service providers recorded the strongest expansion in client demand since March 2019. New export orders also rose modestly at private sector firms. Meanwhile, pressure on capacity largely drove a further rise in workforce numbers, with both manufacturers and service sector firms expanding their staffing numbers. Nonetheless, concerns surrounding the upcoming presidential election and the ongoing COVID-19 pandemic weighed on business confidence, which slumped to a four-month low. Finally, selling prices rose sharply and at a faster rate than input costs as firms passed higher input prices on to clients.

*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 U.S. Composite Output Index is a weighted average of the U.S. Manufacturing Output Index and the U.S. Services Business Activity Index.

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

“The U.S. economy continued to rebound in September from the deep contraction seen at the height of the Covid-19 pandemic, with business activity rising across both manufacturing and services to round off the strongest quarter since early-2019. Covid-19 worries and social distancing continued to impact many businesses, however, especially in consumer-facing sectors, where demand for services fell once again. However, business and financial services, healthcare and housing sectors all fared well as the economy continued to revive, and exports of services also picked up as other countries continued to open up their economies.

“Encouragingly, new orders for services grew at an increased rate in September, putting additional pressure on operating capacity and fuelling another robust rise in employment. A further rise in backlogs of work bodes well for robust jobs growth to be sustained into October.

“Sentiment on prospects for the coming year darkened significantly, however, linked to growing worries about virus numbers, uncertainty regarding the presidential election and fears that the economy is susceptible to weakening unless more support measures are put in place soon.”
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
September data were collected 11-25 September 2020.
Data collection began in October 2009.

Flash vs. final data
Flash services data were calculated from 91% of final responses. Flash composite data were calculated from 89% of final responses.
Since October 2009 the average difference between final and flash Services Business Activity Index values is 0.1 (0.4 in absolute terms). Since October 2009 the average difference between final and flash Composite Output Index values is 0.0 (0.3 in absolute terms).

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